The Mechanics of Monroe County's Rental Housing Market

OCTOBER 2021

Acknowledgements

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NOTE ON METHODOLOGY AND DATA SOURCES

The information and analysis contained within is the result of a mixed method of quantitative and qualitative research. Sources of quantitative data include real estate transactions from the MLS; assessment data from Monroe County and the City of Rochester; other rental housing data from the City of Rochester; and economic, demographic, and housing data from federal sources such as the U.S. Census Bureau, American Community Survey estimates, and the Bureau of Economic Analysis. Qualitative information was gleaned from a survey of over 150 Monroe County rental property owners as well as over three dozen interviews of rental owners who agreed to speak with the research team.

INTRODUCTION

Rental market challenges stem from Monroe County's long-term soft market conditions

In 1970, Monroe County looked poised for a bright future. Nearly half of all personal income in the county came from manufacturing employment; for every dollar earned by the median American household, the median Monroe household earned $1.24. Kodak's share price still had almost thirty more years to rise before hitting its peak, and the City of Rochester had a residential vacancy rate of less than five percent. Things were so good in the Rochester region during the middle of the 20th century that the city was labeled by one local observer as "Smugtown." In the ensuing five decades, however, these circumstances changed dramatically.

By 2019, the City of Rochester had lost thirty percent of its population and fifteen percent of its households. In a frenzy of suburbanization, the Rochester suburbs added more than one new housing unit for each new suburban household, which had the effect of flooding the market with new—and excess—supply and decreasing demand for older and less desirable housing units in Rochester. The falling values and increasing vacancy further ensured that many Rochester housing units would, as a rule, not have responsible buyers in the future.

The City of Rochester also faced a concentration of poverty that limited its market potential. In 1970, the city was already home to more than eighty percent of the county's lowest-income neighborhoods, and flight to the suburbs only exacerbated this phenomenon. The number of families experiencing poverty grew by seventy-five percent between 1970 and 2000 and, although the number of families in that group held steady over the next two decades, continued loss of higher-income households meant an ever-increasing share of Rochester families had poverty-level incomes.

This set of historical market forces has contributed to what has become a two-tiered housing market in the county, where most of the suburban jurisdictions have largely functional real estate markets while the city does not. But the city too has a two-tiered market, where about seventy percent of the city's neighborhoods command prices too low to account for the costs of catching up on years, if not decades, of deferred maintenance, and thirty percent get prices high enough to ensure good stewardship of the real estate but which are too high for all but a small percentage of the city's generally poor population. (And, while circumstances in the suburbs are nowhere near as rough as in the city, signs point to similar challenges in the not-too-distant future for some suburban parts of Monroe County.)

Generally low demand for the region becomes a manifestly more significant challenge when local supply is aged, often degraded, and proportionally problematic. This is especially true in the City of Rochester, where the stocks are older, less frequently in good condition, and heavily comprised of singles and doubles, which are extra challenging to own and profitably operate as rentals.

Low levels of demand across the board combined with generally older stocks combined with a high proportion of generally unprofitable supplies is a textbook recipe for a troubled housing market. It means there is no margin. To this, add a socio-economically bottom-heavy population, and the result is a market bordering on collapse. It is also a market further troubled by the fact that the type of thinking needed to intervene in the face of collapse is sidelined.

Because rents are rising, some in Monroe County believe that the market must be doing well. Because large numbers of households are struggling to afford housing, some in Monroe County believe that the problem is the high cost of housing. Because some landlords are making money, some in Monroe County believe that rental property ownership is profitable. All these can both be somewhat true, or at least partially true, and at the same time obscure far more important truths.

Yes, rents are rising in Monroe County and in Rochester. But, generally speaking, not to levels high enough to generate enough money for owners to catch up on deferred maintenance and make a profit whereupon absentee owners routinely trade the former for the latter.

Yes, large numbers of households are struggling. But not because housing is per se expensive. Rather, as far as housing goes, it is because the incomes for many are too low.

Yes, some rental property owners are making money. But, the money they extract is either a function of taking income from revenue that should be going back into the properties, or because they bought low decades ago.

Yes, the market is tight, on both the renter and home owner side of the equation. But low vacancy rates at the lower end of the rental market obscures high failure-to-pay-on-time-rates. And thin inventories on the buyer side more reflect seller uncertainty about where they will go next than inherent strength.

All these storylines are interconnected. Near the center of them all is the math of rental property ownership, both reflecting and shaping the Monroe County market overall.

PART 1

Historical Trends

Many factors have set the table in Monroe County.

The state of the Monroe County rental marketplace at the time of this report (2021) is not the result only, or even mostly, of recent events. Rental market demand and supply, especially those components of most interest in this report, stem from long-term trends that began decades ago. This analysis looks back as far as 1970 to understand how the regional marketplace has evolved.

MONROE COUNTY

CITY OF ROCHESTER

SUBURBS
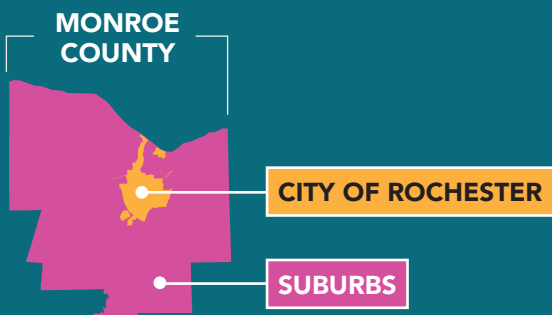
Cities are dynamic. For better or for worse, they are always in a state of flux, in transition from one set of conditions to another. There is no stasis, though anyone who experiences a place for a short duration—even a few decades is not very long in the life of a city—may become settled in a view of "the way things are" or "the way they used to be."

A five-decade review of the Rochester region makes two things clear:

1. **The Monroe County and City of Rochester that exist in the collective memory of the 20th Century are long gone.**
2. **The collective memory may be inaccurate—economic, social, and market struggles inside the City of Rochester are longstanding, not recent.**
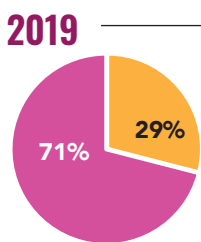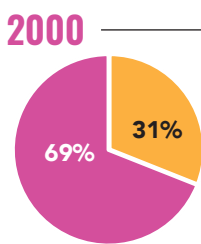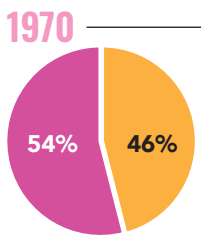
These dual truths are not unique to the Rochester area. The trends illustrated here are characteristic of most older industrial cities in the northeast and midwest that have struggled with headwinds mostly not of their own making. Understanding these trends, and what they mean for the rental marketplace, is critical to finding a starting point for change.

AT LEAST 50 YEARS OF SUBURBANIZATION

The story of demand and supply growth in Monroe County is really the story of suburban development in the post-WWII era. Although the City of Rochester remains the single largest municipality by population in the county, the force of its gravity decreases with each passing year. Monroe County outside Rochester now dominates the regional housing market and increasingly sets the pace for most housing market trends.
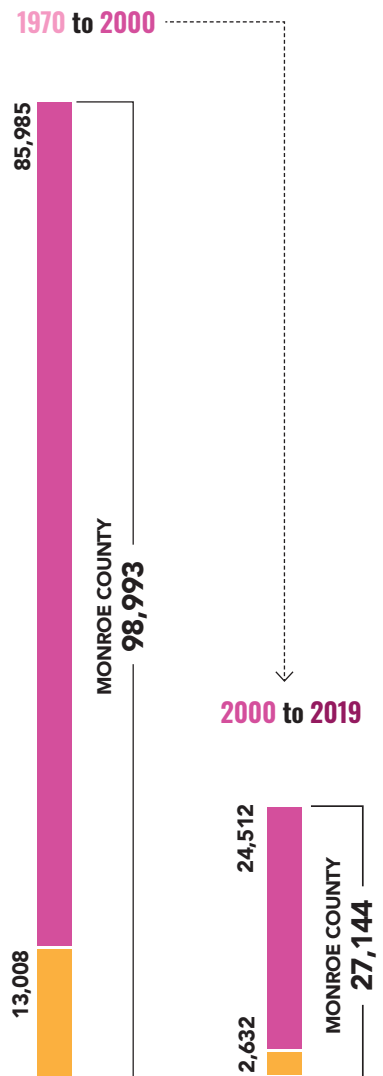
PERCENTAGE OF MONROE COUNTY HOUSEHOLDS IN...

THE SUBURBS
THE CITY OF ROCHESTER

1970
54% 46%

2000
69% 31%

2019
71% 29%

HOUSING UNITS BUILT, BY ERA

1970 to 2000

85,985
MONROE COUNTY 98,993
13,008

2000 to 2019

24,512
MONROE COUNTY 27,144
2,632

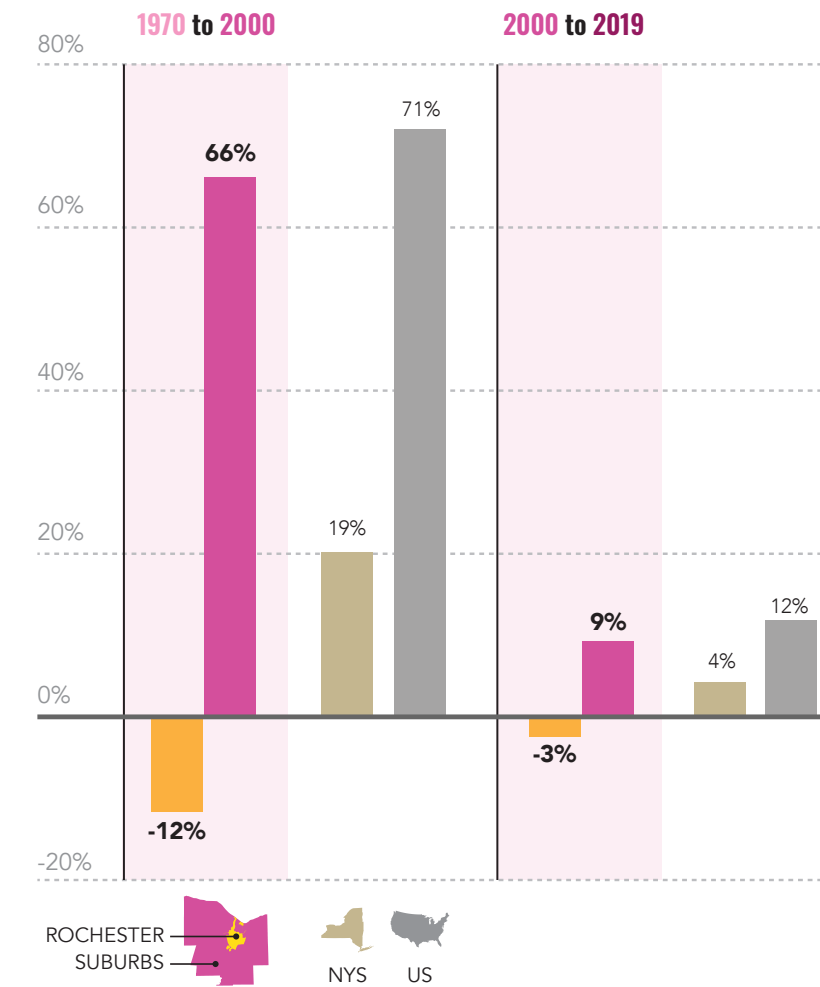Source: czb analysis of data from U.S. Census and American Community Survey Five Year Estimates

Source: czb analysis of data from U.S. Census and American Community Survey Five Year Estimates

# FLIGHT OF POPULATION AND HOUSEHOLDS FROM ROCHESTER, ESPECIALLY HOMEOWNERS

The City of Rochester has experienced marked decreases in population and households since 1970, which has affected both housing demand and supply. All of the city's household loss over that time is due to loss of homeowners—the number of renter households increased slightly. The loss of one in every three homeowners has meant that single-family houses needed a new use, and that they have usually been available for a low price. As the number of renters grew slightly, these newly available single-family homes became a bigger part of their available rental supply.

PERCENTAGE CHANGE IN HOUSEHOLDS, BY ERA

1970 to 2000
-12% 66% 19% 71%

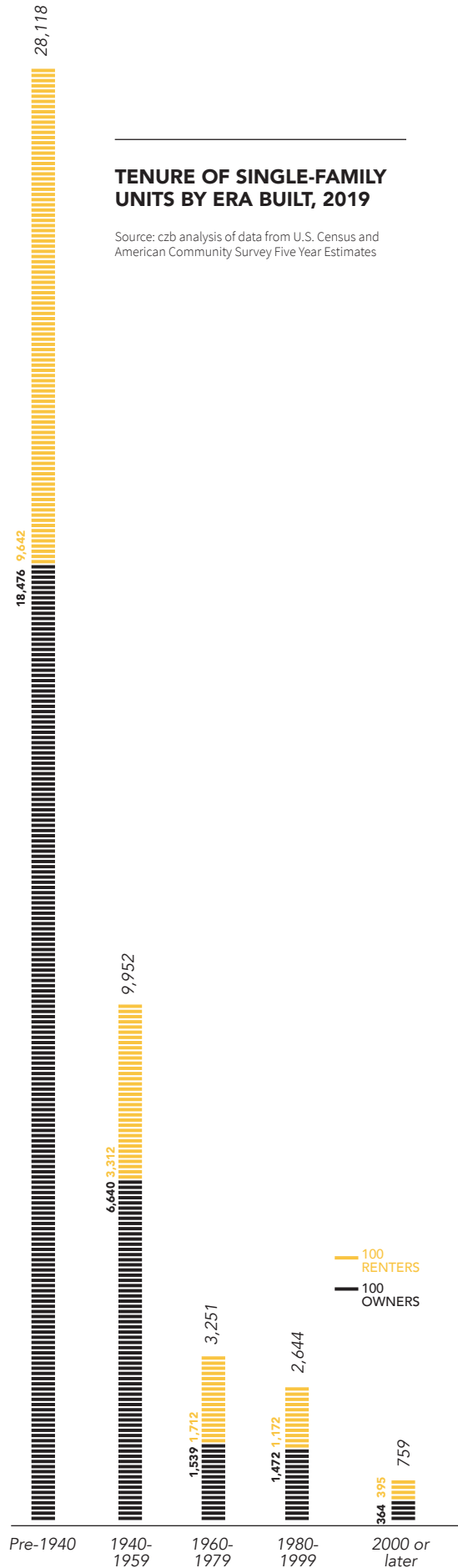**2000 to 2019**
-3% 9% 4% 12%

ROCHESTER SUBURBS
NYS US

Source: czb analysis of data from U.S. Census and American Community Survey Five Year Estimates

PERCENTAGE CHANGE IN OWNER HOUSEHOLDS IN THE CITY OF ROCHESTER
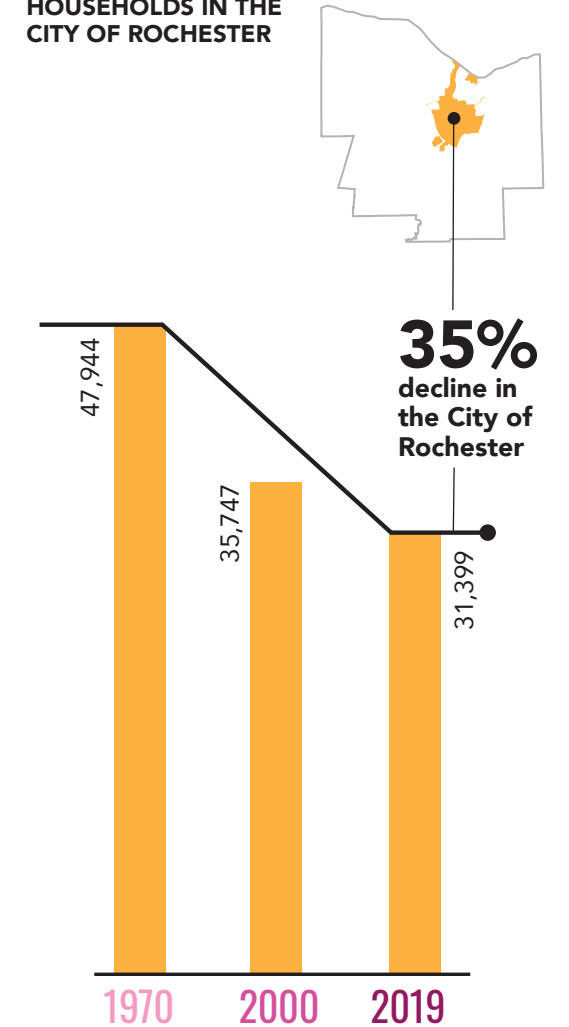
47,944
35,747
31,399

1970 2000 2019

35% decline in the City of Rochester

Source: czb analysis of data from U.S. Census and American Community Survey Five Year Estimates

TENURE OF SINGLE-FAMILY UNITS BY ERA BUILT, 2019

Source: czb analysis of data from U.S. Census and American Community Survey Five Year Estimates

28,118

18,476 9,642

9,952

6,640 3,312

3,251

1,539 2,712

2,644

1,472 1,172

759

364 395

100 RENTERS
100 OWNERS

Pre-1940 | 1940-1959 | 1960-1979 | 1980-1999 | 2000 or later

SIGNIFICANT OPPORTUNITIES TO ACQUIRE AND RENT FORMERLY OWNER-OCCUPIED SINGLE-FAMILY HOMES IN ROCHESTER

Indeed, many single-family homes built originally for owner-occupancy in Rochester have been converted to rental use. The largest number of these were built before 1940 and many are one-hundred years old or even older. Aging structures requiring significant capital investment are often among the first to be abandoned by the owner market. Their trajectories once they have become rentals vary widely based on original quality of the house, location, historical significance, and other factors.

This phenomenon has also been occurring in the suburbs in recent years, but to a lesser degree. The charts at right illustrate the number of pre-2000 single-family units that converted to rental use between 2000 and 2019. (This is determined by subtracting the total number of single-family rentals in 2000 from the number of pre-2000 single-family rentals in 2019. The difference is the number of pre-2000 units that converted.) Over eighty percent of suburban conversions are attributable to just five towns, with Greece alone accounting for nearly half.

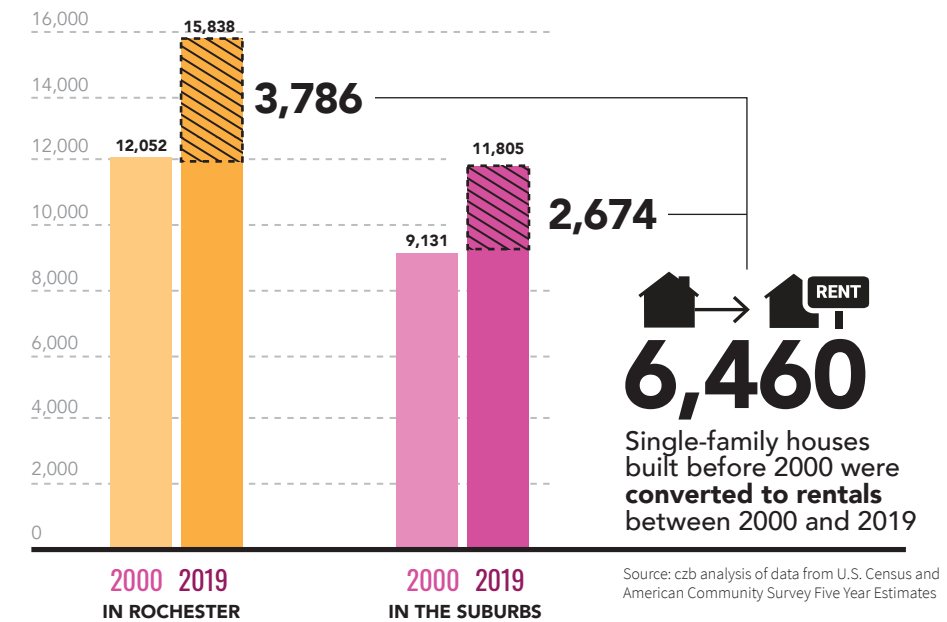## RATE OF OWNER OCCUPANCY OF SINGLE-FAMILY DETACHED HOUSES, 2019
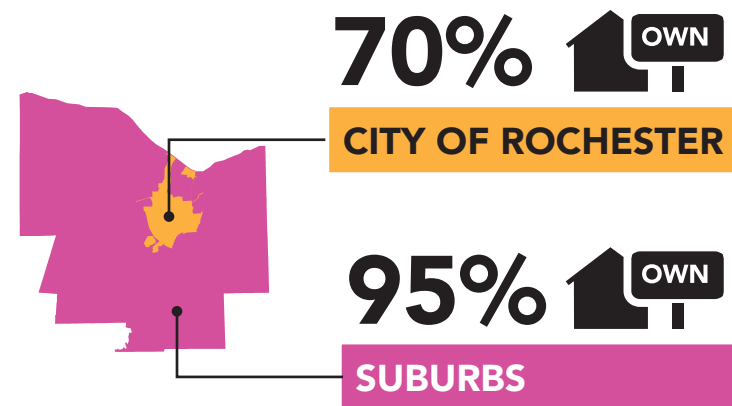
70% OWN
CITY OF ROCHESTER

95% OWN
SUBURBS

Source: czb analysis of data from U.S. Census and American Community Survey Five Year Estimates

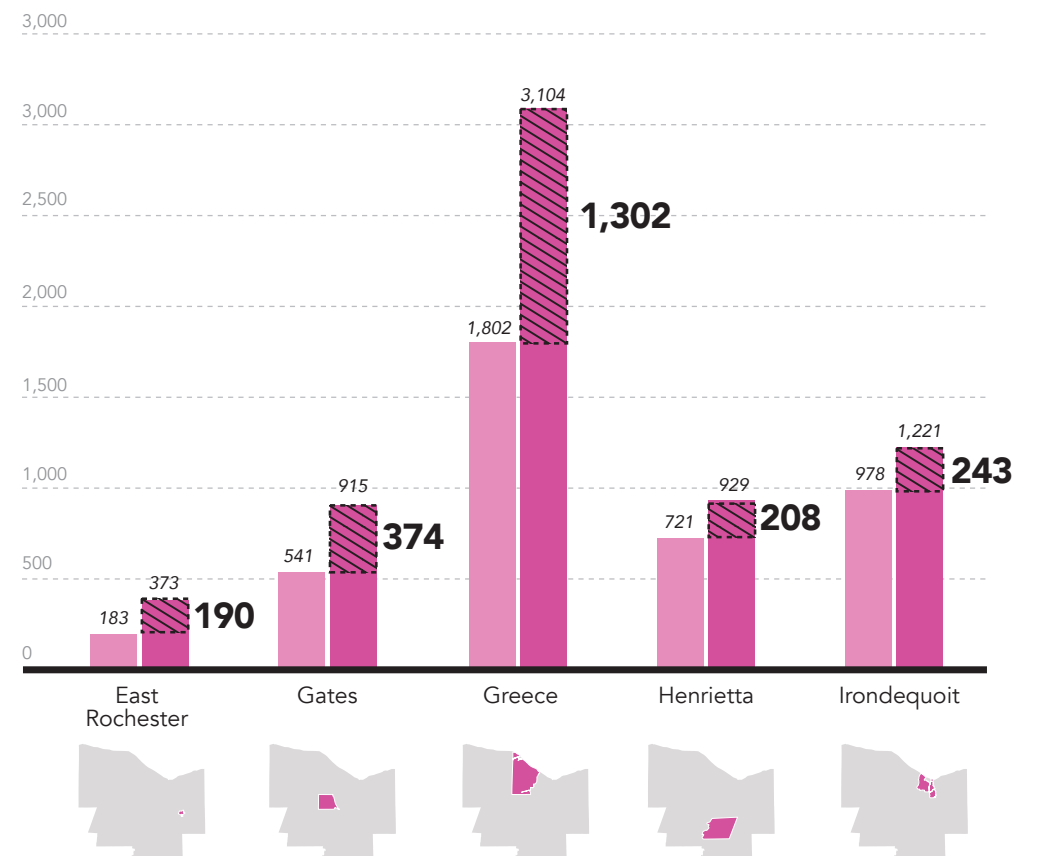## CONVERSION OF SINGLE-FAMILY HOUSES TO RENTALS IN ROCHESTER VS THE SUBURBS

ROCHESTER
SUBURBS

SINGLE-FAMILY RENTAL UNITS BUILT BEFORE 2000, 2000 VS. 2019

16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0

12,052   15,838   **3,786**

9,131   11,805   **2,674**

2000 2019
IN ROCHESTER

2000 2019
IN THE SUBURBS

RENT
6,460
Single-family houses built before 2000 were **converted to rentals** between 2000 and 2019

Source: czb analysis of data from U.S. Census and American Community Survey Five Year Estimates

CONVERSION OF SINGLE-FAMILY HOUSES TO RENTALS IN SELECTED SUBURBAN TOWNS

RENT
Single-family houses built before 2000 **converted to rentals** between 2000-2019

3,000
2,500
2,000
1,500
1,000
500
0

East Rochester: 183 373 **190**
Gates: 541 915 **374**
Greece: 1,802 3,104 **1,302**
Henrietta: 721 929 **208**
Irondequoit: 978 1,221 **243**
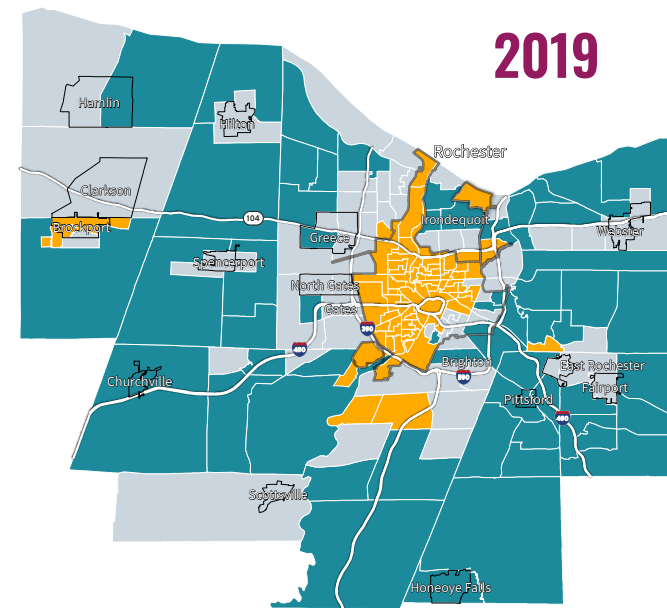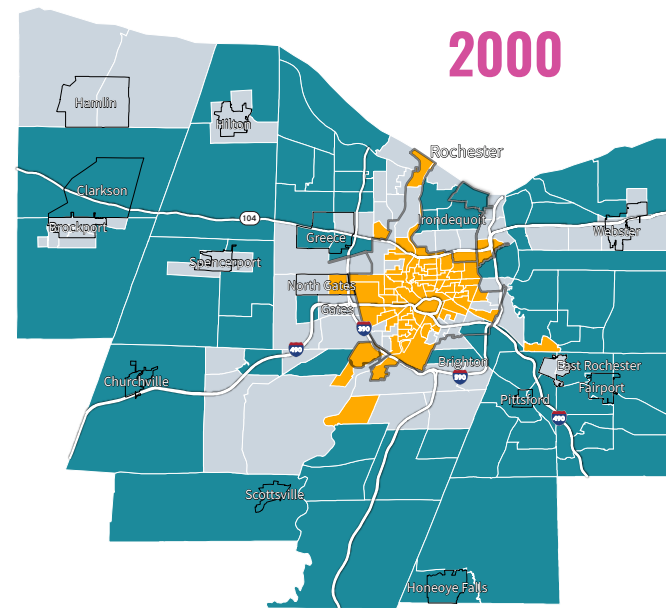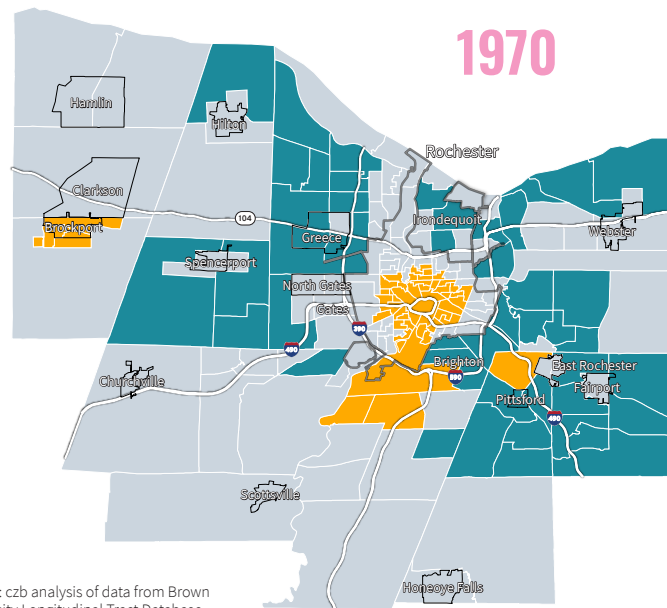
Source: czb analysis of data from U.S. Census and American Community Survey Five Year Estimates

POLARIZATION OF INCOME, WITH LOW INCOMES CONCENTRATED IN ROCHESTER
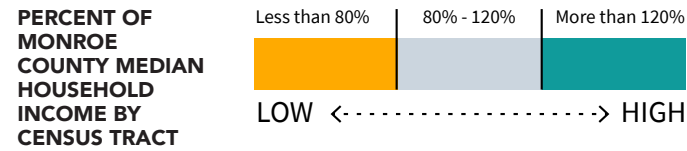
In the maps below, census tracts are color coded by their median household incomes relative to the Monroe County median. In 1970, the county was dominated by tracts with median household incomes near the county's median, meaning a large proportion of tracts in the the county could be considered middle-income areas. By 2000, this was no longer the case as middle-income tracts fell in number, more Rochester tracts fell into the lowest category, and more suburban tracts were in the highest category.
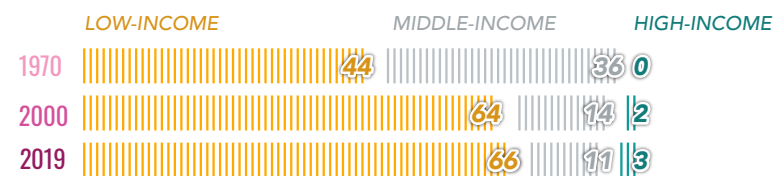
PERCENT OF MONROE COUNTY MEDIAN HOUSEHOLD INCOME BY CENSUS TRACT

Less than 80%   80% - 120%   More than 120%

LOW ←- - - - - - - - - - - - → HIGH

1970

2000

2019

Source: czb analysis of data from Brown University Longitudinal Tract Database

HOW **ALL 192 CENSUS TRACTS IN MONROE COUNTY** FALL INTO THREE INCOME CATEGORIES BY ERA
(RELATIVE TO MONROE COUNTY)

LOW-INCOME   MIDDLE-INCOME   HIGH-INCOME

1970   51   89   52
2000   71   58   63
2019   76   57   59

In 1970, only about one-quarter of the county's census tracts had median household incomes in the lowest category (less than eighty percent of the county median). By 2019, nearly forty percent of tracts were in the low category and the number of middle-income tracts (80-120 percent of the county median household income) fell by over one-third. High-income tracts (over one hundred twenty percent of the county median household income) rose and fell over the entire time period, resulting in a net addition of seven high-income tracts.

HOW **80 CENSUS TRACTS IN ROCHESTER** FALL INTO THREE INCOME CATEGORIES BY ERA
(RELATIVE TO MONROE COUNTY)

LOW-INCOME   MIDDLE-INCOME   HIGH-INCOME

1970   44   36   0
2000   64   14   2
2019   66   11   3

In 1970, over half of the city's census tracts already were in the low category. Between 1970 and 2000, 20 of 36 middle income tracts fell into the low category, and a small number moved up into the high-income category, leaving very few middle-income tracts in the city. This trend continued to a lesser degree after 2000. In summary, the city experienced small growth at the top, large growth at the bottom, and a hollowing out of the middle.

Source: czb analysis of data from Brown University Longitudinal Tract Database

What these trends mean for the rental market

These trends have established the broader context within which the Monroe County and Rochester rental markets must be considered. The county has sprawled to its edges, funneling market demand to suburban jurisdictions, hollowing out its core city, segregating itself by income, and leaving behind a City of Rochester that is now disproportionately characterized by poor households matching with degrading housing units long since abandoned by the ownership market.

PART 2

Monroe County Rental Market

The rental market can generally be understood as two distinct geographies: the City of Rochester, and the suburbs.

MONROE COUNTY

CITY OF ROCHESTER

SUBURBS
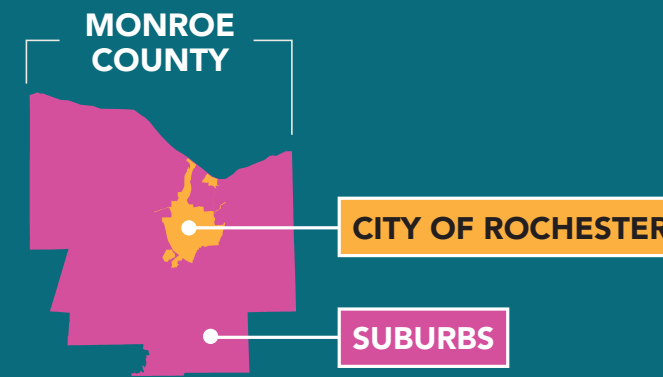
CITY OF ROCHESTER RENTERS

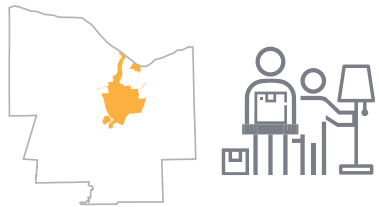The income distribution for Rochester's renter households is heavily weighted toward the bottom. Roughly 40% of Rochester renter households earn no more than $20,000 annually, meaning they can afford to pay no more than $500 per month in rent. This is a monthly rent that is virtually impossible for the private sector to accommodate. Even the vast majority of the 20% of renters in the next income category cannot afford the city's median rent of $848.

As a result, large proportions of Rochester renters in the lower income ranges face rent burdens, meaning they pay more than 30% of their income for housing costs.

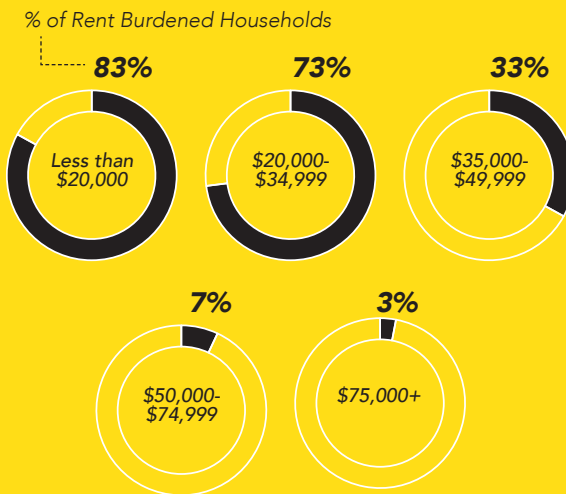# ROCHESTER'S RENTER HOUSEHOLDS HAVE **LOW INCOMES**

RENTER INCOME DISTRIBUTION, 2019
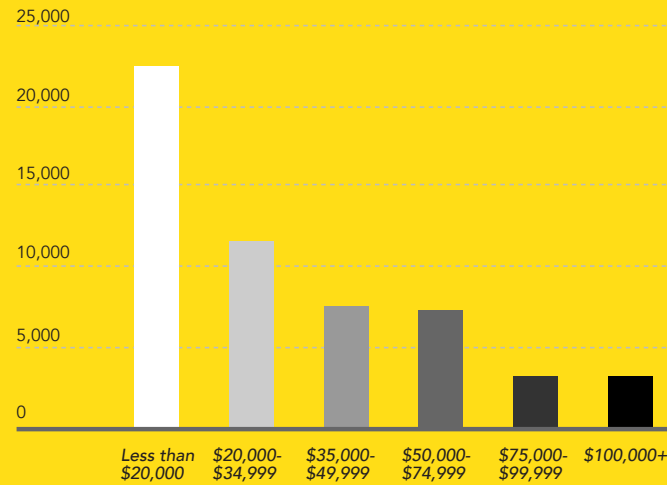
Source: 2015-2019 American Community Survey Five Year Estimates

ROCHESTER'S HOUSEHOLDS **STRUGGLE TO AFFORD RENT**

PERCENTAGE OF RENT BURDENED HOUSEHOLDS BY INCOME, 2019

% of Rent Burdened Households

- **83%** Less than $20,000
- **73%** $20,000-$34,999
- **33%** $35,000-$49,999
- **7%** $50,000-$74,999
- **3%** $75,000+

Source: 2015-2019 American Community Survey Five Year Estimates

SUBURBAN RENTERS HAVE **HIGHER** INCOMES THAN THOSE IN THE CITY
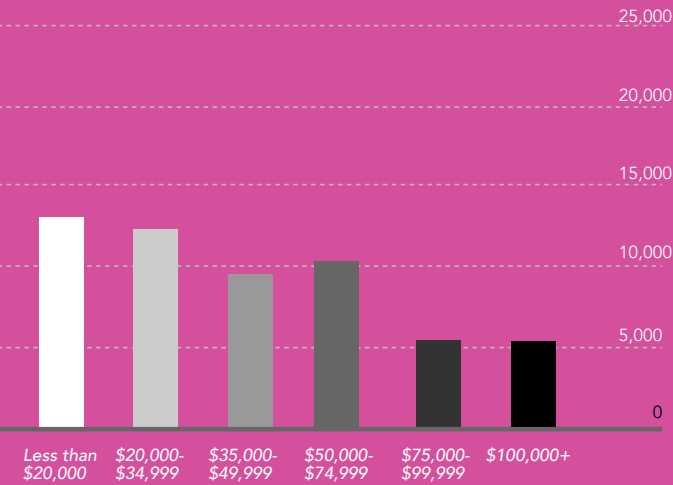
SUBURBAN **HOUSEHOLDS STRUGGLE TO AFFORD RENT**

% of Rent Burdened Households

- **79%** Less than $20,000
- **81%** $20,000-$34,999
- **41%** $35,000-$49,999
- **14%** $50,000-$74,999
- **4%** $75,000+
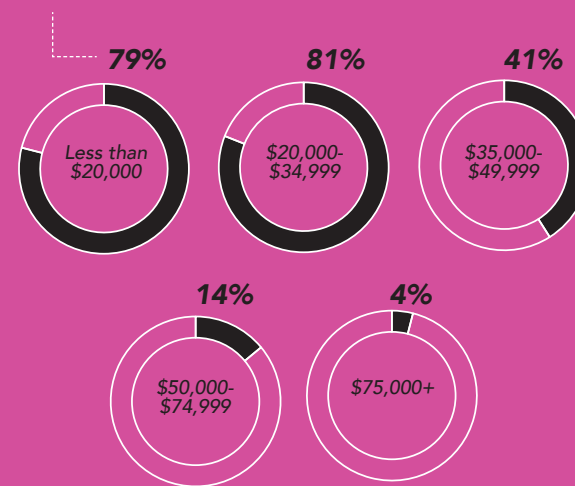
SUBURBAN MONROE COUNTY RENTERS

The income distribution for suburban renter households is much more even. Although the suburbs have approximately the same number of renter households as the city, the suburbs have half as many households earning less than $20,000 and twice as many earning $75,000 or more.

Rent burdens are also a challenge in the suburbs. The lowest-income households face the same issues as those in the city, and all categories of suburban renters earning $20,000 or more are actually rent burdened at a higher rate than their city counterparts as rents are generally higher in the suburbs.

CITY OF ROCHESTER RENTAL UNITS

Despite Rochester's status as the region's dense, urban core, a plurality of its rental units are in single-family properties. In fact, nearly two-thirds of Rochester's rental units are found in properties with 1-4 units and this has important implications for the business operations of rental property owners, described later in this report.

(The data reported here comes from the American Community Survey (ACS) five year estimates program. Although they are estimates, ACS is widely used by analysts and researchers and is the only data source that allows for comparison across jurisdictions. The City of Rochester maintains data indicating the city has fewer single-family rentals and a greater number of units in duplexes than ACS estimates. Both data sources agree that Rochester has a much higher proportion of small rental properties than the suburbs.)

Rochester's rental units are also now quite old. Almost half of all units were built before 1940, meaning their maintenance and capital replacement needs are significant and, if left untended, a serious liability to occupants and owners. A combination of market conditions and lack of easily buildable land have meant that Rochester has built relatively few units in more recent years.

ROCHESTER'S RENTAL UNITS ARE LIKELY TO BE IN SMALLER PROPERTIES

RENTAL UNITS BY UNITS IN STRUCTURE, 2019

Single-Family: 16,233
2 Units: 10,984
3 or 4 Units: 7,980
5-19 Units: 7,786
20+ Units: 11,714

Source: 2015-2019 American Community Survey Five Year Estimates

ROCHESTER'S HOUSING STOCKS ARE OLD

RENTAL UNITS BY ERA BUILT, 2019

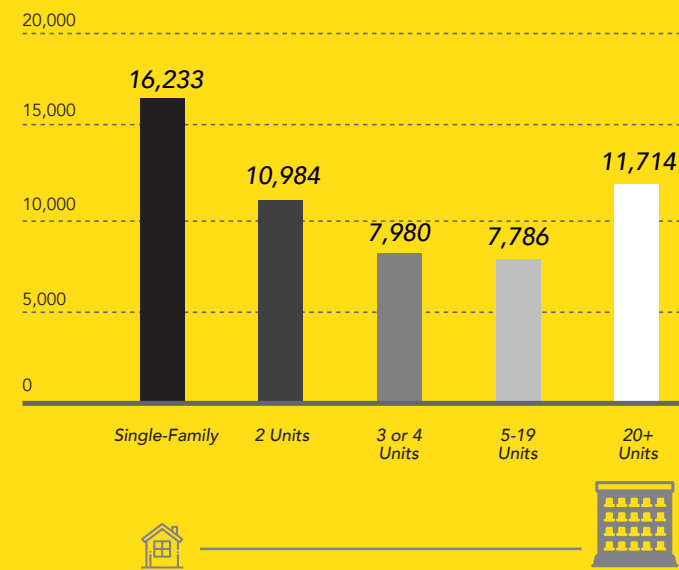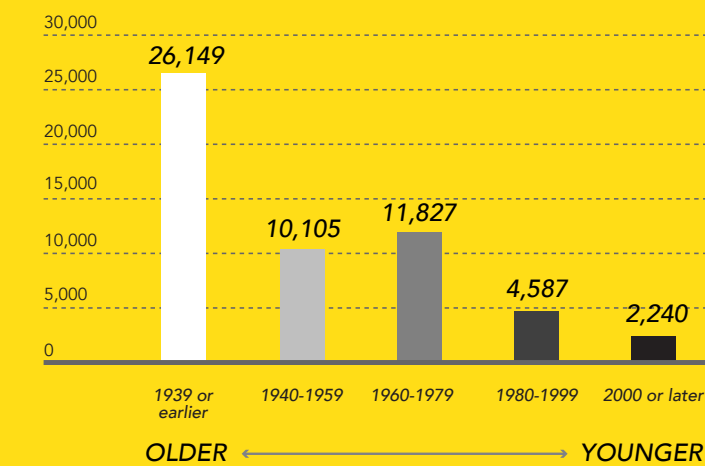1939 or earlier: 26,149
1940-1959: 10,105
1960-1979: 11,827
1980-1999: 4,587
2000 or later: 2,240

OLDER ← → YOUNGER

Source: 2015-2019 American Community Survey Five Year Estimates

SUBURBAN RENTAL UNITS ARE DISPROPORTIONATELY IN APARTMENT COMPLEXES

Single-Family: 13,176
2 Units: 3,543
3 or 4 Units: 8,612
5-19 Units: 20,042
20+ Units: 9,468
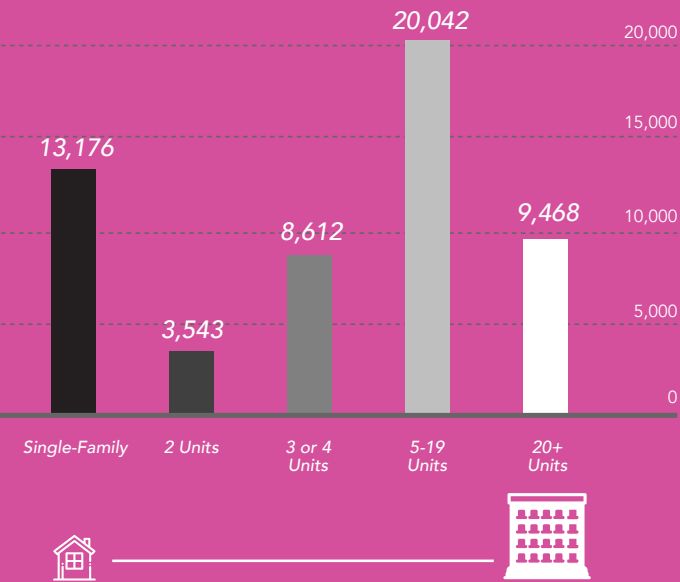
SUBURBAN RENTAL STOCKS ARE AGING, BUT YOUNGER THAN THE CITY'S

1939 or earlier: 5,670
1940-1959: 6,992
1960-1979: 20,264
1980-1999: 14,264
2000 or later: 8,067

OLDER ← → YOUNGER
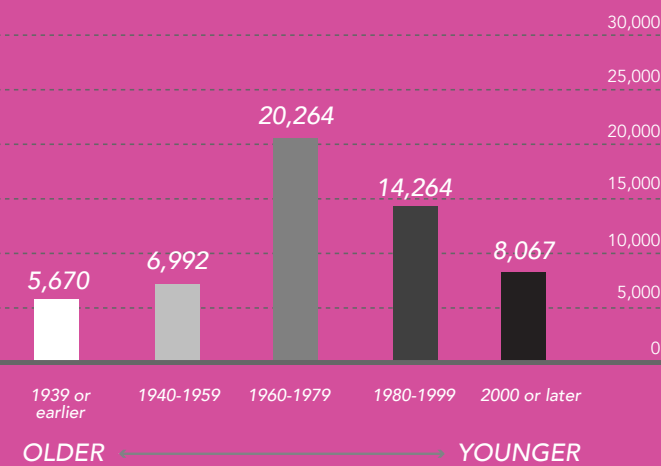
SUBURBAN MONROE COUNTY RENTAL UNITS

A plurality of suburban rental units can be found in structures with 5-19 units. In a suburban context, this means garden apartment complexes with scattered buildings containing, in most cases, 8-12 units each. Properties like these are common in many Monroe County towns.

It is no surprise that a plurality of suburban rental units were built in the 1960s and 1970s, with the next largest category the 1980s and 1990s, coinciding with a period of rapid suburbanization in Monroe County. This is also a period when garden apartment complexes were built in large numbers.

While suburban units from the late 20th century are now aging, higher suburban rents and economies of scale position owners of complexes to reinvest in the properties—most of which are modest but clean and quiet—when required. czb's interviews with owners of such properties confirms this.

Rochester Greece Henrietta Irondequoit Penfield Perinton Webster Monroe County
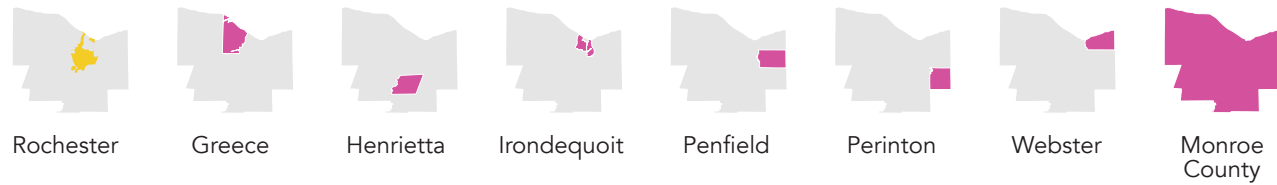
MEDIAN AFFORDABLE RENT VS MEDIAN RENT, SELECTED PLACES, 2000 AND 2019

Median Affordable Rent
Median Rent

WHAT THE MEDIAN RENTER CAN AFFORD IN 2000

Median Rent for...

$612 Monroe County

$553 Rochester

WHAT THE MEDIAN RENTER CAN AFFORD IN 2019

Median Rent for...

$927 Monroe County

$848 Rochester

Source: 2015-2019 American Community Survey Five Year Estimates

GAP ANALYSIS OF UNITS TO HOUSEHOLDS, BY INCOME, 2019

DEFICIT OF UNITS   SURPLUS OF UNITS

-15,221 +12,237 +8,249 -705 -5,443   -9,330 +3,004 +11,470 +486 -7,523

DEFICIT of units

SURPLUS of units

Less than $20,000 | $20,000-$34,999 | $35,000-$49,999 | $50,000-$74,999 | $75,000+ (CITY OF ROCHESTER)

Less than $20,000 | $20,000-$34,999 | $35,000-$49,999 | $50,000-$74,999 | $75,000+ (SUBURBS)
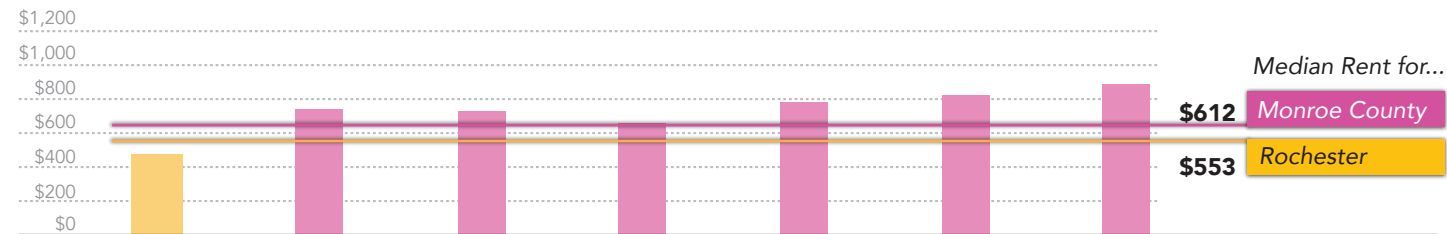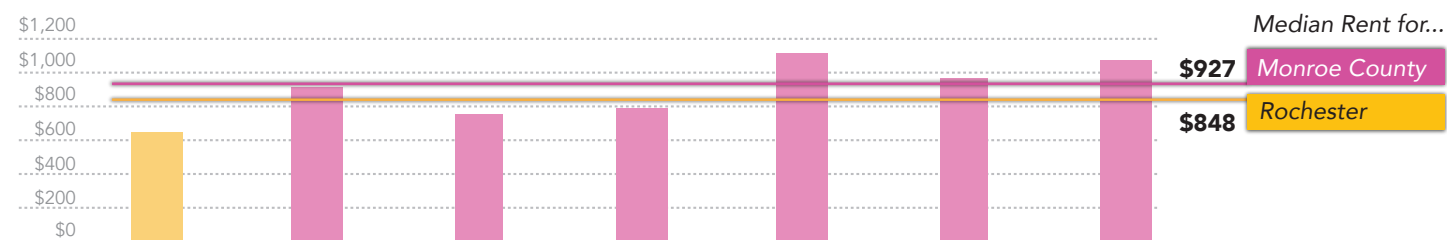
Source: 2015-2019 American Community Survey Five Year Estimates
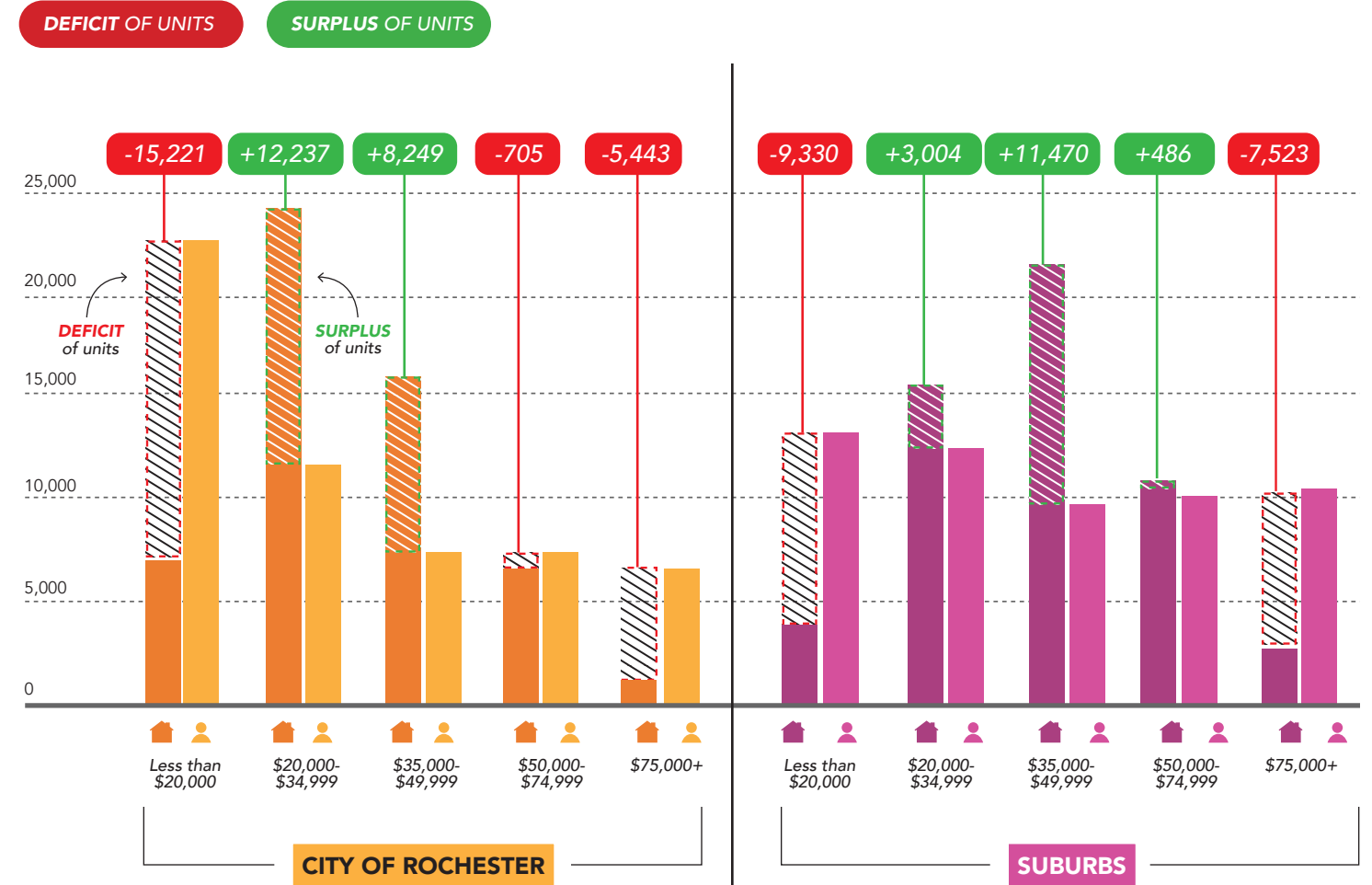
RENTS ARE ON THE RISE IN MONROE COUNTY, BUT IN ROCHESTER UNAFFORDABILITY IS MOSTLY A FUNCTION OF INCOME

By 2019 rents had begun to outstrip renter incomes across the county, at the median. The median renters in Rochester and a number of suburban towns could not afford the median rent in their jurisdiction. At some level, this suggests a general affordability issue in Monroe County. But this was not always so, and Rochester is its own special case within the county.

In 2000, the median renter in most suburbs could afford both the county median rent as well as the median rent in his or her own town. But the median Rochester renter could afford neither the median Rochester rent nor the median Monroe County rent. The median renter in Rochester has struggled to afford the rent for decades due to low renter incomes. It is a longstanding issue, not a recent one.

The median city renter household could afford no more than $650 per month in 2019. This is an amount of monthly rent that in almost all cases is too low to sustain a privately owned rental unit. It certainly is not sufficient to justify the construction of a new unit.

IMPERFECT RESULTS IN THE RENTAL MARKET

In 2019, the median rent across all of Monroe County was $927 and in Rochester it was $848. These are rents affordable to households earning roughly $34,000-$37,000. Median rents reflect the general "going rate" for rents and reflect a "rental math" that accounts for both what renter households are able and willing to pay—whether technically affordable by the federal definition or not—and what it costs owners to own rental property. Of course rents exist in a range both above and below the median, set at each level by the same factors.

A gap analysis overlays those resulting rents, across all units, with the incomes of renter households to reveal where the marketplace is either "oversupplied" or "undersupplied" compared to a hypothetical scenario in which incomes and rents are perfectly aligned according to the affordability metric that no household should pay more than thirty percent of its income for housing. What the charts illustrate is that there is a surplus of units affordable to those earning $20,000-$49,999, or at rents between $500 and $1,250 per month. It also shows there is a severe shortage, especially in Rochester, for the lowest-income households earning less than $20,000. This is because the private sector generally cannot provide units at monthly rents of $500 or less. Further, it is clear that higher-income households also cannot find many rental units matching their ability to pay higher rents.

The results of the surplus in the middle and the shortages at either end are that poorer households rent UP into the surplus supply, paying more than they can afford, while higher-income households rent DOWN into the surplus supply and get a good deal in comparison to their incomes.

Dozens of interviews with rental owners reveal insights into the mechanics of the rental market.
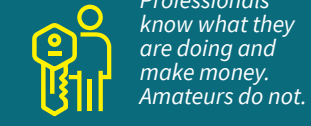
In order to make sense of what drives rental property owner behavior, it is important to first understand the way local rental owners think about and talk about the important components of the rental market. As part of the research for this analysis, czb spoke with over thirty rental property owners in the Rochester region. It quickly became apparent that they, as a group, use a shorthand **grading system of A-D—A being the highest and D being the lowest—to categorize tenants, locations, properties and each other.** Whether this grading system offends sensibilities or is objectively the best way to typologize the rental market is immaterial. The reality is that it provides a foundational, locally credible framework and lexicon to put policy makers and practitioners on the same page with local rental property owners.

The summary table at right orients the reader to the important components and their categorizations within the A-B-C-D framework. The following pages contain additional detail about this system and how it operates.

KEY COMPONENTS OF THE MONROE-ROCHESTER RENTAL MARKETPLACE

Locations are strongly in demand or they are not.

LOCATIONS

Professionals know what they are doing and make money. Amateurs do not.

RENTAL OWNERS

PROFESSIONALS   AMATEURS

Renters are evaluated based on risk to the landlord.

TENANTS

Properties are graded on their condition and maintenance.

PROPERTIES

A — DEMAND STRONG
Locations where so many people want to be that property values can appreciate significantly even if nothing is done to the structure.

B

A — TRUE PROS
Maintain and invest in their properties

B — CONTENDERS
Maintain and plan to invest in their properties

A — LOW RISK
Pay rent on time, take good care of the unit, and are good, value-added neighbors to the block, enhancing the value of the real estate on the block.

B

A — VERY GOOD

B — GOOD

C — DEMAND SOFT
Less desirable locations. Values may be going up, but not enough to attract well-capitalized buyers who are more interested in long-term value than cash flow alone.

D

C — MOM AND POPS
Struggle to maintain or invest in their properties

D — SLUMLORDS
Barely maintain and do not invest in their properties

D — MARGINAL AMATEURS
Barely maintain and do not invest in their properties

C — HIGH RISK
Do not pay rent on time (costing the owner), do not take good care of the unit (costing the owner), are not value-adding neighbors (taking away potential value from the block).

C — FAIR

D — POOR

WHICH **LOCATIONS** ARE DEMAND-STRONG AND WHICH ARE DEMAND-SOFT?

## MONROE COUNTY'S GEOGRAPHY OF DEMAND REINFORCES CLEAR DIVIDE BETWEEN CITY AND SUBURBS

It would be easy to obscure important market nuances by just looking at municipalities as individual monoliths. But even when the demand analysis is at the more granular census tract level, the story that emerges is largely unchanged: with only a small handful of exceptions, suburban Monroe County is "A" and "B" territory, suggesting a functional market, while the City of Rochester has a much wider variety of market conditions, including nearly all of the county's very softest areas.

When examining the strength of market demand across the county, the familiar pattern of city versus suburbs emerges clearly.

A	B	C	D
DEMAND-**STRONG**		DEMAND-**SOFT**	
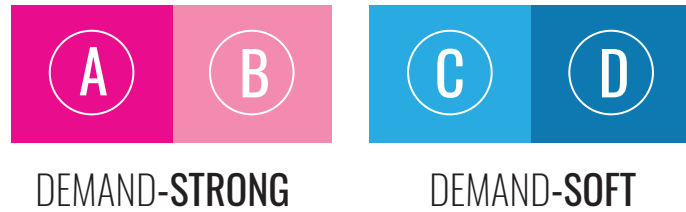
MARKET DEMAND TYPOLOGY, BY CENSUS TRACT, 2019

Source: czb (Data categories from 2015-2019 ACS Five Year Estimates include median value, change in median value 2014-2019, vacancy rate in single-family units, and homeownership rate in single-family units. Iterations using other data, including those specifically related to renter households, did not alter the typology.
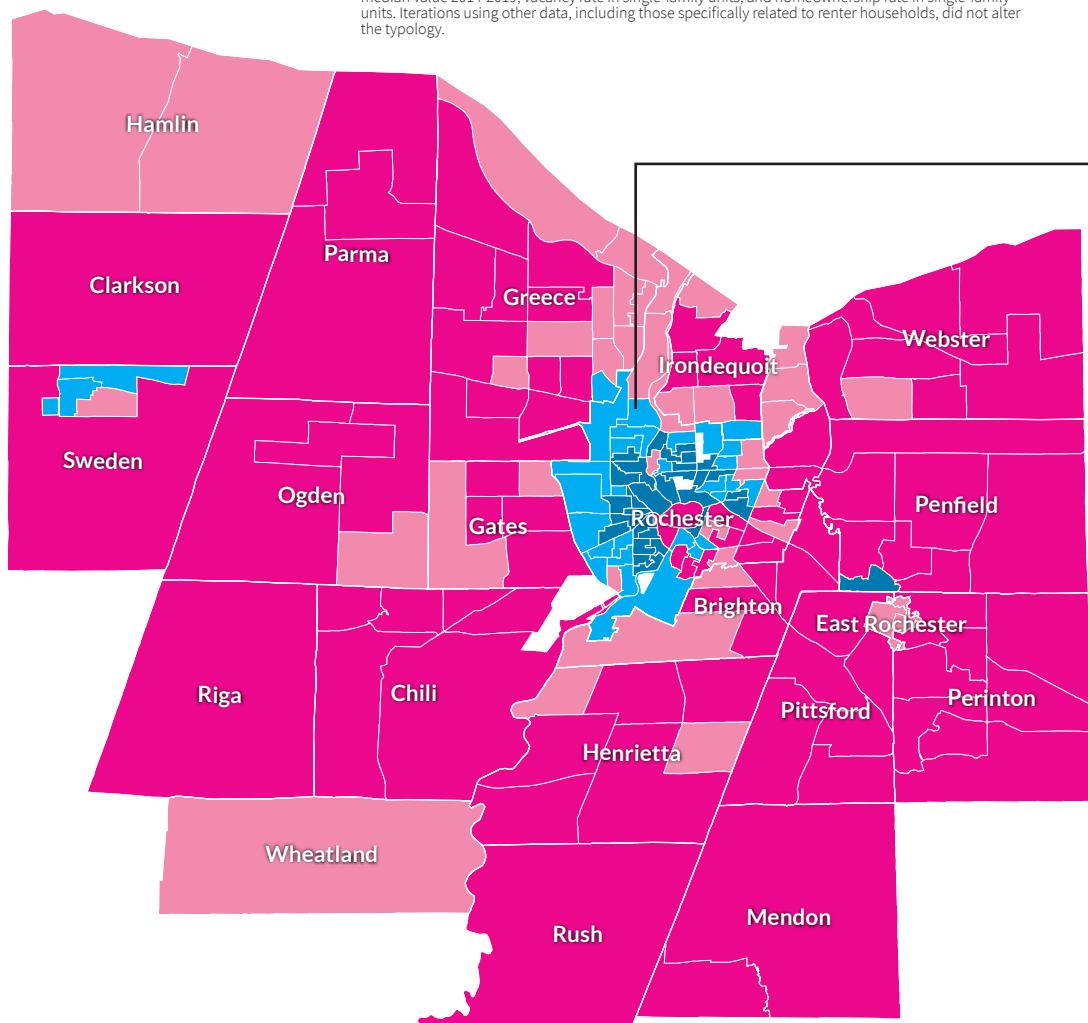
THE CITY OF ROCHESTER IS THE CORE OF THE COUNTY, AND THE CORE OF THE RENTAL MARKET CHALLENGE

Demand is a function both of the ability to pay and the willingness to pay. What the demand typology reflects is the broader market's unwillingess to pay for large swaths of Rochester—the market has chosen southeast Rochester and the suburbs—and the local renters' inability to pay in those demand-soft areas. Demand-soft areas are prone to concentrations of poverty, private sector disinvestment, degrading property conditions, and weakening of neighborhood institutions. The resulting outcomes understandably prompt calls for policy intervention. Knowing how the rental housing marketplace is both cause and consequence of these conditions is key to disrupting a cycle that harms Rochester's low-income residents and the community at large. When it comes to areas of focus within the region, there is no close second place to the City of Rochester.
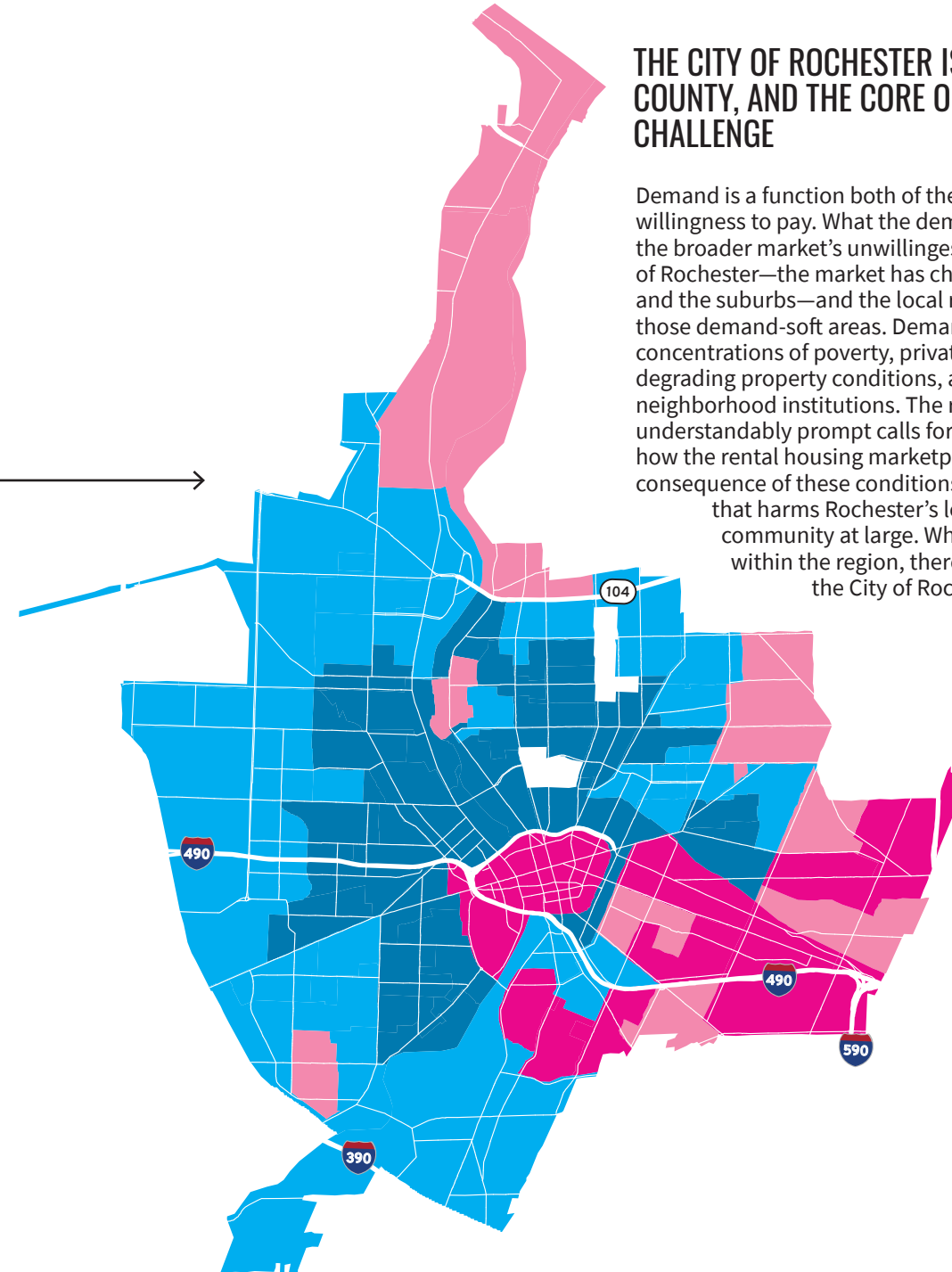
WHO ARE ROCHESTER'S RENTAL OWNERS?

In addition to over thirty interviews with Rochester landlords, the City's extensive databases of property records and rental registry data is critically valuable to developing a true understanding of rental property owners. What emerges from the mixed method research and analysis is a clear picture of who owns Rochester rentals and how they operate. Although these insights are based on data specifically from the City of Rochester, the characterizations will be true across the county.

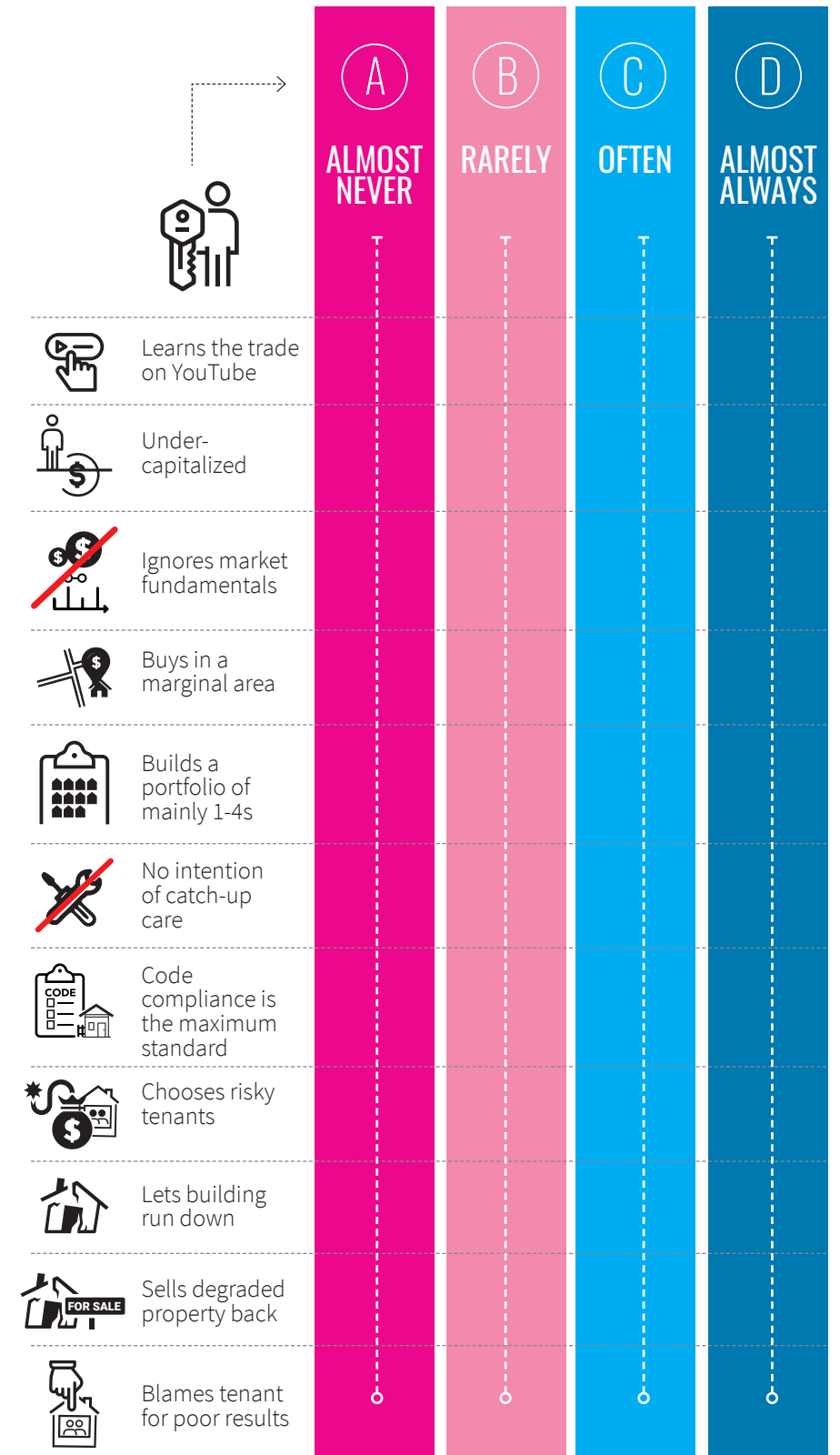| PROFESSIONAL	PROFESSIONAL	AMATEUR	PROFESSIONAL	AMATEUR
A	**B**	**C**	**D**	
TRUE PROS	**CONTENDERS**	**MOM & POPS**	**SLUMLORDS**	**MARGINAL AMATEURS**
Own and operate **good quality property** in **demand-strong markets**	Own and operate **good quality property** in **demand-strong markets**	Most own and operate **property of marginal value** in **demand-soft markets**	Own and operate **slum property** in **demand-soft markets**	Most own and operate **property of ever-declining value** in **demand-soft markets**
Very strong balance sheet	**Good** balance sheet**, not yet strong**	**No** balance sheet	Balance sheet **varies**	**No** balance sheet
Rent to low-risk tenants	Rent to low-risk tenants	Rent to **high-risk tenants**	Rent to **high-risk tenants**	Rent to **high-risk tenants**

Many got in decades ago and few are exiting the market

Some got in a while ago while others are recent entrants, and there is constant churn

They got in recently and continue to enter the market and there is constant churn

Number of Rochester Landlords

- 800
- 265
- 4,608
- 2,024

Percent of Rochester Units Owned

- 21%
- 16%
- 12%
- 50%

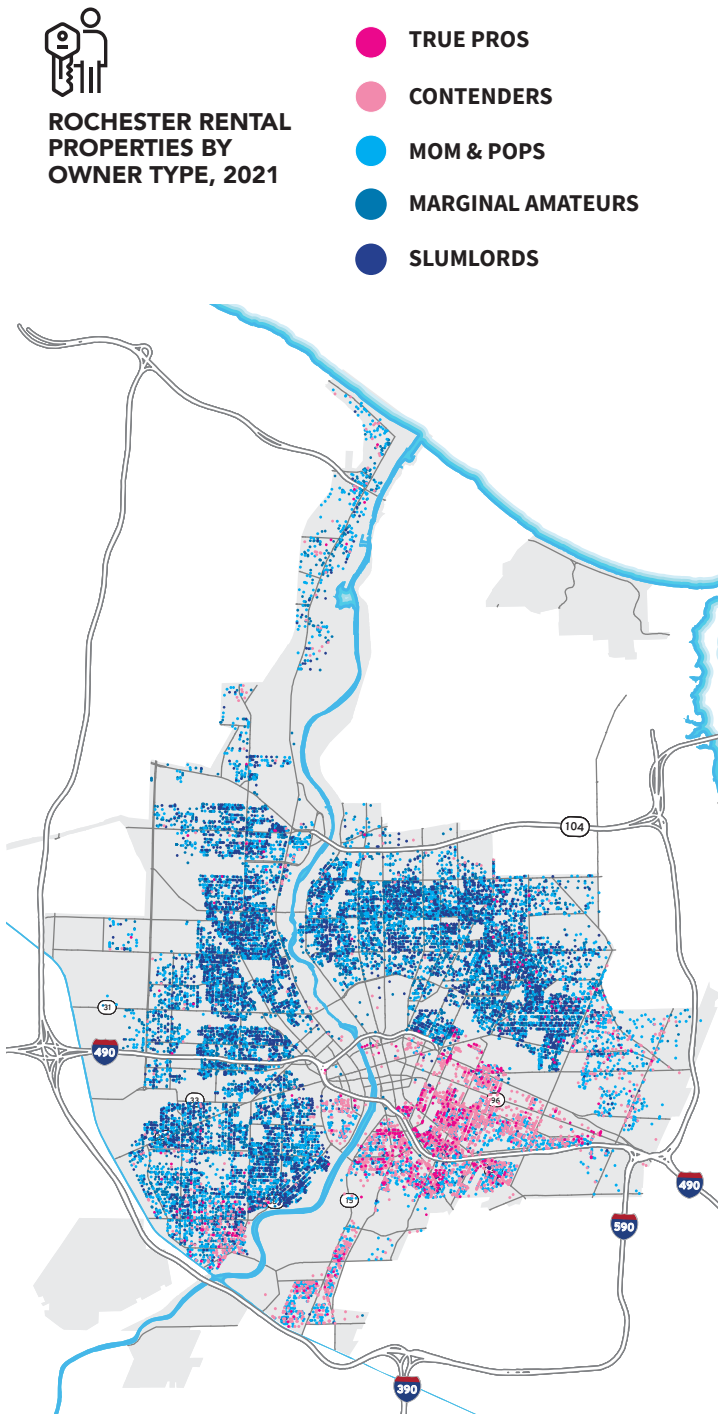## Generalized Rochester Area Rental Property Owner Characteristics Based on Interviews

In the course of czb's interviews, certain attributes clearly came to define the various rental owner types. These attributes, which arose in conversation in some way, shape, or form, are the basis for the columns in the table above. Once it is understood how an owner fits into each of the categories represented in the columns, it becomes fairly easy to assign the owner to the A, B, C, or D class.

A *"Good landlords find good properties and good landlords have a trust relationship with their tenants."*

B *"Hard money is essential. But you have to be smart about it. Don't want to use hard money to do a rental in a bad area. Flip for ownership in an up-and-coming area? Sure."*

C *"Well, when you put it that way, no, I guess not; I guess I am not making money. I suppose I have been losing money. At least economically."*

D *"I saw an ad on TV more than twenty years ago about wealth and rental property. I've never looked back."*

	A ALMOST NEVER	B RARELY	C OFTEN	D ALMOST ALWAYS
Learns the trade on YouTube				
Under-capitalized				
Ignores market fundamentals				
Buys in a marginal area				
Builds a portfolio of mainly 1-4s				
No intention of catch-up care				
Code compliance is the maximum standard				
Chooses risky tenants				
Lets building run down				
Sells degraded property back				
Blames tenant for poor results				

HOW DO **RENTAL OWNERS** MATCH WITH ROCHESTER **LOCATIONS**?

ROCHESTER RENTAL PROPERTIES BY OWNER TYPE, 2021

- TRUE PROS
- CONTENDERS
- MOM & POPS
- MARGINAL AMATEURS
- SLUMLORDS

ROCHESTER MARKET DEMAND TYPOLOGY, BY CENSUS TRACT, 2019

A B — DEMAND-**STRONG**
C D — DEMAND-**SOFT**

At first glance, the spatial correlation between the strength of demand in a neighborhood and the predominate type of rental owner appears uncanny. But in reality, it is simply logical. Rental property owners respond to market conditions. Demand leads and supply follows, and a key component of supply is who owns it. "A" and "B" owners find their ownership opportunities where demand is strongest. "D" owners find theirs where demand is softest. Mom and pop "C" owners are less well correlated as they are often accidental rental owners and can appear anywhere.

DISTRIBUTION OF RENTAL PROPERTY OWNERSHIP BY OWNER TYPE AND LOCATION TYPE, 2021

- TRUE PROS
- CONTENDERS
- MOM & POPS
- MARGINAL AMATEURS
- SLUMLORDS

Source: czb analysis of data from City of Rochester and 2015-2019 American Community Five Year Estimates

Source: czb analysis of City of Rochester data

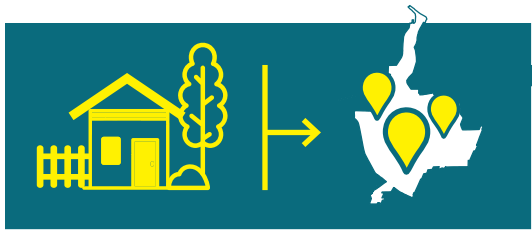Source: czb analysis of data from 2015-2019 American Community Survey Five Year Estimates

LOCATION TYPES   A B C D
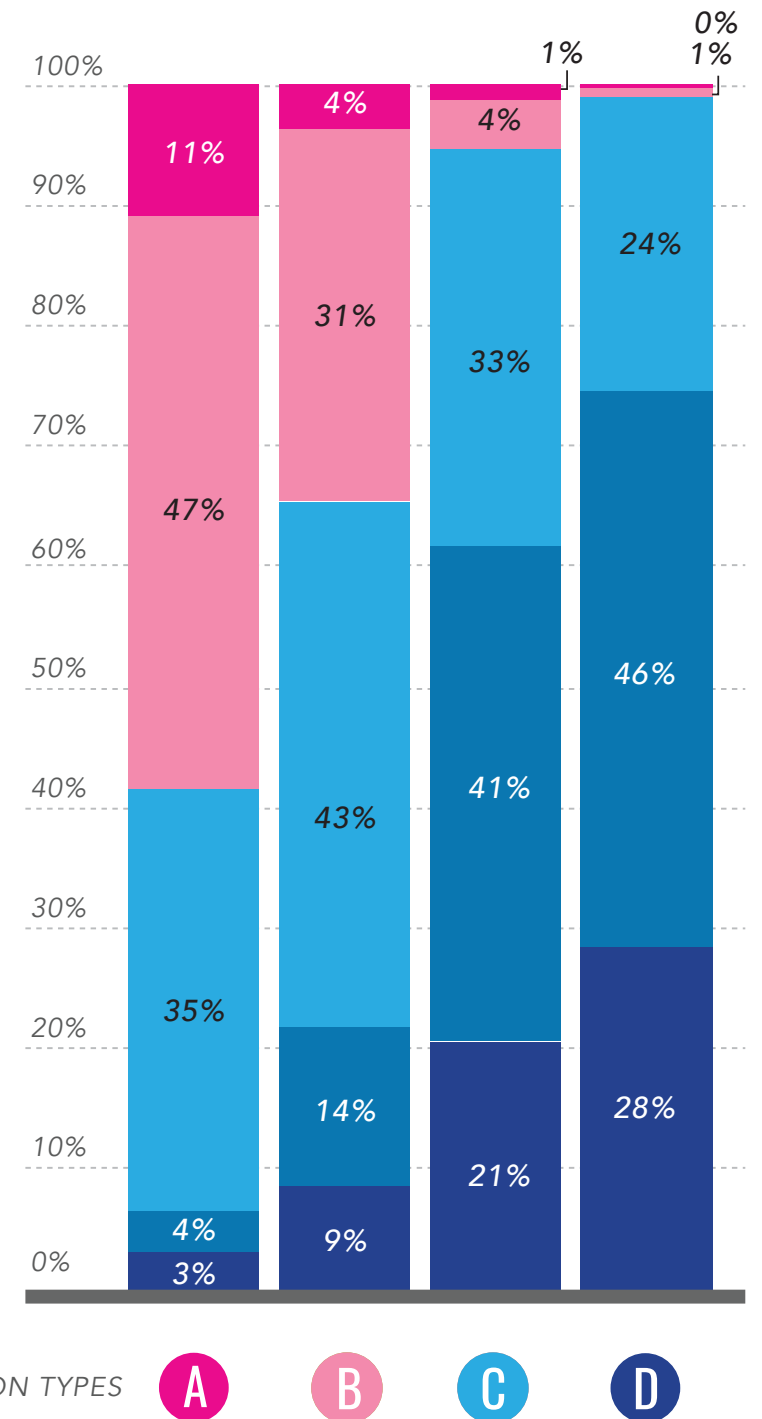
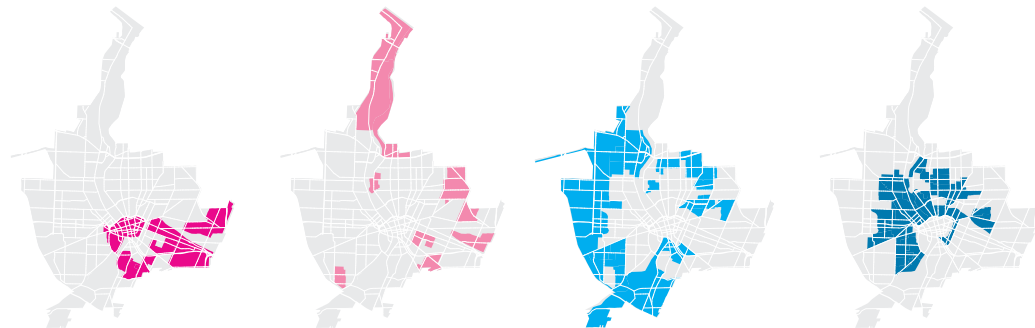# HOW DO ROCHESTER **RENTAL PROPERTIES** MATCH UP WITH **ROCHESTER LOCATIONS**?

There is no comprehensive data on property conditions across the City of Rochester, but the City does maintain inspection and code complaint data for rental properties. This allows for analysts to know which landlords are more likely to own properties with few or many code violations, and where they are. Code violations are not a perfect indicator of property conditions, but they are a very good proxy.

The chart at below uses historical code violation data gathered between 2013 and 2017 to illustrate the likelihood that properties have reported violations.

The higher the grade of location, the higher the likelihood that properties do not have recorded code violations. More than four out of every five rental properties in "A" areas have none, and less than two percent have four violations or more. By contrast only about half of rental properties in "D" areas are without code violations and seventeen percent have four violations or more.

There is a clear pattern here, one in which "A" locations have a relatively small proportion of properties with reported code violations and "D" locations have a relatively large proportion in violation, as well as a higher percentage of those with multiple violations.
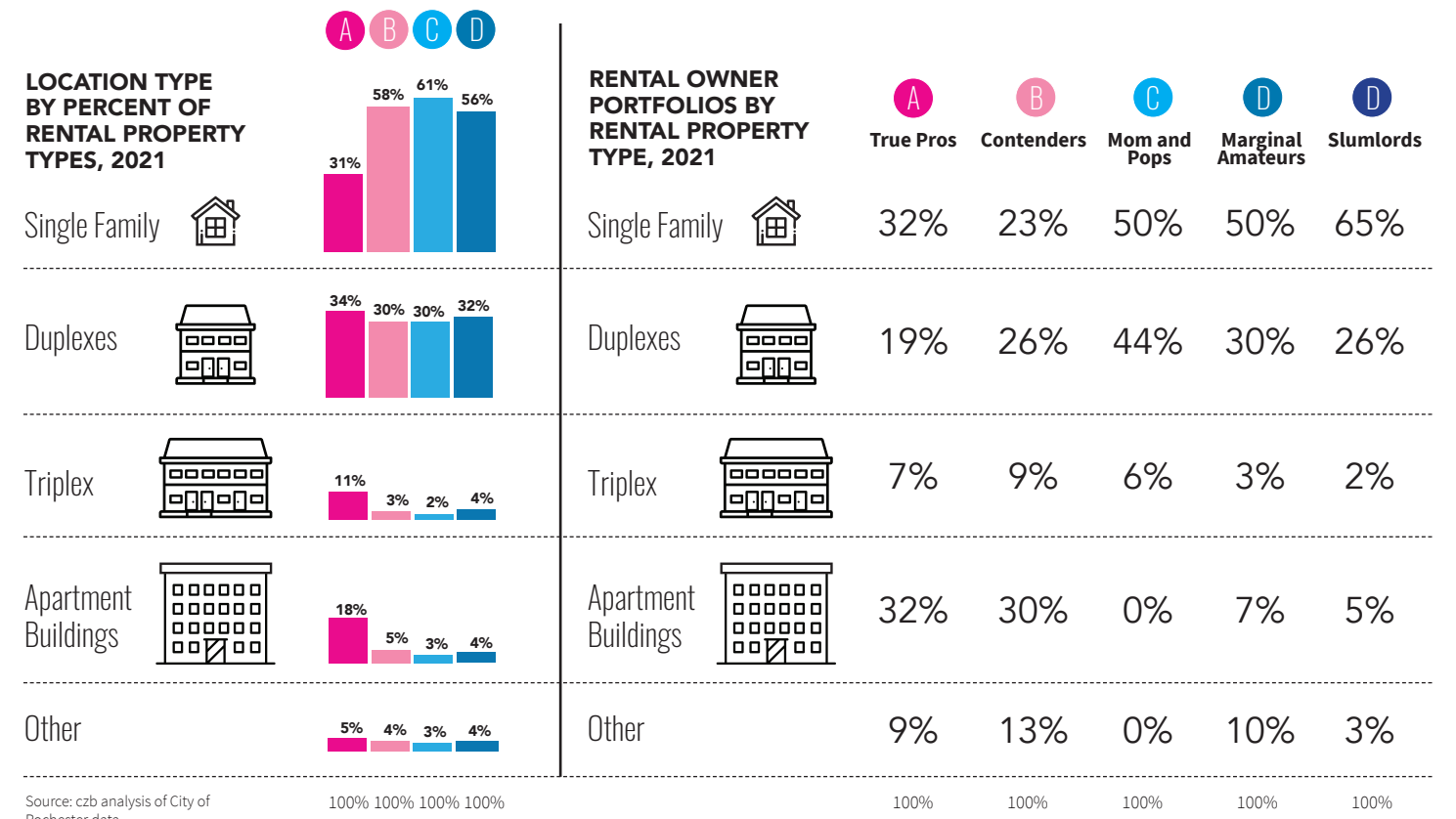
Due to historical development patterns and market forces, Rochester specializes in rental properties with a small number of units. The single most common type of rental property in Rochester is a single-family house and fifty-five percent of the county's single-family rentals are located in the city. According to the 2015-2019 five year estimates from the American Community Survey (ACS), Rochester also contains sixty-one percent of Monroe County units that are found in duplexes, triplexes, and quadplexes. Also according to data from ACS, larger rental properties—those with five units or more—are disproportionately found in the suburbs, often in garden apartment complexes. Of those Monroe County units found in larger properties, only forty percent are in Rochester.

LOCATION TYPE BY PERCENTAGE OF RENTAL PROPERTIES WITH CODE VIOLATIONS, 2013-2017

	DEMAND-**STRONG**		DEMAND-**SOFT**	
	A	B	C	D
0 Violations	81%	65%	59%	51%
1 Violation	11%	13%	16%	14%
2-3 Violations	6%	14%	16%	18%
4+ Violations	2%	8%	10%	17%

Source: czb analysis of City of Rochester data

LOCATION TYPE BY PERCENT OF RENTAL PROPERTY TYPES, 2021

	A	B	C	D
Single Family	31%	58%	61%	56%
Duplexes	34%	30%	30%	32%
Triplex	11%	3%	2%	4%
Apartment Buildings	18%	5%	3%	4%
Other	5%	4%	3%	4%
	100%	100%	100%	100%

RENTAL OWNER PORTFOLIOS BY RENTAL PROPERTY TYPE, 2021

|	A True Pros	B Contenders	C Mom and Pops	D Marginal Amateurs	D Slumlords
Single Family	32%	23%	50%	50%	65%
Duplexes	19%	26%	44%	30%	26%
Triplex	7%	9%	6%	3%	2%
Apartment Buildings	32%	30%	0%	7%	5%
Other	9%	13%	0%	10%	3%
	100%	100%	100%	100%	100%

Source: czb analysis of City of Rochester data

When "D" tenants and "D" landlords find each other in "D" locations in the City of Rochester, it is most often in the small properties—anything containing 1-4 units—that house two-thirds of the city's rental units. The nature of the properties themselves are one contributing factor to the "D" grade of the location; small aging structures have not been in high demand in Monroe County for many decades. But market conditions have been cemented in a way that ensures "D" locations will not become desirable to the broader market anytime soon, and the buildings will therefore only find the buyers of last resort—"D" landlords.

The following pages illustrate the challenges of small rental properties and the potential benefits of larger ones, using hypothetical examples of rental properties and different scenarios for each. The scenarios detail the costs and benefits of different management approaches, proving that setting goals for quality and affordability in housing and neighborhoods is not without tradeoffs. →
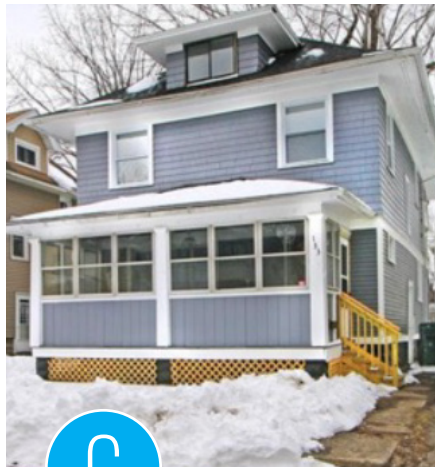
C

19th Ward

Built 1920
3 BR 1 BA
Acquisition: $72,500

- -

CONDITION

Aging roof, appliances, windows, doors, gutters, downspouts

Substandard exterior materials

Carpeting over problematic flooring and subflooring

- - - - - - - - - - - - - - - - SCENARIOS - - - - - - - - - - - - - - - - - -

	1	2	3
Upgrades	None	**$25,000** New roof, gutters, downspouts	**$35,000** New roof, gutters, downspouts, subfloor, front door, kitchen appliances
Reserves, Operations, Maintenance Funded	NO	YES $200/mo	YES $200/mo
Rent Charged	$995	$1,200	$1,400
Pre-Tax Annual Cash Flow	$2,200	$200	$1,100
Cap Rate	10.0%	7.4%	8.2%

BEST WORST scenario for…

	1	2	3
Affordable rent	BEST		WORST
Housing quality	WORST		BEST
Investor/owner return	BEST	WORST	
City/neighborhood improvement	WORST		BEST

Upon acquiring this hypothetical single-family rental property in Rochester's 19th Ward, it will quickly become apparent that the most rational financial decisions will be to rent it in an "as is" condition and starve the property of proper maintenance and upgrades. In the best case financial scenario for the owner, the property's cash flow is modest. To make the needed improvements and fund maintenance, operations, and reserves for vacancy and future upgrades is to take a substantial portion of that modest cash flow out of the owner's pocket. Even a substantial increase in the rent does not encourage the owner to improve the property.

Even if a benevolent owner would upgrade the property and increase the rent to $1,400 per month, the new tenant would need an income of over $50,000 which is not likely for this "C" location.

The dollars and sense of this situation are such that an irresponsible owner and a low-income tenant with few choices will agree to match with each other. The price is right for both. Because the only owner who will purchase this house is one who will fail to invest in it, the house will likely slide into "D" condition.
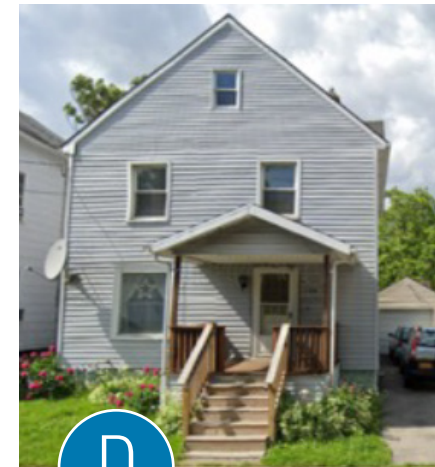
D

Riley Park

Single-Family
Built 1885
3 BR 2 BA
Acquisition: $50,000

- -

CONDITION

Roof and siding in good condition

Interior upgrades needed, including electrical, kitchen, and baths

Front porch is a looming code issue

- - - - - - - - - - - - - - - - SCENARIOS - - - - - - - - - - - - - - - - - -

	1	2	3
Upgrades	None	**$30,000** New electrical, renovated kitchen and baths	**$35,000** New electrical, renovated kitchen and baths, and new front porch
Reserves, Operations, Maintenance Funded	NO	YES $200/mo	YES $200/mo
Rent Charged	$1,200	$1,200	$1,300
Pre-Tax Annual Cash Flow	$4,800	$1,500	$1,900
Cap Rate	16.8%	9.0%	9.4%

BEST WORST scenario for…

	1	2	3
Affordable rent	BEST	BEST	WORST
Housing quality	WORST		BEST
Investor/owner return	BEST	WORST	
City/neighborhood improvement	WORST		BEST

A single-family house in a "D" location near Riley Park is already renting at the top of the market for its neighborhood. It features a second bathroom when many houses have only one. Despite this, and despite its seemingly low acquisition price of just $50,000, it is a questionable investment if a new owner completes the major upgrades that the property needs and if he funds operations, maintenance, and reserves. Even in an improved condition, a higher rent is out of the question—the property would have to greatly exceed what the market for the "D" location is able to pay. The difference in the cash flow, based on a decision to upgrade the property or not, is significant. The financial pressure to deprive such a property of responsible ownership is too great. Its likely future is further degradation until eventual abandonment.

D

# Upper Falls

Duplex
Built 1900
Acquisition: $52,000

- - - - - - - - - - - - - - - - - - -

CONDITION

Significant upgrades needed, including roof, window, electrical, and plumbing

Serious code issues are imminent

	SCENARIOS		
	1	**2**	**3**
Upgrades	Fresh paint done cheaply	**$50,000** New electrical and plumbing	**$75,000** New electrical, plumbing, roof, and windows
Reserves, Operations, Maintenance Funded	NO	YES $200/unit/mo	YES $200/unit/mo
Rent Charged	$650 x 2	$850 x 2	$900 x 2
Pre-Tax Annual Cash Flow	$7,300	$1,500	$900
Cap Rate	21.5%	8.6%	7.8%

BEST WORST

scenario for...

Affordable rent	BEST		WORST
Housing quality	WORST		BEST
Investor/owner return	BEST		WORST
City/neighborhood improvement	WORST		BEST

Doubling the number of units in a "D" property in a "D" location does nothing to address the fundamental challenge of a low-priced rental in need of serious work. Keeping the rent low and the units full will financially reward the owner of a "D" duplex while funding upgrades, operations, maintenance, and reserves will not. Even if the owner were willing to dramatically decrease cash flow and raise the rent, it is likely the higher rents would create more frequent vacancy in a neighborhood where affordability is prized more than high quality. This property will be milked for its cash flow as long as a "D" owner can get away with it, until the property is no longer habitable.
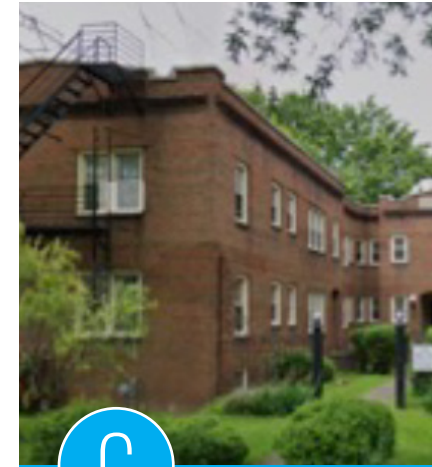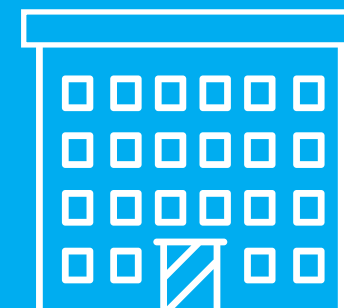
C

Beechwood

Multifamily
**Built 1920**
21 units
Acquisition: $1,000,000

- - - - - - - - - - - - - - - - - - -

CONDITION

In fair to good condition, but in need of updates throughout

	SCENARIOS		
	1	**2**	**3**
Upgrades	Fresh paint throughout	**$210,000** Complete repainting and new appliances in every unit	**$420,000** Complete repainting, new appliances in every unit, and new HVAC system
Reserves, Operations, Maintenance Funded	YES $200/unit/mo	YES $200/unit/mo	YES $175/unit/mo
Rent Charged	$725	$875	$925
Pre-Tax Annual Cash Flow	$8,500	$10,100	$11,400
Cap Rate	8.0%	8.0%	8.0%

BEST WORST

scenario for...

Affordable rent	BEST		WORST
Housing quality	WORST		BEST
Investor/owner return	WORST		BEST
City/neighborhood improvement	WORST		BEST

Just because a property is outside of "B" or "A" areas, however, does not mean it is devoid of the opportunity to contribute positively to the rental market. Consider a century-old multifamily property in Beechwood.

What immediately stands out about this example is the relatively low cap rate compared to the opportunities in smaller "C" and "D" properties. The ownership of a property like this one—an upper "C" location and not in need of critical upgrades to maintain habitabiilty—is a long-term investment with a potential steady return over time. Whereas the "D" owner hopes for a high rate of return and to get out quickly, the "A" or "B" owner is in for the long-haul. This well built multifamily property offers economies of scale that allow for significant improvements, rents that increase but are still within the market for the neighborhood, and no reduction in the cap rate.
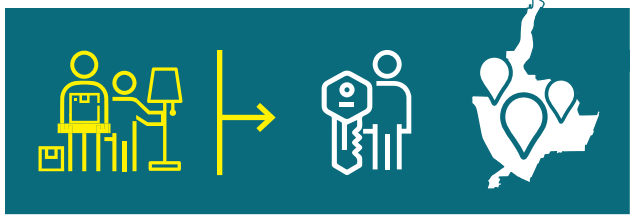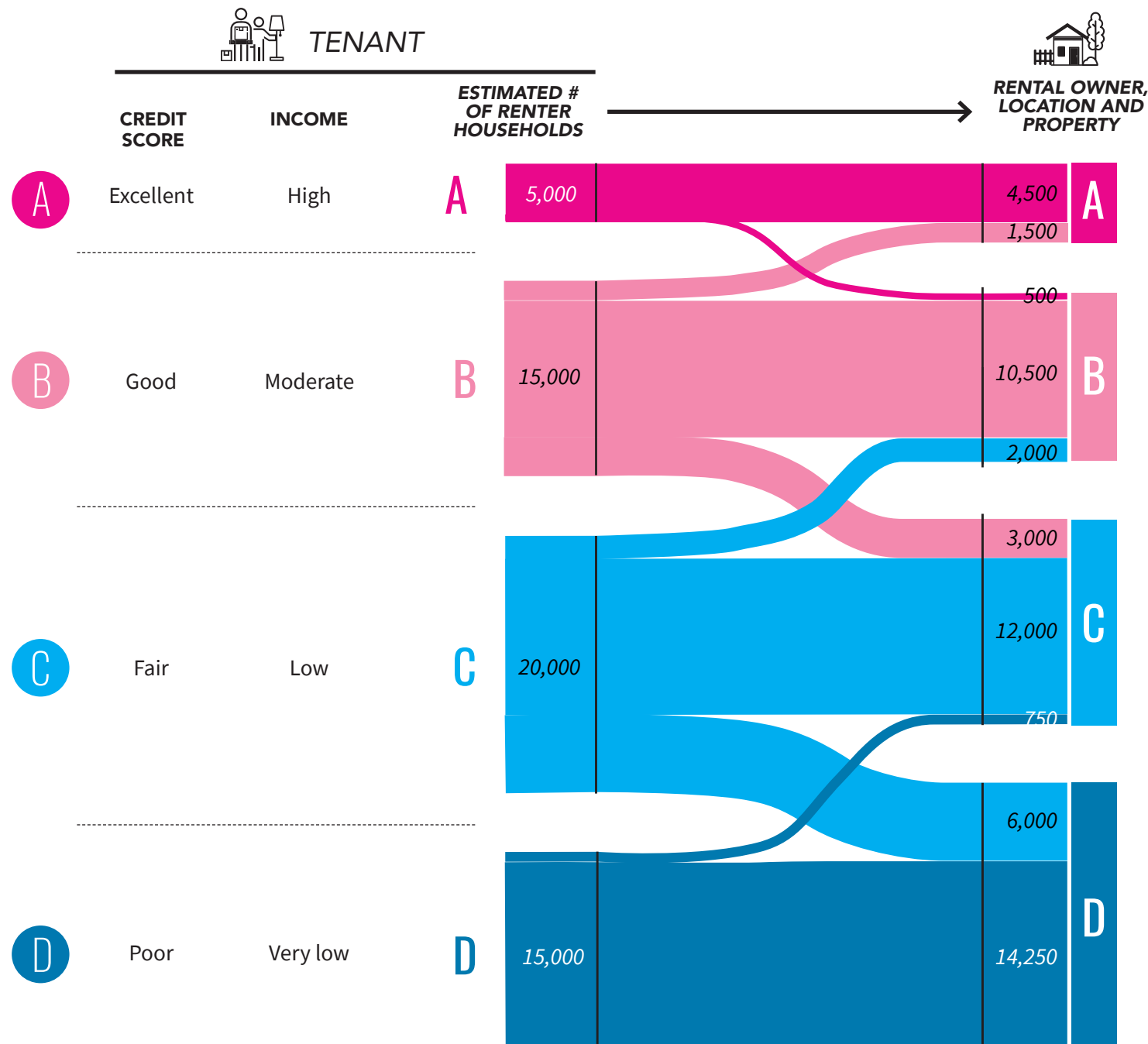
HOW DO ROCHESTER **RENTERS** MATCH WITH **RENTAL OWNERS** AND **LOCATIONS**?

Social scientists have, in recent years, drawn increasing attention to the phenomenon of "assortative mating" which refers to the growing likelihood that people of similar educational attainment, professional trajectories, and earning potential partner with and/ or marry each other. There is a similar version of this phenomenon at work in the rental marketplace in Monroe County. In short, "A" owners and "A" tenants find each other in "A" locations, while "B" owners and tenants do the same, as do those in the "C" and "D" categories.

In the eyes of rental owners, what determines the status of a potential tenant as "A" or "B" or "C" or "D" is the level of risk involved in renting to that tenant. Will the tenant pay the rent? Will he pay on time? Will he pay on time sometimes or always? Will he be a good neighbor, or will he cause disruption that creates headaches for the rental owner? Will he maintain the unit or could he even leave it damaged and in need of repair? No rental owner has a crystal ball to know for sure whether a tenant is "low risk" or "high risk."

"Low risk" and "high risk" are simultaneously income-independent terms, and also generally predictable by income as well as credit scores. Though the use of credit scores as a tenant screening mechanism is often criticized as discriminatory against economically vulnerable households, rental owners find them to be sound tools for predicting tenant behaviors that create serious risk. The fact that owners could face both a loss of revenue due to late payment or non-payment, and increased costs due to tenant-inflicted damage to a unit, means owners have double incentive to ascertain those risks as best they can.

CONCEPTUAL RENTAL MARKET MATCHING MODEL

WHAT DOES THIS MEAN FOR ROCHESTER **RENTERS**?

The bottom line is that the rental marketplace's matching model works perfectly well for rental owners and tenants in the "A" and "B" categories. The rental owners take on little risk and tenants get a predictable housing situation they can afford, in a desirable location, and with a strong certainty that the property will be properly maintained and well-managed. Where this is true across Monroe County and the City of Rochester, little attention on the part of policy makers is required.

C **"C" situations are much more of a mixed bag**, where some tenants and rental owners may be lucky to find a good match, but many will not. Strategic interventions aimed at both "C" tenants and "C" rental owners could bear fruit and should garner a good amount of attention from policy makers.

D **"D" situations, which are far too prevalent in the Rochester city rental marketplace**, are demonstrably damaging to low-income households, Rochester neighborhoods, and the city's quality of life and its fiscal stability. This is where policy makers have no choice but to place their most significant efforts.

Besides the immediate life safety issues inherent in poor quality housing, the literature is clear on the diminished long-term life prospects that result from concentrations of poverty, housing insecurity, weakened educational systems, and other conditions that exist in Rochester neighborhoods rife with "D" matches.

The larger community also suffers when the market is characterized by "D" matches, as a functional housing market and a sustainable tax base are key to the maintenance of public infrastructure and services upon which Rochester residents depend. To allow the continuation—and likely proliferation—of "D" situations across much of the city is to plan for the slow erosion of the community's ability to pay its bills and take care of itself.

PART 3

Achieving Better Outcomes in the Rental Marketplace

The key to avoiding the undesirable outcomes afflicting low-income renters and the broader community is to disrupt the matching system that guarantees them.

Doing this requires:

Increasing the capacity of "C" and "D" tenants to rent from higher-grade rental owners.

Thereby boosting demand for "A" and "B" rental properties and locations and, by extension, ownership.

And depriving "D" landlords in particular of the large market to which they have grown accustomed.

Helping "D" rental owners find their way out of the marketplace and limiting new "D" entrants.

These are difficult and expensive endeavors, but they are critical to rebalancing the rental market in ways that will help Monroe County—especially the City of Rochester—and its residents.

TENANTS

PROPERTIES
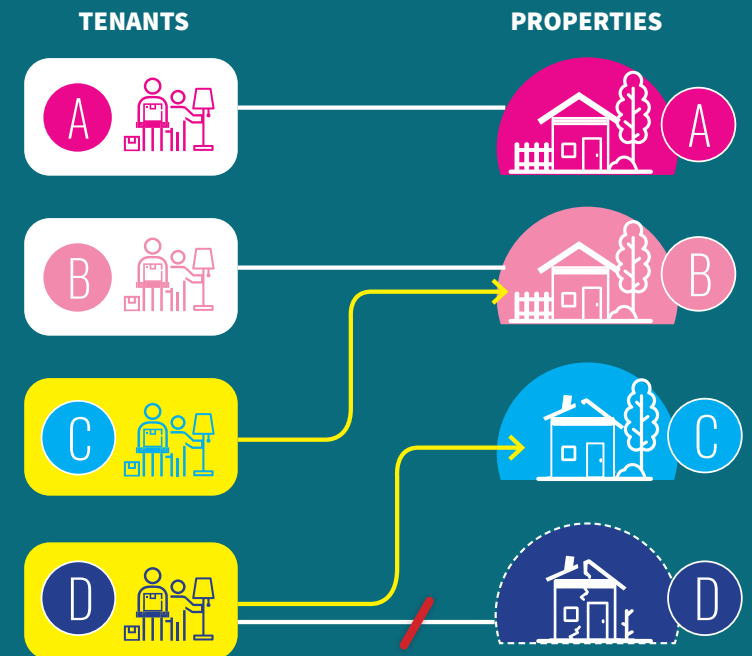
Actionable Information is Empowering

By mixed methodology, the central aim of this project has been to collect and analyze a variety of data and then, through rigorous evaluation and reliance on insights and experience, describe the mechanics of Monroe County rental housing market as it exists in 2021.

Four summary elements of the Monroe County rental housing market are especially helpful in describing how the county's rental market appears to be working, as this report has detailed.

**MONROE COUNTY'S RENTAL HOUSING MARKET**

GEOGRAPHY

How in demand a particular area is

Some neighborhoods are more desirable than others. This leads to increased levels of demand. It results in price escalation in these desirable locations in the county, and the expectation of greater future value, and thus a higher return on equity for anyone investing.

PROPERTIES

How well maintained a particular building or complex may be

Every structure will have some amount of "catch up" work, that is, the replacement (upgrade) of a durable good such as a roof or a heating system, and some regular maintenance that has been deferred, if only a bit. These costs get priced by potential buyers in the form of discounted offers, and by lenders who might underwrite a refinancing application in the form of loan to value considerations. Such discounting varies greatly. The "A" owner will greatly discount the expense of catching up because the "A" owner prizes future value; the "D" owner will discount such shortcomings far less aggressively, since the "D" owner's primary interest is cash flow, not durable long-term value.
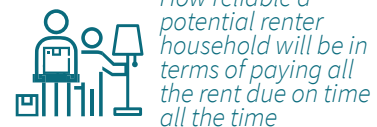
TENANTS

How reliable a potential renter household will be in terms of paying all the rent due on time all the time

Each tenant comes to the table with his or her own unique degree of purchasing power and household need. Monthly income imposes limits; a very high-income household may well be able to afford nearly one-hundred percent of all the available rental units in Monroe County, but willing to sign a lease to live in but a few. A very low-income household by contrast might be willing to live in nearly one-hundred percent of the available rental units in the county but able to afford the rent for just a fraction of them. In general, the higher the income, the greater the stability of the income and the lower the chance that they will be unable to afford rent at some juncture during their lease. The opposite is true for very low-income households who are more prone to income disruption and thus represent property income risk for the owner—a risk few will accept.
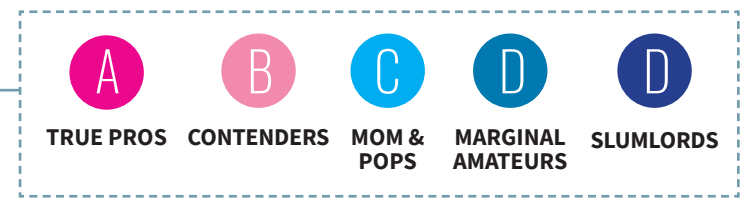
OWNERS

How professionally a portfolio is managed

Every owner comes to the table with his or her unique set of financial needs, constraints, and capacities. This array of requirements will dictate everything from how much cash the owner can afford to put and keep in a project, to what financing the owner's balance sheet enables him or her to secure, and thus what approach can be taken regarding everything from tenant screening to appliance replacement schedules to marketing.

Organizing the county's rental housing market this way boils down the dozens upon dozens of variables that individually describe the different parts of the county's rental housing market, but which afford little chance to see the whole, thereby rendering what is a complex system of many elements into a more accessible constellation of only the four most critical component parts of the market.

This enables good policy options to be weighed. By then organizing each of these four variables along a high-low continuum, and paying attention to how each of these four variables marry to others, practical system-level interventions can be considered.

Knowing that there are a great many distressed rental properties, and even knowing where they are, does not easily translate into action. By contrast, **knowing that the nature of the distress is a function of owner type allows for interventions to be tailored to owner type.** An owner who wants to catch up on deferred upgrades but cannot is a very different creature than one who does not have a financial interest in the long view.
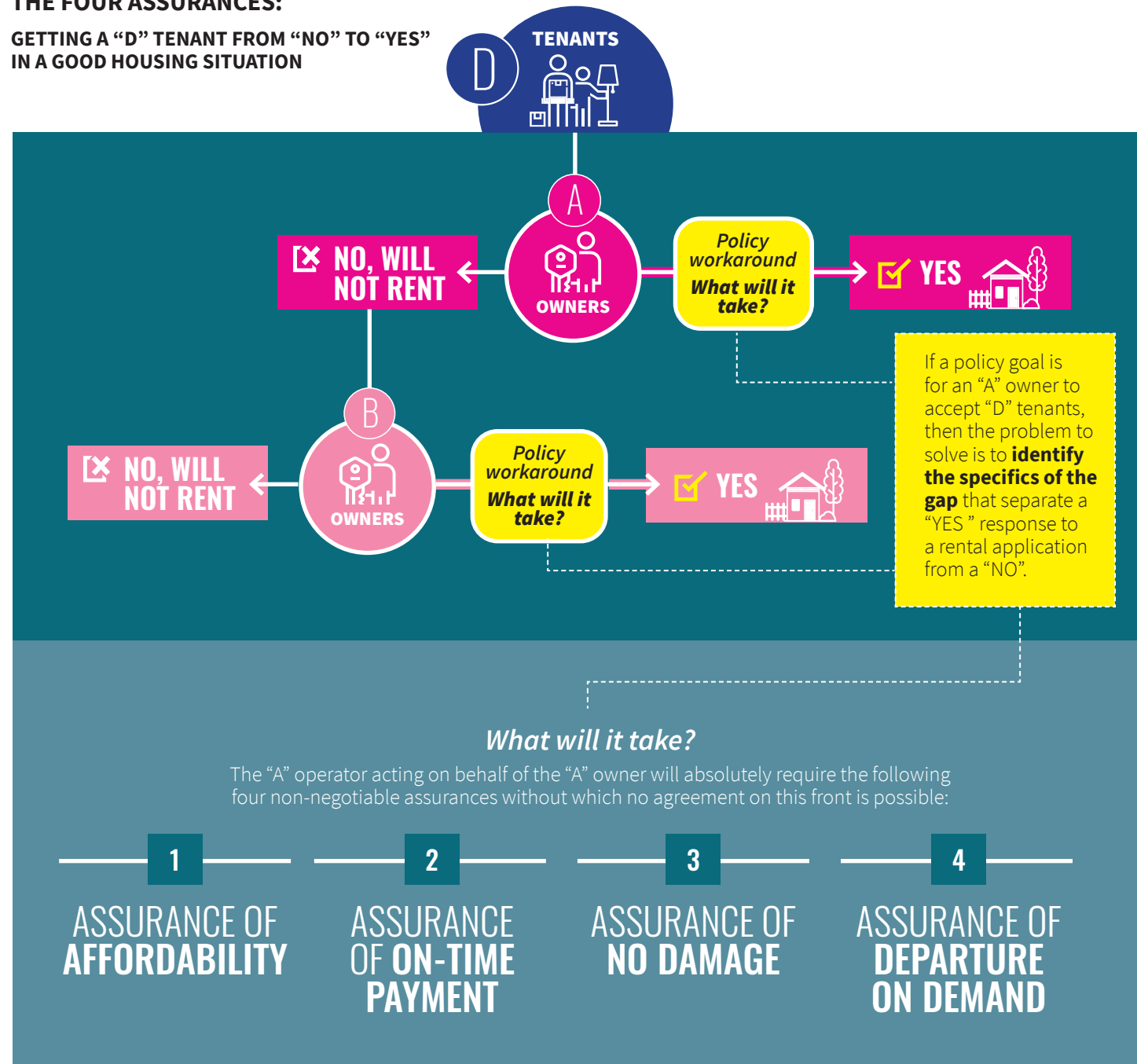
A	B	C	D	D
TRUE PROS	CONTENDERS	MOM & POPS	MARGINAL AMATEURS	SLUMLORDS

WHAT RESPONSIBLE RENTAL OWNERS NEED

Because of the risk they are perceived to bring to a property, "D" tenants are virtually guaranteed to never rent a home from an "A" or "B" owner. So, without significant help, "D" tenants will never be able to rent an "A" quality unit in an "A" condition, and never live in an "A" quality neighborhood. Helping a "D" tenant gain entry to better housing situations means helping assure the "A" or "B" or perhaps "C" owner that the tenant: 1) can afford the rent; 2) will pay on time every time; 3) will not damage the unit; and 4) will depart at the conclusion of a lease or on demand as might be necessary.

THE FOUR ASSURANCES:

GETTING A "D" TENANT FROM "NO" TO "YES" IN A GOOD HOUSING SITUATION

If a policy goal is for an "A" owner to accept "D" tenants, then the problem to solve is to **identify the specifics of the gap** that separate a "YES" response to a rental application from a "NO".

What will it take?

The "A" operator acting on behalf of the "A" owner will absolutely require the following four non-negotiable assurances without which no agreement on this front is possible:

1	2	3	4
ASSURANCE OF **AFFORDABILITY**	ASSURANCE OF **ON-TIME PAYMENT**	ASSURANCE OF **NO DAMAGE**	ASSURANCE OF **DEPARTURE ON DEMAND**

---

1 ASSURANCE OF AFFORDABILITY

In Monroe County, the break-even rent for a two-bedroom apartment owned by an "A" quality owner will be about $1,500/month. This is based on a variety of factors that in sum result in a property being valued at roughly $175,000/unit. This will require an annual household income above $50,000. If the tenant does not have this much verifiable annual income, which will be the case nearly one-hundred percent of the time, subsidy will be required along the lines of what is illustrated below. One renter household, as depicted at right, with an annual income of $30,000 can afford a monthly rent of $833, which equates to a shortfall of $667 each month or $8,000 annually. So for every 1,000 "D" tenants in the county to be able to afford an "A" rental unit, $8M a year in rental subsidy would be needed. It follows a lesser amount would be needed to bridge the "D" to "B" gap and the "D" to "C" gap on the issue of affordability.
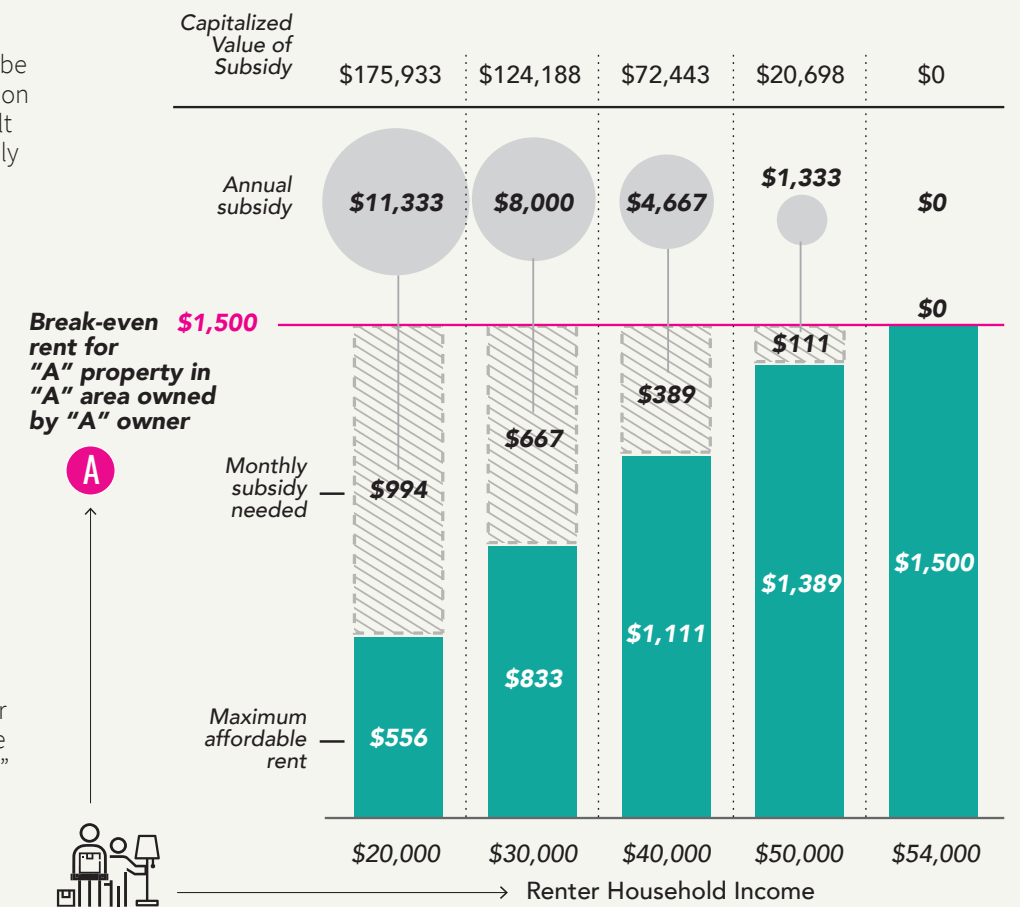
Current Subsidy Far from Enough

One example of an existing program for tenants who would likely fall into the "D" category is Monroe County's Department of Human Services program for clients in need of temporary assistance. The rent allowances for the program are not nearly enough to access quality housing in the Rochester area marketplace unless additional subsidy is provided. If there is not additional subsidy available for a tenant to secure housing, it is difficult to envision where such inexpensive housing could be found. It is most certainly not a housing product that an "A" or "B" landlord would or could provide.

Monroe County Temporary Assistance Shelter Allowance Rates

Persons in Household	1	2	3	4	5	6	7
Monthly Rate	$257	$298	$343	$374	$405	$420	$438

2 ASSURANCE OF ON-TIME PAYMENT

In Monroe County, an "A" owner will expect not only that a tenant can pay rent, but reliably and predictably always will. To make this determination, the "A" owner will review past credit history to ascertain whether rent and other revolving obligations have been paid on time all the time. If the tenant's history includes late or non-payment, which in the case of a "D" tenant will be the true nearly one-hundred percent of the time, a major insurance policy of some sort will be necessary to mitigate this risk, along the lines of what a co-signer on a loan provides or what a security deposit typically addresses. Conversation with a sampling of Monroe County's "A" owners revealed a vacancy rate during the pandemic of less than two percent and a pay-on-time rate of between 99-100 percent. The assurance of rent on time all the time is somewhat mitigated by the security deposit but few "D" tenants will be in a position to provide this much cash.

An additional consideration is the method for determining credit worthiness. To replace the face-to-face meeting and a handwritten application that up until the 1960s proved accurate enough for landlords but which was also subjective and conducive to racial discrimination, a variety of other tools evolved, from Diner's Club's foray into predictive scoring to Fair Isaac's algorithm and, later, Fannie Mae's Desktop Underwriter. None have proved sufficient to the task of both identifying credit risks while not disproportionally discounting the minority applicant's credit worthiness. Some alternative methods of proving credit worthiness have emerged, though none have proved perfect. Today, large national services, such as Real Page and Nayborly, provide AI-based tenant screening services to rental property owners. As of this writing it is not clear whether these tools have demonstrated equal fidelity to both predictive accuracy and racial fairness.

3 ASSURANCE OF NO DAMAGE

The "A" owner will not knowingly enter into an agreement with a tenant having any history of property damage, anymore than she will rent to a prospective tenant with any predictable likelihood of not paying on time. To do so risks having to absorb costs of repair which changes the bottom line. Damage of concern to the "A" owner is rarely of an intentional sort, though this does occur. The presumed risk a "D" renter brings to a property is less from intentionality than probable neglect related to lack of awareness. "D" tenants tend know less about how to cope with a leaky faucet or toilet, or some other problem with the property, than a "C" tenant, who tends to know less than a "B" tenant. Traditionally, insurance for the owner comes in the form of a security deposit equal to a month's rent, though even this may not be sufficient to entice a non-"D" owner to rent to a "D" tenant. To manage this risk when the goal is to match a "D" tenant to a "C", "B", or "A" owner, the numerical cost of these common problems will need to be determined, that amount would need to be placed into escrow as an insurance policy against such eventualities, and along with such an escrow, something along the lines of "good tenant training" would be needed. Such training might mimic a defensive driving course to reduce premiums. Here though, the gap between the expectations of an "A" owner and the capacities of a "D" tenant may be too big to overcome. Aiming to match a "C" tenant to "B" or possibly even "A" owners may be more realistic.

4 ASSURANCE OF DEPARTURE ON DEMAND

The "A" owner discounts vacancy costs from future potential income. However, the "A" owner does not similarly discount "non-payment" probability because the "A" owner guards against that by not renting to "D" (or "C", and often even to "B") tenants in the first place, as this is an unnecessary, and completely preventable risk. A failure to pay all of the rent on time, every time is not a goal of the "A" owner, but a minimum operational expectation, and a failure on the tenant's part to meet this requirement necessitates lease termination so that the unit can be vacated, cleaned, and expeditiously re-rented, so as to be back in income-generating service.

While the "A" owner will plan, and bank reserves, for vacancy, she predicates her commitments to equity investors on never running the risk of renting to a bad tenant. An "A" owner would need a significant assurance either guaranteeing that a non-paying tenant, or a property damaging tenant, will vacate on demand. The bulk of "C" tenants are generally in the workforce full-time, but often vulnerable to pauses in employment, and the bulk of "D" tenants are typically only partially employed, meaning both classes of renters pose "refusal to leave" risks to rental property operations. If these risks are not quantified and then insured against, it will be difficult for lower-tier renters to rent up. The Covid-19 impact on income continuity for low-income service sector renters has been especially hard and has prompted state and federal eviction moratoria. These circumstances have hardly affected the Rochester area "A" and "B" owners, but has impacted the "C" and "D" owners to a significant extent, because it is their tenants who were most affected by loss of employment in 2020 and 2021.

RECONCILING NEEDS OF
OWNERS AND TENANTS
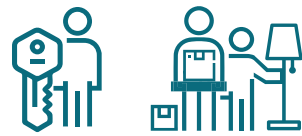
Neither rental owners nor tenants are "the bad guys." Each has their own interests and needs, and each, in reality, needs the other. Understanding these interests and needs, and using policy interventions to bring them into alignment instead of conflict, will help the rental market produce better outcomes.

OWNERS

To varying degrees along the A-B-C-D continuum separating "A" owners from "B" and "C" and "D" tenants, each of these previously mentioned four pre-requisite assurances—affordability, on-time payment, no damage, and departure on demand—offer intervention opportunities that could begin to address the challenges that arise from assortative matching.

There is no way to know with absolute certainty whether an applicant for an apartment will pay her rent on time or not, month in, month out, for the duration of her lease. Nor is there a known foolproof way to predict whether she will, in the course of renting her apartment, let the bathtub overflow and flood and fail to contact the landlord, keep pets in violation of the lease, allow others not on the lease to live in the unit, or possibly just refuse to vacate when ordered to do so because rent has not been paid. Such eventualities constitute some of what all owners want to avoid, and what all owners seek to try to predict in order to prevent, in whatever way they can. Some owners rely on their gut sense. Whether legal or not, many scour public records for criminal history. Others rely on the FICO or some similar scoring method.

While good, the predictive tools for gauging the probability of these eventualities are far from perfect, often relying too much on income as a filter to predict credit worthiness, and too much on credit scores as a proxy for tenant quality. High incomes can mask character defects just as low incomes are not a tool for identifying them.

The very best insurance policy against non- or late payment, damage, and/or refusal to vacate is to manage the risk associated with a bad tenant by never renting to a bad tenant to begin with, and by filtering out applications from bad tenants right away. This is inherently unfair, of course, to the good tenant who is misidentified as bad, and to the bad tenant who lacks a path to credit worthiness.

TENANTS

Just as buyers need sellers, landlords need tenants and tenants need landlords. In effect they are negotiating partners, not adversaries. In the matching of tenants to owners, both the "D" tenant and the "D" owner are vulnerable. Any owner renting to a "D" tenant is at risk of rent payment interruption, damage to the rental unit, and resistance to eviction.

The "D" owner, being the only grade of owner generally willing to rent to a "D" tenant, is no prize, for the "D" owner tends to acquire property with a history of neglect, maintain property she owns in a sub-standard way, and be unresponsive to legitimate concerns about property conditions expressed by her tenants.

The "D" tenant is the least empowered party in the entire rental housing market in Monroe County. Her housing options are a Hobson's Choice, reflecting her complete lack of leverage at the bargaining table. If she has a checkered rental history, she has no cards with which to negotiate. She is at the mercy of the few "D" owners who might accept her rental application. If she is a single earner, as "D" tenants frequently are, she is additionally vulnerable to lapses in income, not having the backstopping support of a second income in the household or extended family able to assist. If she has children, as many "D" tenants do, she will seldom have the maneuvering room in her day-to-day life to cope with everything from a change in her shift schedule to automobile repair and insurance problems to getting kids off to school in the morning. Providing the "D" tenant with rental subsidy generally serves more to keep her from becoming homeless than to connect her to a good situation and almost never to remedy her underlying impairments.
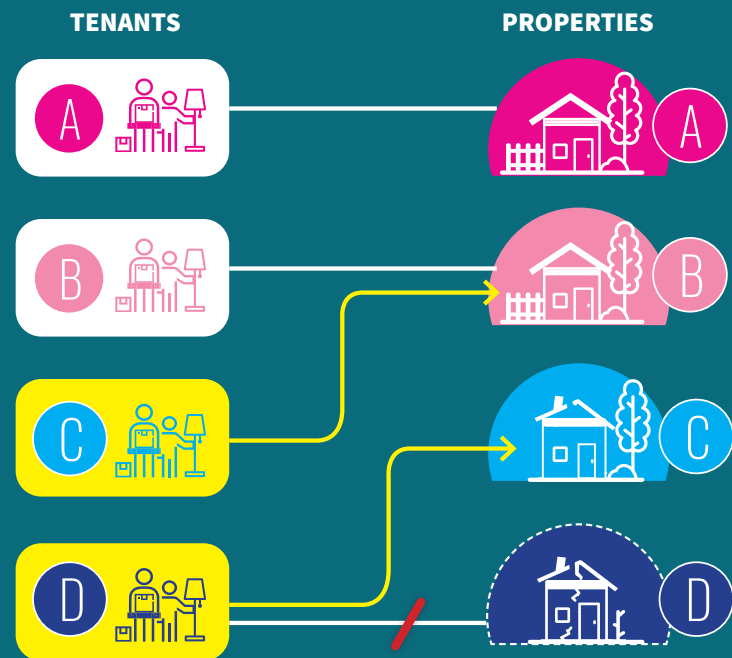
PROBLEMS **TO SOLVE** | Ⓐ Ⓑ Ⓒ Ⓓ

From a policy perspective there are three problems to solve when it comes to disrupting the existing matching system so that "C" and "D" tenants might break from "C" and "D" situations and migrate toward "A" and "B" situations.

It is these three problems that must be addressed to achieve better outcomes in the rental marketplace.

TENANTS   **PROPERTIES**

PROBLEM 1

FINANCIAL LOSSES THE RESPONSIBLE OWNER SEEKS TO PREVENT

What assurances do responsible owners need to rent to "C" or "D" tenants?

PROBLEM 2

THE "D" TENANT'S RISK IN THE EYES OF "A" AND "B" OWNERS

What risks do responsible owners perceive about "C" and "D" tenants and how can they be addressed?

PROBLEM 3

TOO MANY "D" LEVEL OWNERS OPERATING IN ROCHESTER

How can bad actors be kept out of the rental market?

How can Mom and Pops get the support they need to be good actors?

How can "C" properties in "C" areas be kept from sliding toward "D" status and "D" owners?

How can strategic redevelopment disrupt "D" matches and support market health?

## PROBLEM 1: FINANCIAL LOSSES THE RESPONSIBLE OWNER SEEKS TO PREVENT

What assurances do "A" and "B" owners need to rent to "C" or "D" tenants?
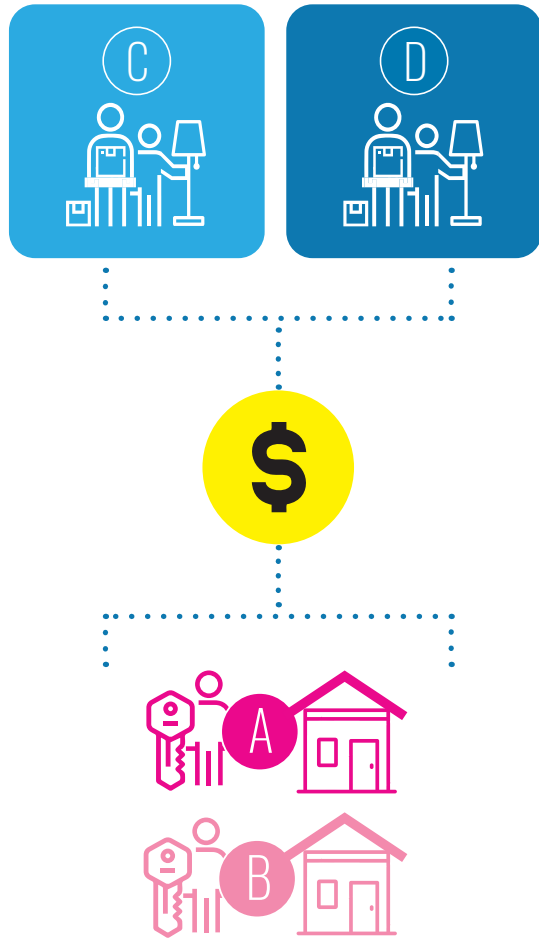
It has been established in this report thus far that tenants, and "D" tenants especially, represent some amount of financial risk to a rental property owner, even as the tenant is the customer that makes the owner's business viable. Traditionally, some form of subsidy may be provided on behalf of a low-income tenant to cover rent, and a security deposit equal to the amount of the first, and sometimes additionally the last, month's rent may mitigate against other risks of damage or failure to depart on demand. But even at rock bottom rents, this will be a bridge too far for low-income renters. And, while a security deposit equal to two months' rent may suffice for many tenants, it may not be enough to convince the "A" or "B" owner to rent to a "C" or "D" tenant. How can this be overcome?

RECOMMENDATION

The owner's risk is not a mystery; it can be quantified. The chart at right represents rough estimates, based on insights gained during this report's research process, of how subsidy and enhanced security might be combined and deployed on behalf of "C" and "D" tenants, thereby reducing the risk of the landlords who could provide them better housing situations. While there may be disagreements as to precise dollar amount, in round numbers the "B" tenant seeking "A" shelter in Monroe County may be understood to need roughly $5,000 a year in assurances paid on her behalf to an "A" owner, a "C" tenant will need twice as much ($10,000), and a "D" tenant three times as much ($15,000), all in escrow and thus revolvable. The public sector, philanthropy, or both together should develop a pilot program to test the viability of the concept.

Helping Tenants Meet the Assurances for the "A" Owner
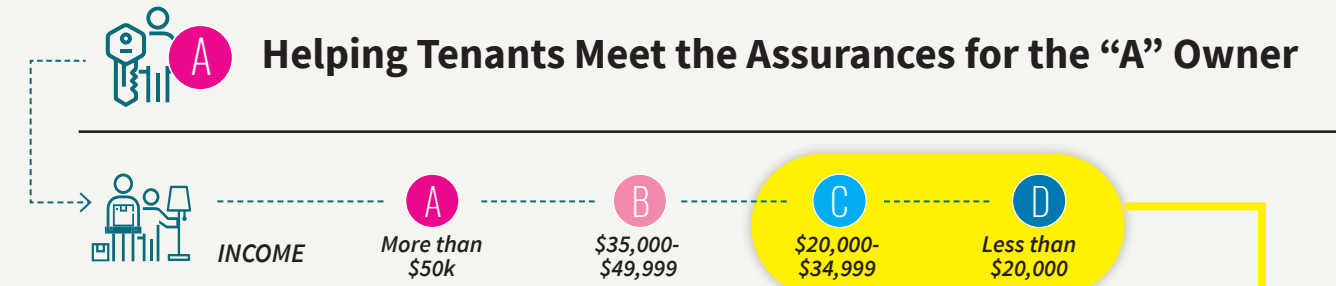
INCOME	A More than $50k	B $35,000-$49,999	C $20,000-$34,999	D Less than $20,000
ASSURANCE OF:				
AFFORDABILITY	Income + N/A	Income + $10,000 in purchasing power	Income + $20,000 in purchasing power	Income + $30,000 in purchasing power
ON-TIME PAYMENT	FICO above 650	1 month's rent escrow	2 month's rent escrow	3 month's rent escrow
NO DAMAGE	1 month's rent escrow	1 month's rent escrow	2 month's rent escrow	3 month's rent escrow
DEPARTURE ON DEMAND	Credit history	1 month's rent escrow	2 month's rent escrow	3 month's rent escrow
MONIES FOR RENT AND ASSURANCES				
MONTHLY RENT FROM TENANT / SUBSIDY *(Averages for income range)*	$1,500 / $0 — $1,500	$1,100 / $400 — $400 / $1,100	$700 / $800 — $800 / $700	$300 / $1,200 — $1,200 / $300
TOTAL OF CASH ASSURANCES ON BEHALF OF TENANT	$1,500	$4,500	$9,000	$13,500
RENT COLLECTED BY OWNER	$18,000	$18,000	$18,000	$18,000
TOTAL FOR YEAR 1	$19,500	$22,500	$27,000	$31,500

These figures represent average amounts based on broad income categories. They also use the "A" owner as a baseline. In reality, matching a "C" tenant, for example, to a "B" owner may be less expensive. Not every "C" or "D" tenant will need $10,000 or $15,000 in assistance, but the gaps—and thus the amounts— are nonetheless significant. This reality cannot be ignored.

<div style="background:yellow">

**PROBLEM 2:** THE "D" TENANT'S RISK IN THE EYES OF "A" AND "B" OWNERS

</div>

The "D" tenant's unsuitability to "A" or "B" or "C" owners may on one hand be an objective concern about financial loss, and on the other a subjective prejudice about the "D" tenant reinforced by utilization of imperfect screening tools. Having fixed the problem of possible financial loss by assigning a dollar value to the risk and escrowing that as insurance, the underlying issue still requires attention.

What risks do responsible owners perceive about "C" and "D" tenants and how can they be addressed?

If the undesirable tenant is not a good candidate for an available apartment, the reasons will boil down to income, which can be subsidized, and probability of being a good tenant, which may be mitigated without necessarily being fixed.

But there is more to the story for most owners. Many "D" tenants come with a number of headaches for owners, and these headaches are a cost as well, and not always one that will be paid for with additional subsidy. These include time associated with eviction probability and coping with tenant dysfunction in the form of neighbor disputes and the impact on the reputation of the building. "A" owners in particular do not want to run a business where these situations are the norm.

Asking the "C" or "B" or "A" owner to lease to a "D" tenant is asking those owners to pay for society's failures, an "ask" that may be moral but is not profitable and certainly is not easy.
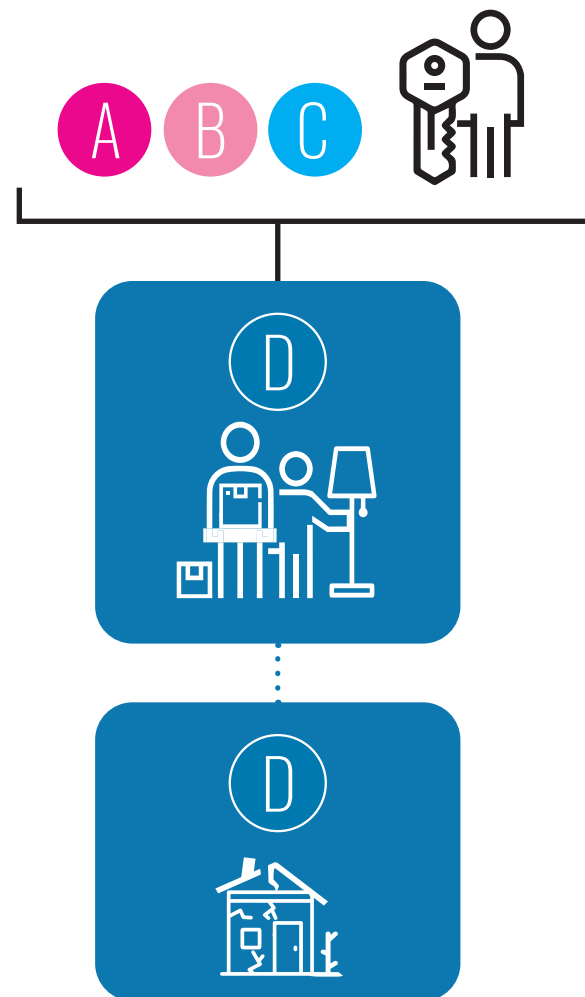
Credit repair support

Financial literacy education

Good tenant behavior education

Emergency funds

Employment assistance

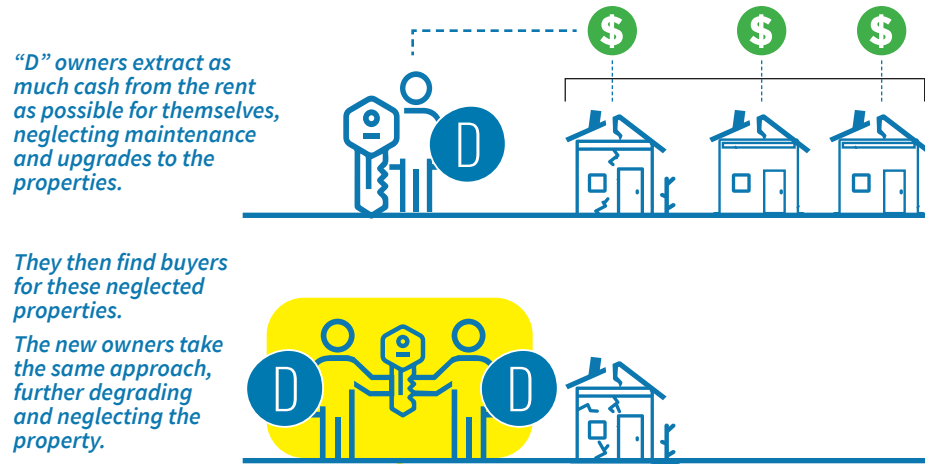Additional forms of assistance
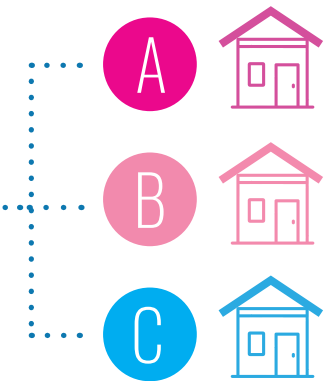
RECOMMENDATION If the public policy goal is that fewer "D" tenants are locked into having only the option of renting from "D" owners and this goal is defined not in temporary but in more durable terms, then the problem of suitability needs attention. This means that "D" tenants need more than just rent subsidies, and more than just security deposit assistance and utility deposit help, but intensive credit repair support, meaningful financial literacy education, good tenant behavior education, a fully resourced emergency fund, employment assistance, and possibly other assistance as well (e.g. transportation).

PROBLEM 3: TOO MANY "D" LEVEL OWNERS OPERATING IN ROCHESTER

Rochester has an over abundance of rental property owners who, by intent or not, are going to wind up being "D" owners and operators. Reducing the number of undesirable rental property owners from the local ranks can be accomplished in a number of ways.

How can bad actors be kept out of the rental market?

The "D" owner tends to operate rental property by the maxim "what's not spent taking care of the property is mine." This is business as usual for the "D" owner, and the result is a large and growing supply of what would be toxic assets except for the fact that in the Rochester rental housing market, there is nearly always another buyer willing to take a shot as a landlord. It is in the public interest to reduce the number of "D" owners, and one of the most effective ways to do this is to interrupt the flow of "D" properties to "D" buyers whose business model is based on a low acquisition price, nominal upgrades, a few years of milking, and then finding another marginal owner to buy the degraded properties.

"D" owners extract as much cash from the rent as possible for themselves, neglecting maintenance and upgrades to the properties.

They then find buyers for these neglected properties.

The new owners take the same approach, further degrading and neglecting the property.

This is where the City of Rochester and the Rochester Land Bank Corporation (RLBC) both have an extremely valuable role to play. Rochester's in rem sale process is focused on securing the highest dollar amount for a property and provides no consideration for the quality or intent of the purchaser or condition of the structure. For most properties that make it to tax sale, the only willing buyer is a "D" rental owner. While the RLBC has a mandate to "return underutilized property to productive use, [and] to preserve and create quality housing, [and] to enhance the quality of life within neighborhoods, [and] to encourage economic opportunities," this mandate will almost never be achieved when the municipality conveys property—knowingly or not—to a "D" buyer via the highest bidder tax foreclosure sale process. Although the tax sale process produces some amount of revenue to City coffers that badly need it, the benefit may not be worth the cost of continued "D" matches in the rental market that result.
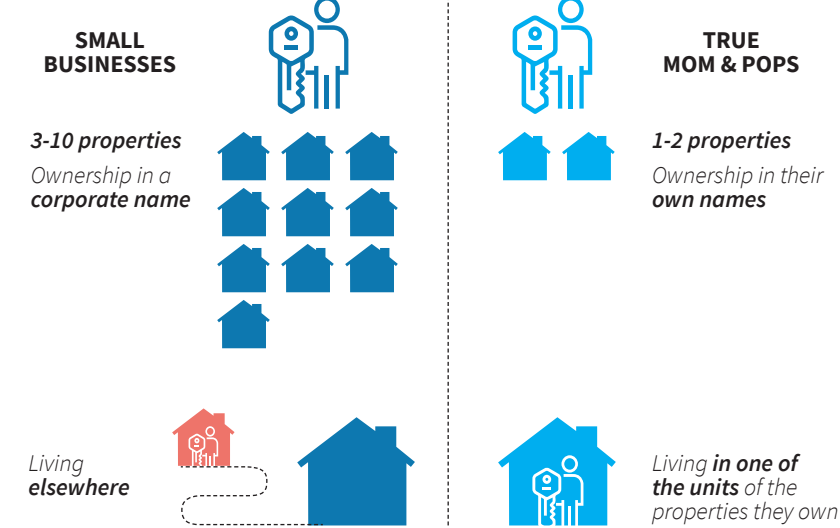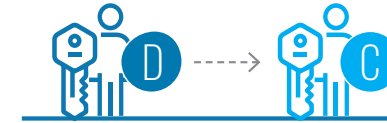
How can Mom and Pops get the support they need to be good actors?

Across Monroe County, a subset of rental property owners are those who have recorded their property ownership in their own names, as opposed to entities protected by one or more corporate veils. A subset of these own only one or two properties. And a subset of these live in one of the units of the properties they own. These are the true "Mom & Pop" landlords. These are distinguished from the owner of three to ten properties held under one or more corporate covers. These latter owners are small businesses, possibly good neighbors and possibly not; but they are not "Mom & Pops."

SMALL BUSINESSES

3-10 properties
Ownership in a **corporate name**

*Living **elsewhere***

TRUE MOM & POPS

1-2 properties
Ownership in their **own names**

Living **in one of the units** of the properties they own

What does "Mom and Pop" mean?

A key insight of this report is that common references to "Mom & Pop" landlords, particularly in the media and in the rental property business itself, is flawed, and to some extent, self serving. It has become common to refer to owners of fewer than ten units as "Moms & Pops", and on its face this seems reasonable; "Mom & Pop" after all, connotes a small, often struggling, not infrequently new immigrant owner business or operation.

When Reyna and Maritza Veracruz operated a food truck in Austin, Texas, which they did for a number of years, they would rightly have been called a "Mom & Pop," operating as they did a single truck on a shoestring budget. Over time though they grew into Veracruz All Natural and have six real estate locations in Austin and have expanded in to Los Angeles. It's tempting to call them a "Mom and Pop" operation but that would be to short just how significant a business they run. Moreover, the manner in which their first food truck was run—as entrepreneurial amateurs—and the way Veracruz Naturals is operated today—professionally—are night and day. The food remains in high demand, but the back office today is a significant contrast to their days cooking and living out of a trailer.

RECOMMENDATION

It is recommended that serious consideration be given to modifying municipal policies to prevent transfer of properties to any "D" entity and more easily facilitate the transfer to the RLBC. The RLBC has the authority in law to manage disposition of properties in such a way that they will not be available to buyers without significant vetting.

It is recommended that RLBC not convey a property to any party unwilling to enter into a contractual agreement to a predetermined level of operating and management skill, timing, practices, and expenses, a predetermined level of escrowed reserves, and a predetermined level of catch-up maintenance and catch-up capital improvements, irrespective of resulting profitability. If this is not possible, it may suggest the need to hold a boarded-up building or even demolish it. The conceit of RLBC should be that it is better to remove a building from the inventory than to convey it to a "D" buyer.

RECOMMENDATION

Identifying the true "Mom & Pops" and then working with them to determine their cash flow situation, debt to income ratios, management practices, debt and other obligations, and figure out what they may need to upgrade a "D" property and upgrade their "D" operation, is strongly recommended. A pilot program where a "Mom & Pop" rental property owners can sharpen their management acumen, receive help growing their reserves, and obtain assistance upgrading their properties would be a valuable endeavor for the Rochester community to undertake. The lessons could inform a larger subsequent investment in a greater number of "Mom & Pops" resulting in stronger performing real estate, better balance sheets, more habitable units, and stronger blocks. For those "Mom & Pops" then having the ambition to grow their business further, helping them transition to become successful small businesses with employees and greater numbers of units is encouraged.

PROBLEM 3: TOO MANY "D" LEVEL OWNERS OPERATING IN ROCHESTER

How can "C" properties in "C" areas be kept from sliding toward "D" status and "D" owners?

There is a sizable opportunity in Rochester to directly and positively influence the trajectory of "C" single-family and duplex rentals in "C" areas so that they do not become targets for "D" owners. A "C" property in a "C" area is generally much closer in price point to the "D "property than to a "B" equivalent. The "C" single was historically a major source of owner-occupied housing in Rochester—imagine Maplewood or the 19th Ward—but today that single is more and more likely to be absentee owned, and more and more prone to continued denial of property care and thus vulnerable to further decline.
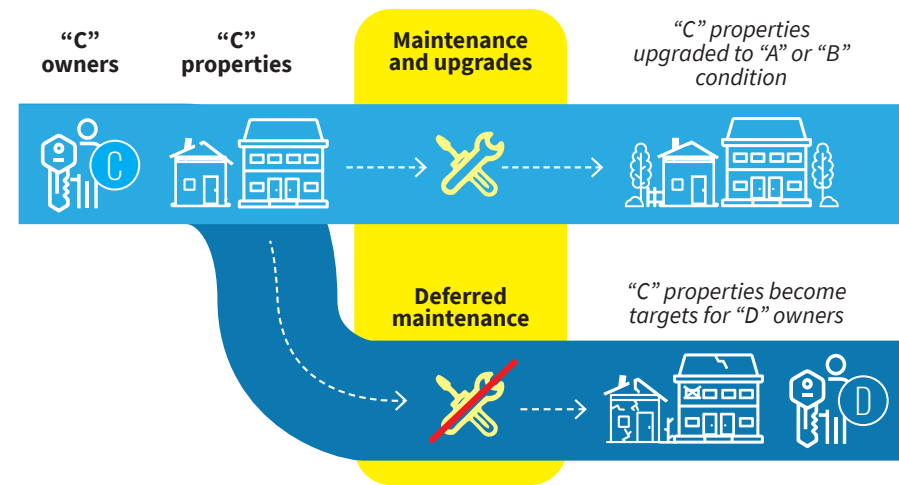
"C" singles and duplexes in "C" areas constitute a major rental housing resource, which is positive, and most are in relatively decent condition, which is also positive. But most also suffer from deferred maintenance, which is plainly negative. Helping "B" and "C" owners of these properties constitutes a potentially very remunerative strategy. With block-by-block precision, improving the properties, with conditions, can be a critical component of a strategy to upgrade rental stocks while holding rents affordably steady and, in the process, helping to ensure their blocks maintain stability and strengthen over time.

How can local financial institutions support Mom and Pops?

With some amount of creativity, and assumption of more risk than normal, local financial institutions could help do the following:

- Support development of good potential rental owners.
- Turn those same rental owners into local homeowners.
- Upgrade rental units.

Local lenders could finance the purchase of duplex properties in "C" areas and ALSO finance the needed rehab. Assuming the post-rehab value is far less than necessary to justify the loan, the lenders would need to assume the risk. The right borrower for such a loan would have good credit, a solid plan for management of the property, and would agree to live in one of the units as an owner-occupant and on-site manager.

After some period of time, say five years, and high quality management of the duplex, the lender could refinance the property and help the owner purchase a single-family home nearby, while keeping the duplex rental. The duplex would then become part of the collateral for the remaining debt. Such an approach could help to cultivate high-quality Mom and Pops in the classic mold.

### Considerations for success in "C" area interventions

On average, to catch a "C" property up to a position where there is at least no net negative equity, and where the tax base is well-served, considerably more than the bare minimum is needed. The stakes in the region's rental market are too high to throw away small amounts of money across a large volume of properties. The better, wiser strategy is larger amounts of money into fewer of the right properties.

Cost of rehab is not more than half of home's after-rehab value
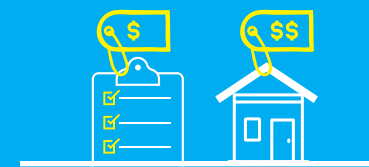
The right "C" property still reads as a decent home even though it suffers from neglect, and a walkthrough would generate a scope of work to catch up on energy efficiency, curb appeal, and systems roughly equal to half of the after-rehab value, which lenders traditionally would not finance. (This is why a program that provides subsidy is necessary.)

NOT: *in "D" condition on "D" block in "D" area*
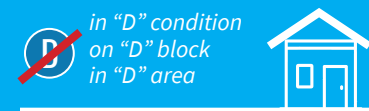
The right "C" property is both in trouble, owing to neglect and location, yet recoverable for a reasonable price and risk. It is not (yet) in a "D" condition, rarely on a "D" block, and not in a "D" area.

On a block of mostly "C's"

The right "C" property is on a block of similarly recoverable properties (i.e. a block with few to no "D" properties). By upgrading the property to a certain "B" condition and holding the rents steady, progress towards a number of crucial goals is possible.

There may be a temptation to help owners by gifting a mere $5,000 here, or $10,000 there. Such small amounts will not be sufficient to return these properties to a good standard. All that will be accomplished is a stay of execution, delaying inevitable further decline, and getting nothing in return except a minimally code compliant property for a short while. Maintaining the discipline to **spend greater sums on fewer properties will be key to success** at the property and block scales. (This is why a program that provides subsidy is necessary.)

RECOMMENDATION

It is recommended that a rental rehabilitation effort be established where a proven rental property developer or owner can receive financial encouragement to upgrade "C" holdings in "C" areas in exchange for continuing to rent the property for the same rent for a period of ten years. A loan of between $35,000-$50,000 per single or $50,000-$75,000 per double for the purposes of weatherization, exterior improvement, landscaping, mechanicals, structural and other improvements would be made to the owner.

In exchange, the owner would agree to only increase rents according to a pre-agreed index, and do so for ten years, at which time the loan would convert to a grant provided the property had been maintained to an agreed-upon high standard. At any point in time the property could be sold, whereupon repayment of the original loan, and the forgiveness of any portion of it, would be determined by the established rules of the program.

PROBLEM 3: TOO MANY "D" LEVEL OWNERS OPERATING IN ROCHESTER

How can strategic redevelopment disrupt "D" matches and support market health?
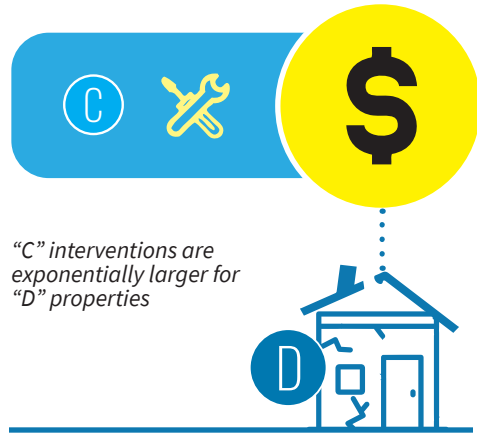
"C" interventions are exponentially larger for "D" properties

Different strategies are needed for "D" properties

Whereas "C" properties in "C" areas are salvageable and represent a housing and neighborhood asset if properly upgraded and managed, "D" areas are too far degraded for "C" interventions to work. Each individual "D" property is too far gone and the market for each "D" block is too weak to provide any tailwinds that might spread the success from recovering any single property. In short, a "C" area has at least some strengths to leverage but a "D" area has virtually none. The costs to recover "D" areas are exponentially larger than those to recover a "C" area.

This does not mean, however, that there are no opportunities in "D" areas. It simply means that they must be more strategic and different, both in degree and kind. "D" interventions must be carefully thought out and comprehensive, and replacement of existing housing stock must be part of the strategy.

As this report has made clear, small to medium sized properties of 20-40 units offer economies of scale whereby they can be made to work financially while also maintained at an acceptable level of quality. This is the kind of high-leverage opportunity that "D" areas require. But it is also the case that dense multifamily development in "D" areas have given residents cause for concern in the past, and both the reality of that longstanding concern and current community desires dictate that any new multifamily infill be balanced by single-family infill.

RECOMMENDATION

It is recommended that some number of strategic groupings of blocks be identified for transformative projects whereby poor-quality "D" singles and doubles are acquired and demolished, land is assembled, new mixed-income multifamily rental is developed, and new single-family housing is developed.

These transformative projects must not add, on net, any new housing units. For each new unit built, at least one existing unit must be demolished. "D" areas in the City of Rochester are too oversupplied with low-quality housing units to increase the total numbers of units. This begins to address the supply/demand imbalance that depresses values, ensuring properties remain in poor condition.

These projects must utilize a "whole block" approach so that an entire area is tangibly changed. Site by site redevelopment will not be enough to stabilize "D" areas and will undermine the endeavor.

These projects will require TWO kinds of subsidy to ensure high quality without displacement. First, a capital subsidy will be required to gap finance the development of non-market-rate housing. Second, low-income residents will require ongoing subsidy to afford rental units on a monthly basis; even an upfront capital subsidy will not be sufficient to lower rents to be affordable to Rochester's lowest-income residents.

Making a whole block strategy work

In "D" areas, it will be a waste of resources to infill or rehab a little bit here and there; housing revitalization activity must achieve critical mass at the block, and ideally multi-block level. If critical mass is not achieved, market forces will conspire to undo, over a period of years, the short-term positive impacts of the efforts.

Consider a nameless but prototypical two-block stretch in a Rochester "D" area. The deeply distressed two-block stretch includes eighty-two single-family and duplex structures as well as thirteen vacant lots. Rents are generally in the range of $500-$700 per month which is high enough to provide a good cap rate for the owner (as long as he does not spend on proper maintenance, reserves, or needed upgrades) but low enough that it is within reach for low-income households. An effective whole block strategy could take many forms, but here are two examples of possible housing development approaches:

EXAMPLE 1

Activity	Development Cost Per Each	Total Cost
13 infill duplexes on vacant lots	$295,000	$3.84M
11 single-family gut rehabs	$180,000	$1.98M
13 demolitions	$25,000	$325,000
Total Capital Cost		**$6.15M**

Addressing thirty-seven properties improves almost half the area while providing new or near new housing for thirty-seven low-income households. But resulting break-even rents will be $1,200 or nearly twice what the average household is currently paying. A $2.3M capital subsidy could lower break-even rents to $850 per month, but existing households will still be short $250 each month on average. Keeping existing households in place will therefore require an ongoing monthly subsidy of $250 for thirty-seven households, or just over $110,000 annually.

EXAMPLE 2

Activity	Development Cost Per Each	Total Cost
11 demolitions and combination of lots with 13 pre-existing vacant lots into one site	$25,000	$275,000
2 new garden apartment buildings on the site, each with 24 units	$4.06M	$8.13M
Total Capital Cost		**$8.4M**

This addresses twenty-four properties and provides forty-eight units of new affordable housing. It also provides new units in multifamily structures that offer efficiencies to the owner for operations and management, thus lowering costs per unit. But to keep rents at $600 per month will require an upfront capital subsidy of $120,000 per unit or $5.8M.

These examples serve to illustrate the scope and scale of possible housing interventions. In reality, however, neither of these approaches on their own may be a sufficient solution on the street in question. The most effective approach would be to do some combination of both, where new multifamily, new infill, and rehab of existing single-family houses are taking place at the same time, and where the units are affordable to a range of incomes, not just to the lowest earners.

The Mechanics of Monroe County's Rental Housing Market

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Prepared by
czbLLC