

September 27, 2023

Rent Stabilization Staff
City of Saint Paul
310 City Hall
15 West Kellogg Boulevard
Saint Paul, MN 55102-1615

Re: Rent Stabilization Determination appeal for property at 1822 Grand Ave, Units 1-4

Dear Staff,

In response to the items requested of us at the September 14, 2023 Legislative Hearing please see the attached information.

1. Historical rent values, ideally going back as far as possible.

- a. Attached to this letter are the original leases that we received from the seller at closing.
- b. It is important to note that the seller had long been planning to demolish this building to make way for a mixed-use development that would serve as their new office and showroom space along with additional commercial space for other retail tenants and apartments above. This strategy resulted in little to no investment into building improvements and rent increases on the apartments for the past several years.

2. Comparable expenses from similar buildings you own in the area.

We have summarized the trends in operating expenses for several buildings that we own in the neighborhood including 1168 Selby, 169 Victoria and 1342 Thomas. Below is a summary of the average annual percentage increase in operating expenses for these three properties between 2020 and 2022.

- 1168 Selby – 7.71%
- 169 Victoria – 20.19%
- 1342 Thomas – 22.58% *purchased in 2020

A more detailed breakdown of the historic operating expenses for these comparable properties are attached to this letter.

3. A breakdown of the potential capital improvements which may include the following: Improvements which are necessary for the property to operate safely; improvements

which are dependent of achievable levels of rent; Improvements which may be due to deferred maintenance.

The below chart shows the different improvements to be made to operate the property safely, to achieve different levels of rent and those improvements which may be due to deferred maintenance. Please note that the property recently passed its fire certificate of inspection which is why we determine it to be safe in its current condition. Additionally, we can categorize most of the suggested improvements as deferred maintenance as the seller was planning to demolish the property for commercial re-use and therefore the building has not had any recent improvement made.

	Property to operate safely	To Achieve Rents of \$950	To Achieve Rents of \$1,050	To Achieve Rents of \$1,150	Deferred Maintenance
Common Flooring	None	\$ -	\$ 3,000.00	\$ 3,000.00	\$ 3,000.00
Common Painting		\$ -	\$ 3,000.00	\$ 3,000.00	\$ 3,000.00
Unit Painting		\$ -	\$ 3,000.00	\$ 3,000.00	\$ 3,000.00
Unit Flooring		\$ -	\$ -	\$ 6,000.00	\$ 6,000.00
Electrical		\$ -	\$ 2,000.00	\$ 6,000.00	\$ 6,000.00
Appliances		\$ -	\$ -	\$10,000.00	\$ 10,000.00
Carpentry		\$ -	\$ -	\$ 5,000.00	\$ 5,000.00
Plumbing		\$ 2,000.00	\$ 2,000.00	\$ 5,000.00	\$ 5,000.00
Window Coverings		\$ -	\$ 1,500.00	\$ 1,500.00	\$ 1,500.00
Parking Lot Repairs/Striping		\$ 2,000.00	\$ 4,000.00	\$ 4,000.00	\$ 4,000.00
Add Laundry		\$ 3,000.00	\$ 3,000.00	\$ 3,000.00	\$ -
Roof/Brick Repairs		\$ 4,000.00	\$ 4,000.00	\$ 4,000.00	\$ 4,000.00
Totals	\$ -	\$11,000.00	\$ 25,500.00	\$53,500.00	\$ 50,500.00

We feel strongly that the rents charged are significantly below market rents for similar units in similar buildings, preventing the landlord from achieving reasonable returns. We are currently renting one-bedroom units without any major updates at 1962 Grand Avenue for \$1,150. Similar to 1820 Grand, 1962 Grand also offers these one-bedroom units with parking. A recent search of available properties in this neighborhood shows several available options supporting the fact that the current rents at 1820 are significantly below market rents. Below is a summary of options currently available on the market, however, these options do not include parking.

- 1280 Grand Avenue – one-bedroom apartment with an asking rent of \$1,108 (<https://www.zillow.com/b/grand-heritage-apartments-saint-paul-mn-C72LRL/>)
- 1576 Portland Avenue – one-bedroom apartment with an asking rent of \$1,095 (<https://www.zillow.com/b/1576-portland-avenue-saint-paul-mn-9HWyn2/>)
- 1703 Ashland Avenue – one-bedroom apartment with an asking rent of \$1,150 (<https://www.zillow.com/b/ashland-%26-laurel-apartments-saint-paul-mn-5XrDmt/>)

Furthermore, the historical operating expenses for 1820 Grand Avenue show that the average annual operating expense for the property between 2020 and 2022 was \$72,163.11 which is artificially low because of the seller's plan to redevelop the property. The square footage of the residential space is 2,489 sf, making up 38.9% of the above-ground square footage of the building. Allocating 38.9% of the operating expenses, mortgage payment and annual capital improvement budget results in a significant annual loss.

Annual Apartment Rents	\$ 23,400
Operating Expense (38.9%)	\$ 28,071
Mortgage Payment (38.9%)	\$ 28,005
Capital Improvements (Annually)	\$ 3,890
Profit/Loss	\$ (36,566)

Thank you for working through this process with us. It was our understanding when we made the decision to purchase the building that this is a reasonable ordinance, and that we would work with staff on coming to solutions. Forcing us to use rental rates from 20 – 30 ago is not reasonable or workable for us. We made the decision to continue to invest in Saint Paul despite the uncertainty, a time / resource consuming process, and falling demand / values this ordinance has brought (which many investors are now staying away), hopefully we are not penalized by taking that risk and leap of faith. It is important to us that we continue to see our city thrive and grow, but our building stock age. 1820 Grand Avenue is a classic Saint Paul, mixed-use building on a prominent corner of one of Saint Paul's most attractive streets. Some of the relevant sections of the ordinance appear to be:

- Adjustments of Base Year – (a) ii Maintenance and repair expenditures were exceptionally low causing inadequate or significant deterioration in the quality of services provided.
- (b) i. The gross income during the Base Year was lower than it might have been because some residents were charged reduced rent AND iv other exceptional circumstances (i.e. rents were low because the previous owner wanted flexibility to demolish the building and was also not maintaining the building appropriately during that time. The new development didn't happen because of market conditions including rent control enactment.
- Calculations of Net Operating Income: (d) 8. (b) Rent Increase Limit: There is no limit to annual adjustments if the Landlord demonstrates that the increase is necessary for a reasonable return. And (d) 9 Right to Reasonable Return: No provision of this regulation shall be applied so as to prohibit the Department of Legislation Hearing Officer from granting an individual Rent adjustment that is demonstrated by the Landlord to be necessary to meet the requirements of this ordinance and the Landlord's right to reasonable return requirements.

Once again, we are open to a staggered rent increase schedule over a two to 12-month period and/or working with tenants to participate in caretaking responsibilities at the property. As evidenced by the data above, the current rents are significantly below market rents and restrict the property owner from achieving a reasonable return while also prohibiting our ability to make improvements to the building that are necessary to align this building with the quality of housing that the city aims to achieve.

Respectfully,

Joe Hughes