



Minutes - Final

Rent Stabilization Appeal Hearings

Marcia Moermond, Legislative Hearing Officer
Nhia Vang, Legislative Hearing Officer
Mai Vang, Hearing Coordinator
Joanna Zimny, Executive Assistant
legislativehearings@ci.stpaul.mn.us
651-266-8585

Tuesday, June 21, 2022

3:00 PM

Room 330 City Hall & Court House

- 1 [RLH RSA 22-1](#) Appeal of Matthew & Jim Lindquist to a Rent Stabilization Determination at 1029 RAYMOND AVENUE.

Sponsors: Jalali

Layover to LH June 28, 2022 at 3 pm for further discussion.

Matt Lindquist, owner, appeared via phone
Jerad Rasmussen, owner representative, appeared

[Moermond gives background of appeals process]

Moermond: are Matt and Jim Lindquist Iron Range Holdings, LLC? Anyone else?

Lindquist: that is correct.

Moermond: and you are not the fee simple owner, rather you own the trust deed?

Lindquist: I hold ownership of Iron Range Holdings, which owns the building.

Moermond: the paperwork I have says you have a trust deed vs. warranty deed. The trust continues holding the ownership and you are the tax owner.

Rasmussen: is that something we can figure out later?

Moermond: I like to know the relationship of the people to the property. Right now I'm talking to a member of an LLC and a business representative of the LLC. They don't hold a warranty deed; they hold a trust deed and that same trust was in place prior to them acquiring the building. That had an impact on my review of the information provided. The Winter Trust is still in play. They are the fee owner today as well.

Lindquist: the Winter Trust is the seller.

Moermond: and they still have a position with the property is my information.

Rasmussen: I would guess the information hasn't been updated? Doesn't that take time?

Moermond: I don't think that's what is going on here, but we can talk about it. It isn't as simple as complete ownership all at once. This doesn't sound familiar?

Lindquist: it doesn't. From my understanding full ownership has been transferred from the trust. I can do some follow-up on that.

Moermond: that would be helpful. That was based on the twin cities IMAP system. \$1,320,000 for a trustee deed of Norbert Winter of 2009. There was an application to increase the rent under the rent stabilization ordinance. That was asking for a 15% increase in the rent. DSI reviewed it. I'll turn it over to Director Angie Weise to walk us through how they came to that conclusion.

Staff report by Director Angie Wiese: On May 18th, the department received an intake form for a request for exception to the 3% increase on rent per ordinance 193A. The application is part of the record and James and Matthew Lindquist were listed as the applicants for 1029 Raymond. They were requesting a 15% increase on rent utilizing the staff determination method. The reasons listed in the application were: 1) An unavoidable increase in operating expense. A capital improvement project, 2) An increase in tenants occupying the rental unit and 3) An increase in living space, furniture, or equipment. On May 22nd, the Department received the supporting documentation for the increase. These documents are also part of the record and include the MNOI/Capital Improvement worksheet, a unit by unit increase worksheet, and Increase in tenant's worksheet. Upon reviewing the documents, I determined there was some missing and inconsistent information. I set up an appointment to meet Mr. Matthew Lindquist via Teams for May 31st. At this meeting we went over the allowance for increase in rent based on an increase in tenants. The application was too vague, and I wanted to make sure the applicant was aware that an increase is not allowed when the parties are related. We also discussed the discrepancy between the maintenance costs between the two years. One is around \$6,500 and the other is around \$40,000. I inquired as the reason behind the increase and was told there is little to no data available as the applicant recently purchased the building. I informed the applicant that without further information, the best route would likely be to have me deny the application and appeal to the hearing officer. The denial letter was emailed to the applicant noting 3 elements for the denial:

- 1. The increase in normal repair expenditures, compared to base year, lack detail for justification. Line 12 of Section IX on MNOI Worksheet*
- 2. As stated in the application, previous detailed income and expenditure data is not available to the owner. This lack of data prevents a determination on a staff level.*
- 3. Rent increase based on the number of tenants shall clearly indicate the conditions under which rent would be increased, by unit. Item 18 on Increase in Tenants Worksheet*

With the appeal application, more income and expense data were provided. I transcribed this information to our MNOI/Capital Improvement worksheet. This is now added to the record. This new data uses an alternate base year of 2020, which is acceptable. In both 2020 and 2021, the worksheet indicates the building is operating at a loss. The premise of MNOI is that an owner is entitled to the same rate of return on investment in the current year as they received in the base year. This premise assumes there is some profit margin obtained that is allowed to remain. The MNOI worksheet clearly was not meant to address a building operating at a loss in the base year. The calculations indicate, even when utilizing the formula, the building would be operating at a loss, just not as large of a loss. Part of staff review is a warranty of habitability. Its last Fire Certificate of Occupancy inspection was April 2021 as an A property and no complaints since then.

Moermond: acquisition happened April 11 and application for a rent increase of 15% on May 18, with a May 31 decision, and a June 6 appeal. We have some additional information provided—

Wiese: the application came in May 18 and the documents came in May 22. The additional documentation of 2 PDFS of income and expenses came in and were transferred to MNOI.

Moermond: what kind of a loss was the property operating at in 2020 and 2021?

Lindquist: per the financials I was supplied the owner lost \$10,000 in 2020 and \$3,800 in 2021. I don't think that's an exactly fair to look at it as they pulled out \$117,000 in income in those years which accounted for expenses.

Wiese: The net operating income for 202 was negative \$9,635.52 per the numbers supplied by the applicant. And negative \$3,749.45 for 2021.

Moermond: the money the son of the original owners, who created the trust, pulled money out of the trust as his income is reflected in this income statement. That's the \$80,775?

Lindquist: yes. \$80,000 in 2020 and \$36,000 in 2021.

Moermond: it is odd to be able to make money through the trust and not using this balance sheet.

Rasmussen: tax laws. They figure out how to do it.

Moermond: what would you say the rate of return is? That isn't covered explicitly in the materials I have. What was the rate of return and what is it you believe would a fair rate of return? That is the language in the ordinance.

Lindquist: we hope to earn between 8 and 10% on our cash invested. We personally guaranteed the mortgage, which is substantial. We also have construction plan of \$100,000 to renovate some of the units that really, really, really need it. We've already spent \$22,000 of that.

Moermond: one of the things I wanted to ask more about is you talked in your appeal about these plans for the prospective improvements for the building, I didn't see it parsed out what those investments would look like. Where they would be made. I'm hearing \$100,000 for the first time. Is that new HVAC? Bids? I simply don't know. Can you characterize those investments?

Lindquist: I can send our detailed budget as a follow up item but yes, they aren't major items you would think of. One of the units was trashed, so it is paint, plaster, drywall, toilet, shower and all of the flooring, doors, trim. We have units that hamsters have been allowed to roam uncaged which caused significant staining. A lot of cosmetic work. There is a garage in poor shape, so firming that up as well. We do know the furnace is quite old so we are making a reserve pool for when that does go out, but it isn't in our 18 month plan. I can provide by unit what we will do, which includes a dishwasher, for example.

Moermond: Director Wiese, the information of the by-unit basis, would that address item 3 in your letter?

Wiese: possibly. The information we received didn't receive any capital improvement project. The request was for a 15% for every unit and the increases are based on

where the improvements occur. For example, the carpet, trim, doors, etcetera are only replaced in one unit then the rent increase can only be applied to that unit. We would have to see the information.

Moermond: and that's DSI rules, not the ordinance?

Wiese: correct.

Lindquist: based on the amortization period it wouldn't address the dramatically under market price based on what is currently offered for a 2 bedroom in Saint Paul. We would still fall short even after all the improvements.

Moermond: I feel at a loss right now. I hear 8 to 10 percent and that is a reasonable rate of return to look for in my understanding of the market. I hear that now we have a mortgage and there didn't used to be. We had payouts to the trust who paid the guy who inherited. I don't know how your numbers are shaking out to create how the 15% increase translates to a reasonable return.

Lindquist: I'm happy to share our underwriting. As easy as it is to look at the Winter Trust and what they pulled out and us being able to pull out roughly the same figures. There was a lot of neglect when it came to the building so I don't think you can compare apples to apples. That's not a usable comparison given the maintenance pieces, even if you exclude the mortgage..

Moermond: and I'm seeing the apples but not any oranges.

Lindquist: I'm happy to share our underwriting and how the rent increases get us to the 8 to 10%.

Moermond: that would be helpful and speaks to where the ordinance is coming from.

Rasmussen: he wants to be a good landlord. He wants to take care of the building. Then I have DSI saying I don't have any information from the prior owner, which he isn't going to get but if he did they'd probably cook the books. They can make the numbers look the way they want. She's saying she isn't approving because there isn't the data. Frankly he's just trying to make the building work for him, put money into it, and get his rents to where the market is. Once he gets into fall it is going to be hard to rent the units and move on doing the improvements. It feels like nothing is going to happen today. Matt is going to give you all the information you want. If he does that, are we still going back to DSI and then back here?

Moermond: right now this is an appeal of the determination by DSI. They have made that determination. When it is under appeal it becomes a Council decision. They are the decision maker and they are the ones who can say DSI was correct in how they applied the ordinance or no, we think this and here is the criteria we use. So with my questions I'm trying to be common sense and baseline on what this looks like. I'm looking at the ordinance. The paperwork. I'm looking at how DSI evaluates, the paperwork, all of that knowing my job is to make a recommendation to Council. I want you to have an honest run at this and I'm asking questions I don't know were pointed enough in the DSI worksheet enough to get you where you needed to go. I'm asking you questions to hopefully allow you to hang some meat on this. There are a number of check-off boxes that talk about "exceptional circumstances in the base year" which is where you are coming from here. This is a previous owner who didn't charge what you think they should have been. The boxes are "gross income during base year is lower

than they might have been becomes some residents were charged reduced rent". Tell me about that. The gross income during base year is lower than normal because of destruction or repairs. That's checked but I don't know I read anything to that effect in your materials. The third item regarding pattern of base rent was less than increases in the CPI. You're touching on how rents were flat. You have 2020 and 2021 documentation. We have the CPI included. 6.05. There are a couple other checked boxes. I don't want to prescribe to you how you arrived at these determinations. I'm trying to simplify. I've heard Mr. Lindquist can provide some of this information, that will be helpful. Any information provided to me I would ask for their insight. They are advisory at this point, so we are clear. Council is the decision maker.

Rasmussen: he's going to create a strategy on what we can get back to you. What are next steps?

Moermond: as soon as we have information back, it is our business practice to immediately share that with staff. Within 3 days Ms. Zimny will send a follow up letter via email to everyone who has asked for that follow up. It will articulate the kind of asks we talked about today. Replying to that with that information she will send it to everyone involved and it becomes a part of the record. Then we can talk more about it. you can also continue to ask questions, such as does this information explains this piece. That information hopefully makes it so Council can look at it and agree or disagree with the analysis. I don't know how long it will take. Sometimes people have the information at their fingertips. Sometimes it takes longer. I can tell you the City Council does not meet until July 13. That calendar was established last fall.

Rasmussen: so August?

Moermond: it would probably be the July 20 Council meeting it would be discussed. That is how I anticipate the timeline. We have a chance to continue talking and putting things together up until the week before Council, but I still look at things up until the Council vote that Wednesday afternoon. Mr. Lindquist, what is on your mind? Any questions?

Lindquist: thank you for explaining all of that. As Mr. Rasmussen brought up, the current tenants we manage in an effort to keep cost lows. I don't love third party managers. What I'm hearing from them is we know we have a sweetheart deal. We are fine paying fair market rent; we just want to know the details of what the rent increase looks like before school starts or snow flies. So I get nervous about having the conversation the third week of July, it means earliest I can give notice is end of September and it is after school starts. The faster this goes the better. It does not seem as if this is quite working.

Moermond: we're doing our best. I want to go back to your application had a proposed effective date of July 1 which would have been a Herculean effort given the May 18 application. The rent increase was calculated as of 15% of total rents in 2021. So I think that's also a thing you'll need to take into account when calculating your return on investment. Can they turn this around? Sure, I would anticipate they can handle that. You were aware of this ordinance when you acquired the building in April. I'm putting out there it is a lot faster than Court, it is faster than other things, to help you get through an ordinance we have on the book and we need to do.

Wiese: I just wanted to mention something new to me today and may help with the documentation you will provide. I heard new amenities being provided at the property, and that is also to be considered in an increase. That could be a building-wide like

laundry or it could be in-unit adding a dishwasher in unit. Those are also able to be factored in for an increase. That is for both Rule and Ordinance, additional services provided can be considered as part of a rent increase.

Rasmussen: based on Matt's circumstances, do you have like 5 conditions or information you would suggest now?

Moermond: we've talked about the main things which is how are you calculating a reasonable rate of return? We talked about those check offs on the form in section 20. Is every indication there should be an exception because it was not profitable in the past and may have been managed differently be fleshed out more? Those are the things jumping out right now. I look at the ordinance. You are entitled to a reasonable rate of return. We have a case where it was running in the negative. I'm not sure how that pans out when money was being pulled out of a trust. If they are collecting rents and spending \$80,000 on the trust and living off that, then is that \$80,000 not essentially profit? I don't know the answer. I want you to give me math and reasoning on that. That's an open question for me. What is the relationship of the trust to this? Can you help me sort this out? I am trying to be up front about the questions I have when looking at this. I am not an appraiser.

Matt Lindquist: I am not sure if you read the materials—

Moermond: every word.

Matt Lindquist: I did state the concept of if they are pulling money out of this and talked to that. We addressed the mortgage thing. I did show Zillow and the Rent-o-meter report which are the two most reliable points of market data. I am charging between \$50 and \$100 per month less than the guy two doors down is renting a one bedroom for. They are 500 square feet instead of 2 bedrooms at 800 square feet, some of which come with two-stall garages and off-street parking. The \$81,000 they pulled out in 2020 is a great figure but I think when you look at the facts of what happened, the income dropped to \$36,000 because the guy realized he can't just defer maintenance forever. He only got \$36,000 in 2020. Sold it the next year when that became clear to him. That's what he told me, he said he got a \$1,300,000 building free and clear and he wanted the \$1,300,000. He didn't want \$30,000. That's where I am coming from. You keep bringing up the fact that that is not quite clear to you, and I think it is quite clear they scrounged out every penny by not reinvesting in the building. They milked it for all it was worth. Then they saw the good market and decided it was time to sell. All I ask is let me charge more than the half sized one-bedroom two doors down. There are new construction studios that are \$400 square feet that are charging \$1,700 down the street. Let me be in the ballpark of reasonableness. I am from Mankato, Minnesota and we have 2 bedrooms for \$1,000. My dad attended Tech school in St. Paul 40 some years ago and said he paid more in rent than some of these tenants are paying today. I thought this issue was more cut and dry than it apparently is. I'm happy to provide you a construction budget with why we think those are the accurate numbers. My dad has 40 years of construction experience. The source of funds I can send you with those dollars and the process we use for getting quotes. We have used these contractors the past six years. Trust deed vs. warranty deed thing seems pretty easy. How they got 8 to 10% I will stack 2020 next to 2021 next to 2022 and how I expect this year to go. And then hypothetically 2023 if we got our appeal granted if we could charge relatively reasonable rents. Then how the property was neglected. I did describe in my narrative with a vacant unit for a while, and they just let the water continue to leak on the bathroom floor. I'm happy to outline these issues, I just thought can I charge more than a studio down the street. I thought

it was going to be an easy request and I should have come with more information. I did call this office three times saying I'm trying to make this process as expedient as possible, is there anything else I can do. Mai informed me we are learning as well; we don't have any additional requests now.

Moermond: and I'll be honest I wouldn't have wanted her to say anything because it needs to be me making those asks and me making them on the record. So here we are having this conversation. This is happening the way it should, and she would have treated any other appeal of any nature like that. Not jumping to where a decision could be going. I just want to be clear this is particular to this hearing process rather than the matter at hand.

Lindquist: I think where I feel I'm putting my head against the wall is a lot of this stuff is easily accessible but it isn't outlined in the application, nor when I talked to the initial group. I was basically told your application looks great, but we're going to flip it to a different group and get you on their schedule. I wish there would have been communication having seen my materials when we talked initially asking for these other things. Now we are going to punt for another –

Moermond: I'm not punting anything. I'm operating in good faith. I think you are as well and I will keep it that way. I'm trying to be 110% clear on what I'm looking for and why. I think you hear me about those concerns. I'm going back to the ordinance and what you are telling me narratively it hasn't had the rent charged in the past it should have been. You think the base year should be increased. Let's talk about what that should look like. That's going to help me a lot. Ms. Wiese, any comments?

Wiese: I think we've covered it.

Moermond: realistically I'd like to talk about this next week. Sounds like you have your stuff together. You've heard what the Council schedule looks like. I would like to have the file buttoned up no later than July 13. If stuff is still coming in and we're still talking, but I think we'd all rather not go back and forth. As I said, I'm operating in good faith and handling it as expeditiously as possible. I look forward to seeing the additional materials.

Rasmussen: I think matt is trying to express that doing some of this through forms is hard because we have to wait for feedback. I'm hearing you say Matt will present his case based on today's conversation and then we can have another call. That's with you?

Moermond: yes, me and Ms. Wiese in this setting and we can walk through what is in there. Pull together things that you think make your best argument. [Moermond explains the timeline of follow up after hearings]

Lindquist: I will await that email.

Laid Over to the Legislative Hearings due back on 6/28/2022