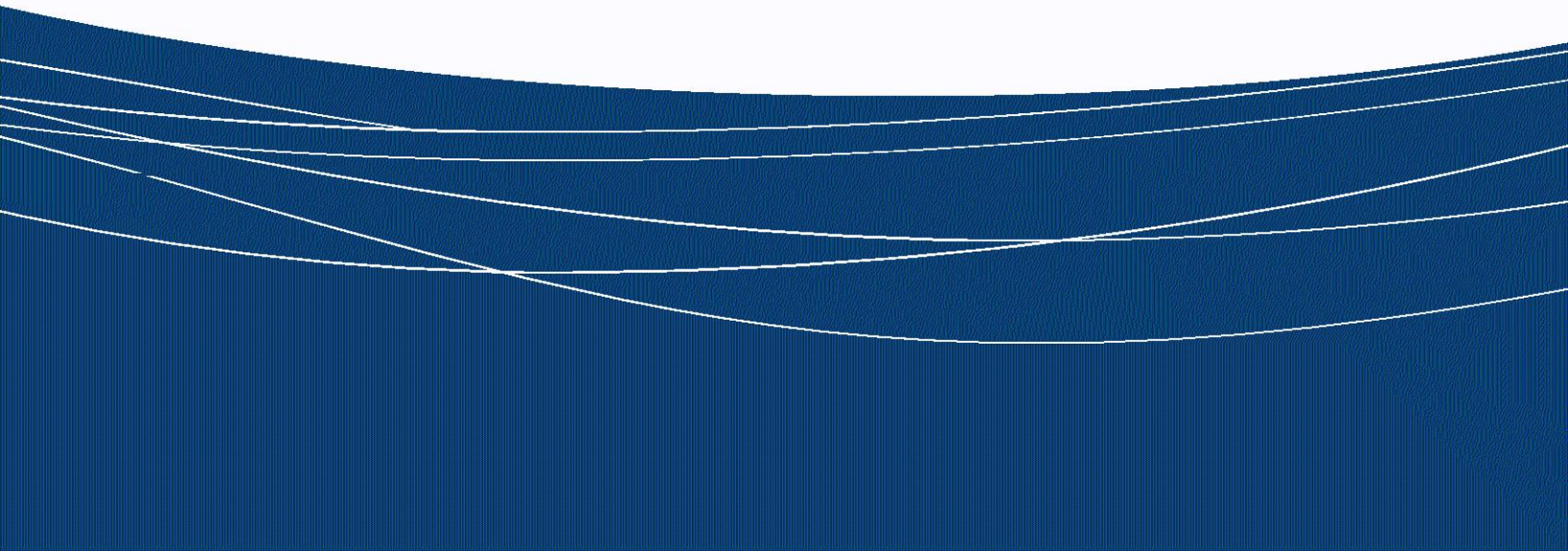


Single Room Occupancy Task Force Report

September 2021



Hennepin County Report for 2021

Single Room Occupancy Task Force

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Contents

Executive Summary	4
Single room occupancy task force	5
Background	6
Single room occupancy housing and tenants	10
Location	12
Zoning and code	13
Construction and design	15
Operation/management	18
Finance	20
Appendix A: Resolution 20-0429	21
Appendix B: Stakeholder input	23
Appendix C: More examples of SRO's	25

Executive Summary

Resolution 20-049R1 (adopted November 3, 2020) created the Hennepin County Single Room Occupancy Task Force to “develop strategies to create and support single room occupancy housing.”

Single room occupancy housing presents an opportunity to provide basic, dignified, independent housing that is affordable and accessible to people experiencing homelessness who can afford modest rents. Intentionally developing affordable housing is critical to ensure that we are reducing disparities in housing, health, income, and other domains between white residents and residents of color. The goal of this report is to share options and best practices identified by an expert task force, and to guide county decisions on expanding the availability of single room occupancy housing in Hennepin County.

Hennepin County’s Single Room Occupancy Task Force met from December 2020 through August 2021 to explore this goal, and developed these findings:

Single room occupancy housing

Define “single room occupancy housing” (SRO) as:

- multi-family or converted single family homes with quality single rooms, shared kitchens, and shared or individual bathrooms,
- with rents affordable to households with incomes at or below 30% of the area median income,
- rented to single adults experiencing homelessness or housing instability with enough income to afford those rents,
- without on-site services or, if possible, income-adjusted rent subsidies.

Location

Prefer projects in and near commercial nodes near stores and resources utilized by the target renters, including but not limited to locations that have high-frequency transit access, with the development type/size fitted to the neighborhood.

Zoning and code

Design to meet current zoning and code, and collaboratively design municipal SRO ordinances which:

- Ensure health and safety of SRO tenants, and remove all other barriers to developing SRO housing
- Create a rental license for SRO housing
- Limit SRO ownership to entities whose current rental properties all meet the highest performance criteria (i.e. Minneapolis’ “Tiers”)
- Allow SROs in districts allowing multi-family housing, and expand multi-family housing districts
- Designate a municipal team for SRO development review and approval

Construction and design

Prefer existing mid-sized newer hotels, motels, and office buildings in existing appropriate zoning if possible; renovation likely includes repairs and updates to meet zoning and federal habitability requirements, covering deferred maintenance, and conversion to “housing” units. Conversion design would benefit from early involvement from experienced operators and future renters to identify key livability needs. Total development cost should be less than for developing studio apartments.

Operation and management

Engage high-performing rental property managers with a track record in relational management, rent payment flexibility, and demonstrated effectiveness engaging low-income households. Operators should pay special care to development of tenant selection criteria to prevent discrimination, and to meet goals of reducing racial disparities in housing. Consider nonprofit and government ownership status (such as ability to operate non-income-generating property).

Finance

Seek patient / non-amortizing capital, requiring minimal layering, and allow sufficient reserves; work with existing funders to explore removing barriers to SRO eligibility and competitiveness; recognize the impact of property taxes on feasibility and seek alternatives.

Single Room Occupancy Task Force

A safe and affordable place to live is the foundation on which our residents build healthy lives and contribute to their communities. Unfortunately, that reality remains out of reach for many:

- There are 73,660 Hennepin County households with incomes below 30% of the area median, and only 14,192 housing units affordable to them.
- Three out of five Hennepin County households with incomes below 30% of the area median pay more than half of their monthly income toward housing costs, making it hard to cover basic needs such as transportation, food, and health care.
- People of color disproportionately have incomes below 30% of the area median, with African Americans and American Indians four times as likely as White households to have extremely low incomes.

Single room occupancy presents an opportunity to provide a mostly missing product in the affordable housing continuum – independent, stable, and dignified housing that is affordable to people with income below 30% of the area median, ideally without the need for additional rental subsidies.

Who

Resolution 20-049R1 (Appendix A) emphasized the importance of including the expertise of the construction and development industries, our municipal partners, and property managers in increasing the production of SROs. Task force members with a broad range of expertise and experience were selected.

What

The task force convened in December 2020. They set a goal to develop strategies to create and support single room occupancy housing. If successful, the Task Force would facilitate and incent re-introduction of this deeply affordable housing type into the regional housing continuum.

Specifically, they endeavored to:

- understand forces that minimized SROs mid-century, and how they could reduce homelessness, decrease service costs, and support economic inclusion, to inform community and new options
- identify neighborhoods where SROs are most needed (e.g., service sector jobs, transit)
- identify types of existing properties that could be converted or rehabilitated;
- develop design ideas for durable construction of housing that can be operated efficiently and that complement their cities and neighborhoods;
- recommend effective municipal zoning changes for key geographies;
- present viable and innovative financial models regarding ownership and financing of capital costs; and
- define effective operation and management of deeply affordable housing.

How

The task force met monthly through August 2021, organized around the following topics: defining single room occupancy and intended occupancy; locations; zoning, licensing, and code; construction, renovation, conversion and design; management and ownership, and finance. For each topic, relevant task force members completed research, often engaging additional subject matter experts, then shared findings at the monthly meeting for discussion and recommendations. Draft findings were shared with stakeholders (i.e. municipal staff, affordable housing developers, and people with lived experiences of homelessness; Appendix B), then finalized for this report.

Background

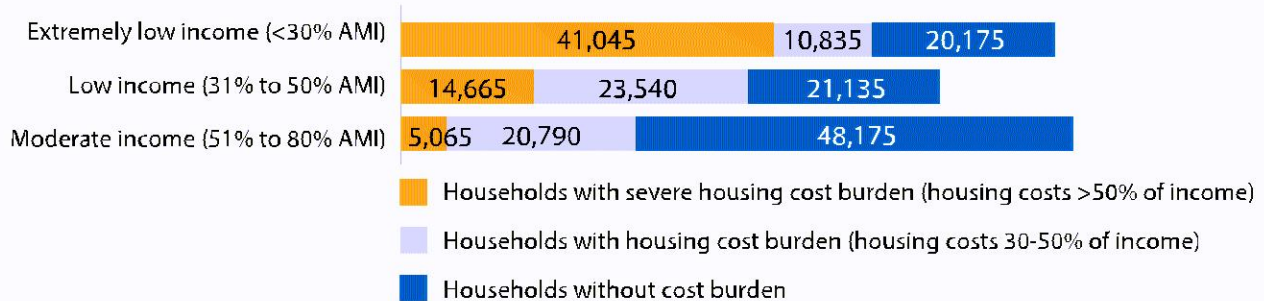
Nearly 500,000 households live in Hennepin County. Almost 1/3 of them are considered housing cost burdened, which means they spend more than 30% of their income on housing costs. When people are housing cost burdened, they may not be able to afford other basic needs like food, transportation, education and medical care.

People with the lowest incomes are more likely to be housing cost burdened and severely housing cost burdened (spending more than 50% of income on housing costs). Of the 72,000 households with extremely low incomes, 57% are severely housing cost burdened. In comparison, only 7% of households with moderate income are severely housing cost burdened.

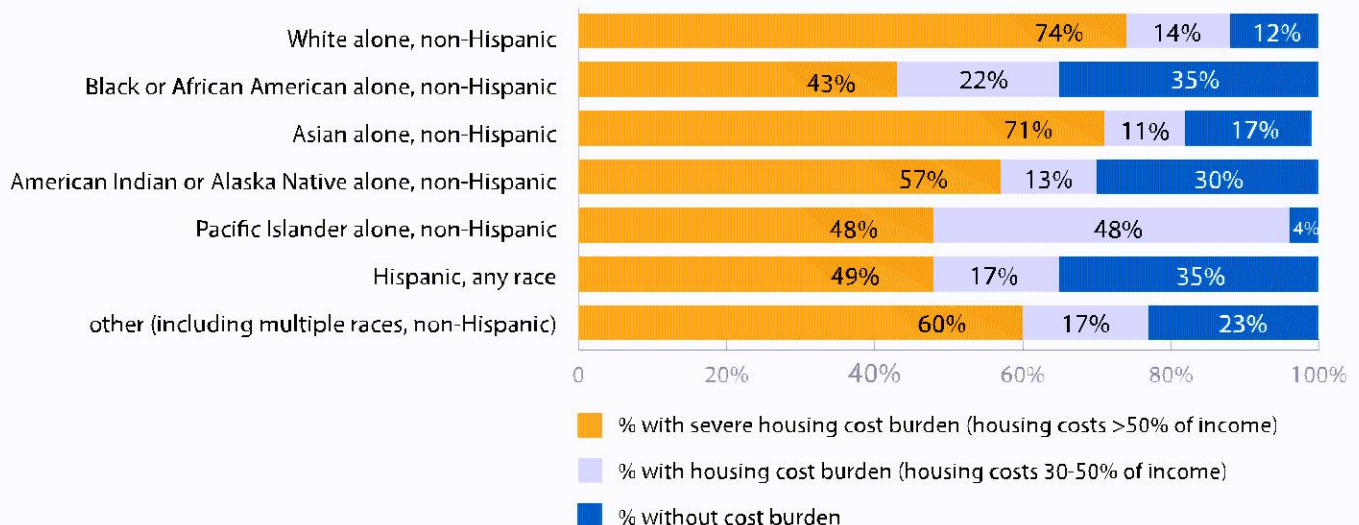
Extremely low income refers to less than or equal to 30% of the area median income (AMI), or up to \$22,055 for a single-person household. Moderate income refers to 51-80% AMI, or \$36,750 to \$55,950 for a single-person household.

While many factors contribute to housing affordability challenges, we know that housing costs are increasing, while incomes are stagnant or decreasing. Median rents increased 17 percent from 2000 to 2019 while renter incomes only rose 3%. The number of housing cost burdened households in Hennepin County is growing.

One-third of Hennepin County households cannot afford their housing



People of color are disproportionately impacted



People of color are more likely to be housing cost burdened. More than a third – or 35% – of Black and Latino households are severely household cost burdened, compared to only 12% of White households. This represents deep income disparities in Hennepin County, as well as compounding additional risk factors.

Finally, we see the similar disparities in rates of homelessness in Hennepin County. While Black individuals make up 36% of people in poverty in Hennepin County, and Native individuals only 2% of people in poverty, 58% of people experiencing homelessness in Hennepin County are Black, and 11% are Native.

The COVID-19 pandemic highlighted the weak spots in our region's affordable housing infrastructure, and then exacerbated them. People with low incomes, and Black, Indigenous, or People of Color – or BIPOC – communities were hit hardest financially. The pandemic increased the need to do more for our residents experiencing the starkest disparities in our community.

Hennepin County invests \$146 million every year along the continuum of affordable housing.

The county and Housing and Redevelopment Authority (HRA) direct \$146 million in creating homeownership opportunities for low income households, developing new affordable rental housing, preserving and improving the affordable rental housing we already have, collaborating with new partners to create supportive housing, and providing services to help people find and sustain housing. This also includes funding emergency shelter as a safety net when people lose their housing.

The county and HRA organize and focus these investments along our emergency shelter and housing continuum.

The county and HRA focus investments on households with extremely low incomes, or incomes below 30% AMI, as a way to decrease the number of people entering homelessness, and to increase the number of people who can exit homelessness into stable housing. In this way, the county and HRA address both income and racial disparities in housing cost burden, and create pathways to stability for all Hennepin County residents.

In recent years, the county and HRA have focused investments on households with lowest incomes. They created a supportive housing strategy to invest \$50 million over 10 years to create 1,000 units of supportive housing affordable to households <30% AMI, and tailored specifically to the county's priority population of vulnerable residents. They nearly doubled the Affordable Housing Incentive Fund (AHIF) from 2018-2021, allowing funds to create more units, and to create deeper affordability within projects. In 2021, the HRA piloted a 30% AMI unit subsidy to buy down rent levels even further. These investments will all open new doors starting in 2022 to help more people exit homelessness and find stable housing.

Hennepin's housing inventory is missing a key tool to help people exit homelessness.

And yet with all of this work, we're still not making a big enough impact on the volume of people experiencing homelessness in the county.

Every night, around 220 single adults in Hennepin's shelters have jobs and earn income, but they continue to stay in shelter for 5-6 years on average.

Individuals remain in shelter because a tool is missing from the housing continuum. When asked, this group says they stay because they can't find housing they can afford and that won't "screen them out" for their poor or lacking credit records, eviction records, criminal history, or other factors. They could afford housing subsidized by federal rent assistance, but they struggle to keep up with eligibility due to their fluctuating income, documentation status, and other barriers. Supportive housing programs would be more likely to overlook their credit, housing, and criminal histories, but then they would be taking a supportive housing unit from another person in shelter who could really use the services.

Source

Minnesota Housing Partnership 2021 Hennepin County Profile: <https://www.mhponline.org/publications/county-profiles/2021>

Single room occupancy housing

For many of these individuals, their best option is to receive help getting into a coveted “rooming house” – or single room occupancy housing (SRO) – where the rent schedule is flexible, the tenant eligibility is set by an experienced and relational landlord instead of by the banks and investors who own the building, and they have a key to their own room. Average tenancy in these “rooming houses” is four years.



The Drake Hotel, 2011

Single Room Occupancy (SRO) housing is multi-tenant housing with single room dwelling units rented as a primary residence. Food preparation areas and bathrooms are either in dwelling units or in common areas to be shared. SRO housing is typically created for residents with low incomes.

Some SROs and rooming houses were “grandfathered in” from the ‘70s. One key example was the Drake Hotel, which burnt down on Christmas Day, 2019. The Drake hosted the county’s overflow shelter for families, but was also home to dozens of individuals who had exited homelessness. The Drake offered an exit from homelessness with its low weekly rent, and its waiving of typical tenant screening processes due to its status as a hotel. When it burned, the county started to see how important this housing type was for the continuum, and how little of it existed throughout the county.

Why do people choose SROs as their homes?

A 2019 Minnesota Public Radio article interviewed several rooming house renters. Here’s what the renters said.

“It’s just for us, guys — minimum wage, physical labor guys.”

“Man, this is a \$1 million mansion to me.”

“I’m not the living at the Ritz, but this is my home. It’s very important. It’s like my stronghold. I sure do appreciate it. I’ll never let it go.”

Hennepin County housing spectrum



Increasing the inventory of SROs in Hennepin County could start undoing the damage that was done when these homes were destroyed 50 years ago. Successful implementation would create a stronger flow through our housing continuum, providing alternative housing for the working poor currently staying in shelter, freeing up shelter beds for more people staying outside, and preserving supportive housing units for people needing those services for stability. The need is now greater than ever to build up our affordable housing infrastructure to be more equitable and resilient than before the pandemic.

The seven disparity domains (education, employment, income, health, housing, justice, and transportation) provide a structure for us as an organization. We know that there are complex reasons that lead to residents needing our assistance. Our disparity reduction vision and supporting strategies are focused on proactively responding to the many challenges our residents face. Our work is intentional and comprehensive, driven by data, evidence, and community input. Our residents experience improved outcomes when our efforts are aligned and we collaborate within our organization, with partners and with the community. We cannot do this work alone, so these partnerships are critical to implementing meaningful and sustainable change in the lives of our residents.

Sources:

[The old 'flop house' emerges as solution to affordable housing crisis | MPR News](#)

Hennepin County analysis of Community Housing Affordability Strategy (CHAS) 2013-2017 data set, U.S. Census Bureau

Single room occupancy housing and tenants

In its first meeting, the task force invited David Hewitt, Director of Hennepin County's Housing Stability Department, to discuss populations most in need of basic, deeply affordable housing. The group identified a goal of housing people who are primarily in shelter due to economic reasons. Doing so frees up hundreds of shelter beds each night, making space for other people needing shelter.

Hennepin County's target population for single room occupancy housing: Single, transient workers experiencing homelessness

- Income 10-30% AMI (inconsistent work, disability benefits)
- Stay in shelter for 5-6 years because it's affordable without high tenant screening
- High concentration are experiencing chronic homelessness (homeless for three years in a row)
- Many have criminal backgrounds that are "screened out" by traditional tenant screening checks, even though [local data](#) and [federal guidance](#) demonstrate that these backgrounds are not correlated with negative tenancies
- Irregular income creates barriers for most rental subsidies
- Might have managed mental illnesses or chemical dependencies that do not require on-site supports

Single room occupancy housing: quality single rooms in multi-family projects or in single family homes.

- Single living units for 1-2 individuals (i.e. partners, siblings, at least 150 square feet)
- Shared kitchens, bathrooms can be shared or individual
- Permanent housing (no time limit, tenants graduate from their "homeless" status), often a stepping stone to other housing after tenants leave the SRO with a strong rental reference
- Independent housing (no on-site services, although tenants can engage their own services)
- No income-adjusted rent subsidies if possible, to reduce barriers for renters with fluctuating income and undocumented statuses. Flat / non-adjusting subsidies tied to the unit are preferable.
- Affordable to the target population, which is below 30% of the area median income. Work to restrain rent increases, but don't limit to the point of restraining property management

Case study: Stevens Square Residence

In 2020, Hennepin County purchased a former treatment facility to use for COVID-19 protective housing, then leased to Alliance to manage.

- 32 units, 170 square feet per room, fully furnished (bed, bedside table, desk, chair, wardrobe, some sinks)
- Rent of \$375/month
- On-site caretaker
- Tenants have average income of \$900/month (15% AMI)
- Many renters aspired to studios/one-bedrooms, but couldn't have accessed them

Findings

Define "single room occupancy housing" (SRO) as:

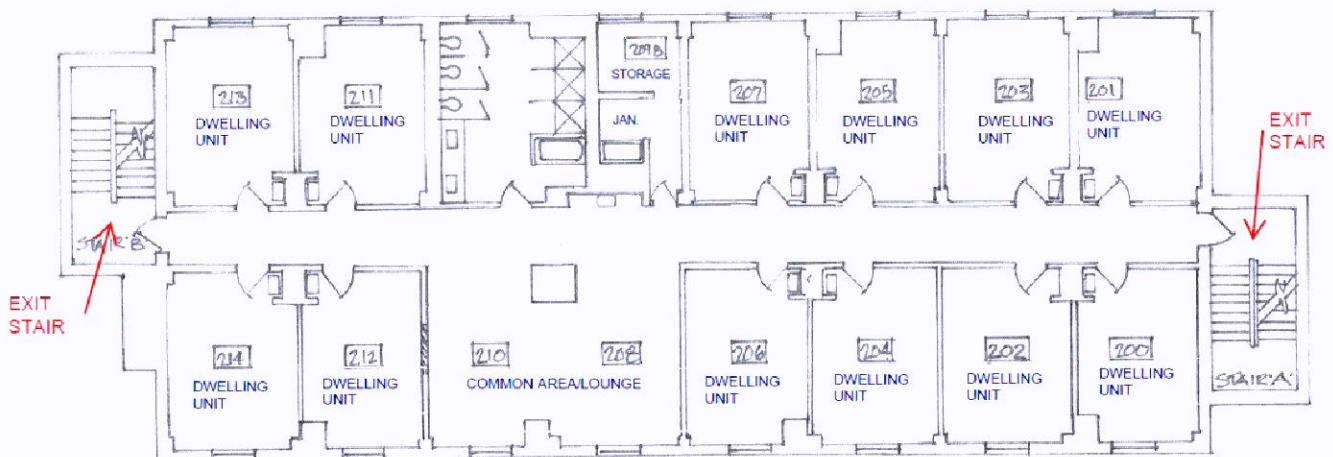
- multi-family or converted single family homes with quality single rooms, shared kitchens, and shared or individual bathrooms,
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- without on-site services or, if possible, income-adjusted rent subsidies.

Sources:

<https://www.wilder.org/wilder-research/research-library/success-housing-how-much-does-criminal-background-matter>

https://www.hud.gov/sites/documents/HUD_OGCGUIDAPPFHASTANDCR.PDF

Stevens Square Residence floorplan



Location

To discuss how to best site single room occupancy housing, the task force invited Ryan Kelley, Transit Oriented Development program manager. Ryan shared concepts and best practices in transit-oriented design, livable and walkable communities, and place-based strategies for workforce development.

The group identified these key location priorities for people exiting homelessness while working low-wage and/or transient jobs.

Access / transit

- Consider transit other than BRT and LRT station areas; consider express or high-frequency transit, and bike/walk routes.

Jobs

- When considering type of job activity center, look for jobs accessible to SRO tenants (entry-level).
- Siting near commercial nodes creates access to those retail/low-skill jobs, along with the benefit of goods and services.
- Avoid locating close to jobs but nothing else.

Livability

- Match the development type/size to the neighborhood - incorporate smaller-scale housing in single family neighborhoods to ease support from community.
- Ensure nearby amenities such as stores and resources preferred by the future renter.
- Site in and near commercial nodes, including in the transition zone between commercial and single family neighborhoods.

Overall

- A combination of helpful transit access, jobs, and livability is more important than having perfect transit access, jobs access or livability without the other two factors.
- Ideal: a residential neighborhood near a commercial node with convenience stores, on high-frequency transit or bike trail.
- Share the concept and benefits of single room occupancy housing with cities to identify shared priorities and ideal locations.
- Create a map of opportunity areas as a toolkit for developers and cities.

Location findings

Site projects in and near commercial nodes near stores and resources utilized by the target renters, including but not limited to locations that have high-frequency transit access, with the development type/size fitted to the neighborhood.

Zoning and Code

Before the task force was created, the City of Minneapolis had started exploring a single room occupancy ordinance. Amber Turnquist from Minneapolis' Regulatory Services presented the draft Ordinance and its background to help the group develop recommendations.

Barriers to SRO development in current zoning and code environment

- The federal Department of Housing and Urban Development (HUD) [requires SRO units](#) to be at least 110 square feet, but many cities require 300-400 square feet per unit, requiring additional development subsidy and operating cost.
- Some cities limit the number of unrelated people that can live in a single family home, preventing use of single family homes for SRO.
- Converted non-residential buildings must complete additional repairs to meet fire code, accessibility requirements.
- Some cities have parking requirements which are not relevant to SRO target populations that largely use bus, bike, or walk transit.
- While some requirements are waived for "supportive housing" or "institutional settings," SROs do not always meet either criteria.
- Some current zoning doesn't meet findings from Location section (i.e. no transit access, no jobs, no integration with residential neighborhoods or local amenities).
- Review and approval is required from multiple governmental groups, posing challenges to navigate any given project proposal through zoning, building code, and licensing, including developing new interpretations of codes for innovative uses.

Designing to meet current zoning and code

- Smaller projects with smaller number of units avoid some requirements.
- Consider new construction versus conversion: New construction projects may meet code requirements in a more cost-effective way, while conversion projects may be "grandfathered" for a waiver.
- When converting, develop to meet the building's existing use or license where possible (e.g., commercial kitchen).
- Look for cities that allow "group housing" within their zoning codes. Group housing is treated differently than multi-family across jurisdictions, especially when building code heavily influences zoning.

Developing new zoning and code to support greater affordable development

1. City staff and elected officials, developers, residents, service providers, advocates, and other stakeholders work together to create a shared definition of SRO for their city, including goals and target tenants.
2. Identify the types of buildings in that city that could be converted (e.g., single family homes, hotels, offices), and/or neighborhoods where new projects could be built.
3. Identify the existing local regulations that must be upheld for health and safety of tenants (i.e. fire code, accessibility), and which can be waived to move toward greater affordability (i.e. unit size, parking requirements); and also identify elements of the state building code that cannot be waived.

4. Use the above to develop an effective ordinance and zoning that works for the community.
Effective practices:
 - Limit occupancy to 2/room
 - Making the SRO use permitted, rather than conditional
 - Allow multiple unrelated individuals to live in single family housing
 - Allow SROs wherever multi-family housing is already allowed (i.e. 4+ units per lot), and expand the amount of land where multi-family housing is allowed
 - Require rental licenses, and add a SRO section
 - If limiting ownership/management eligibility, focus on past performance
 - Identify key municipal staff experts to navigate SRO development through approvals
5. Barriers to development of safe and dignified SRO development stemming from building code should be shared with the State Department of Labor and Industry for consideration.

Findings

Design to meet current zoning and code, and collaboratively design municipal SRO ordinances which:

- Ensure health and safety of SRO tenants, and remove all other barriers to developing SRO housing
- Create a rental license for SRO housing
- Limit SRO ownership/management to high-performing rental managers
- Allow SROs in districts allowing multi-family housing, and expand multi-family housing districts
- Designate a municipal team for SRO development review and approval

Source:

https://www.hud.gov/sites/dfiles/PIH/documents/Special_Housing_Types_Updated_November%202020.pdf

Construction and design

By April 2021, the task force was fully applying new findings to earlier topics, already using an iterative process to create the full set of findings. The zoning and code discussions clarified the definition of single room occupancy housing, the location discussions informed financing deliberations, and each meeting touched on design options. Throughout, the task force remained centered on their goal of creating dignified, independent housing options for people working low-wage jobs while staying in shelter. This tangible goal energized the group, and focused development of recommendations.

Task force members Todd Novak (RSP Architects), Keon Blasingame (LSE), Maureen Michalski (Ryan Companies), and Brent Webb (Mortenson) were joined by Eric Engh (Ryan Companies) to provide design, construction, and conversion options for single room occupancy housing.

New construction versus rehab/conversion

Single room occupancy housing is typically created by converting existing properties such as large single family homes and group housing. It can also be developed from faith-based structures (i.e. rectories, church schools, monasteries). While cost is only one consideration in designing quality, dignified independent housing for people exiting homelessness, it is a crucial factor. Overall, total development cost should be less than for developing studio apartments.

Rehabilitate and/or convert existing buildings

Pros

- Lower soft costs for converting group housing or hotels due to no / minimal required zoning change
- Some requirements waived if total rehab under threshold
- Greater speed to market, and lower rehab costs, if converting quality-built hotels or group housing needing fewer repairs and updates

- Currently licensed buildings might be in better shape than unlicensed ones due to the government oversight

Cons

- Older buildings may need too many improvements from deferred maintenance
- Complete guts are more expensive than lighter rehab (new roof, drain leaders, brick fixes, structural enhancements, etc.), can require environmental mitigation, and can trigger further municipal requirements (i.e. elevators) if over 40% of value



Conversion of a 2 unit Row House to SRO in Los Angeles, credit: https://planning.lacity.org/eir/nops/713_E_5th/InitialStudy.pdf

New construction

Pros

- Design to meet code
- More easily meet design specification such as bathrooms, windows, kitchens

Cons

- New construction can be more expensive than complete gutting for conversion, requiring more government sources and commensurate soft costs
- More soft costs for zoning, regulations

Cost ranking of SRO development options: New construction SRO

Most expensive, multiple year development periods, high construction and soft costs



Least expensive, quickest speed to market, lowest construction and soft costs

Modular construction

Single room occupancy housing is ideally suited to modular, given that the small size of the rental unit will be very well matched with the constraints of the modular unit. Currently, at a small scale (e.g., one customized 40-unit building), modular construction is likely more expensive than traditional due to machine fitting and assembly space needs. Modular should be further explored as an option, for example getting to scale and efficiency by developing several of the same projects. Project teams should watch modular closely as it might be a very viable, and potentially cheaper, construction method in one to three years.

Design elements for value and long-term stability

Consult with the local municipality and neighborhoods on goals and needs. Use those goals and needs to weigh considerations around building and unit size, building amenities, and location.

- **Habitability.** Meet basic health and safety requirements, such as [HUD's Housing Quality Standards](#) for single room occupancy housing.
- **Size:** 10-60 units. Projects struggle to cash-flow with fewer than 10 units; projects with many more than 40 units are challenging to manage.
- **Durability of construction.** Hotels are not built for long-term durability, and many older residential buildings have extensive deferred maintenance. Either select durable buildings for conversion, build new with an eye on durability, or invest in fully rehabbing older buildings.
- **Use existing excess elevator shafts** (e.g., in hospitals, office buildings) for mechanicals and air filtration.
- **Seek buildings with existing bathroom groupings and kitchen spaces** (e.g., office buildings, hospitals, schools).
- **Focus on design to make the housing a positive experience.** People tend to take care of their spaces when they feel ownership and can have agency (e.g., adjustable temperatures, operable windows).

Findings

Prefer existing mid-sized newer hotels, motels, and office buildings in existing appropriate zoning if possible; renovation likely includes repairs and updates to meet basic federal habitability requirements, cover deferred maintenance, and conversion to “housing” units. Conversion design would benefit from early involvement from experienced operators and future renters to identify key livability needs. Total development cost should be less than for developing studio apartments.

Source:

https://www.hud.gov/sites/dfiles/PIH/documents/Special_Housing_Types_Updated_November%202020.pdf

Operation and management

To learn how to effectively manage and operate single room occupancy housing, the task force asked members Barb Jeanetta (Alliance Housing) and Abbie Loosen (PPL) to present case studies and lessons learned on projects similar to SROs. The task force discussed Stevens Square Residence again, as well as Alliance's 2011 Pillsbury Ave, and PPL's Elliot Park Commons and Affirmation House.

In this conversation, it became clear that SRO operation is extremely specialized. Operating an SRO requires an entity that can execute and balance two responsibilities:

- Maintain largely older buildings with a high wear and tear due to the occupant density, and with tight cashflow.
- Engage and partner with tenants with limited rental experience who are sharing kitchens and bathrooms.

Lessons learned

Management qualifications

- Experience with and commitment to very low income households and others who have barriers to housing market such as criminal histories, poor credit and housing histories, and fluctuating incomes
- Affordable and supportive housing management experience
- On-site caretaker, preferably with lived experience with homelessness/housing instability, to have regular check-ins and address concerns right away
- High track record of effective rental property management, such as through the city's rental licensing inspection process (i.e. Minneapolis "Tiers")

Management style

- Hands-on and relational: Focus on coaching on tenancy and "house rules," turning behavior around, eviction-prevention planning, and mutual terminations (instead of evictions)
- Projects could provide additional support such as service referrals and conflict resolution if available within the operating budget.
- Month-to-month leases to benefit both the management and renter
- One lease per adult tenant
- Develop "house rules" together with tenants to guide any quiet hours, restrictions on drug or alcohol use, pets, and guests, or other project-specific shared rules

Tenant selection

- Define the target population with guidance and approval from funders, the city, and other stakeholders.
- If referrals from the Coordinated Entry System are not required, work with local shelters and Continuum of Care to promote to people experiencing homelessness and the programs supporting them.
- Create plain-language materials to describe the project, including details and photos of the neighborhood, entry, living units, and shared spaces. List details such as lack of on-site services, any house rules, and any automatic disqualifiers for tenancy.
- Consider posting vacancies on housing search sites such as HousingLink.
- Set an income cap of 30% of the area median income for the beginning of tenancy, in addition to any other funder requirements.
- Limit additional automatic disqualifiers to those required by funders, regulators, and insurance. Consider recommendations on tenant selection criteria from the "[Success in Housing](#)" study and [HUD](#), which are to limit use of criminal histories in tenant selections, due to documented discriminatory effects.

Management and operating structure

- As noted earlier, if limiting ownership/management eligibility, focus on past performance. For example, limit SRO ownership to entities whose current rental properties all meet the highest performance criteria (i.e. Minneapolis' "Tiers")
- Tenant rents cover 90-95% of operating costs. Because of this, creating SRO housing for 30% AMI will likely be most appealing to non-profits. Non-profit status also allows properties to fund-raise to cover shortfalls.
- Situating an SRO development within a larger portfolio can help the owner absorb losses

Findings

Engage high-performing rental property managers with a track record in relational management, rent payment flexibility, and demonstrated effectiveness engaging low income households. Operators should pay special care to development of tenant selection criteria to prevent discrimination, and to meet goals of reducing racial disparities in housing. Consider nonprofit and government ownership status (such as ability to operate non-income-generating property).

Sources:

<https://www.wilder.org/wilder-research/research-library/success-housing-how-much-does-criminal-background-matter>

https://www.hud.gov/sites/documents/HUD_OGCGUIDAPPFHASTANDCR.PDF

Finance

The task force made recommendations regarding how to finance capital and operating budgets of single room occupancy throughout nearly all discussions. Overall, the total development cost (TDC) should be less than for developing studio apartments, and should avoid complex subsidy layering. The task force used an assumed development budget of \$150,000 per unit to convert an existing building, based on the average TDC/unit for the four properties acquired and rehabbed by the county in 2020.

Since the properties create minimal cash flow, if any, they cannot support amortizing debt, and do not create much profit. They therefore need reserves capitalized and/or pooled across a portfolio, and sometimes also shallow and flat subsidies to cover gaps between operation and rents. Funders must analyze and underwrite SRO projects with those tenets, and must provide special financing treatment to SRO projects create the public good. To meet those criteria, projects must 1) leverage existing funding, 2) advocate to remove barriers from that funding, and also 3) seek new types of funding.

First: Leverage existing funding programs to the extent feasible

- The most feasible best funding sources are local soft government funds, and housing infrastructure bonds.
- Low-income housing tax credits, historic tax credits: inefficient and cumbersome for most SRO development expenses
- Soft government funds (Affordable Housing Trust Funds, Hennepin's Affordable Housing Incentive Fund): Can largely be used for SRO construction, renovation, subsidies or rental assistance, and reserves
- Federal Housing and Urban Development funds: Can provide rental assistance or flat project-based subsidies; inefficient and cumbersome for most other SRO development expenses
- Housing infrastructure bonds: Can largely be used for SRO construction and renovation

Second: Partner to remove barriers from funding programs

- Minimize the need for layering funding, in order to reduce the subsequent legal fees, delayed closings, and compliance monitoring. Could include:
 - Remove limits on program funding allowed per housing unit, in order to allow flexibility for high impact SRO projects
 - Reduce or remove requirements for projects to leverage other funding
- For funding programs' goals and requirements not tied to affordability, apply only to projects sized large enough to significantly impact the non-affordability goal without significantly burdening the affordability goals.
- Allow design standards set out in this SRO task force findings report, waiving building requirements not required by state building code or local zoning

Third: Seek new types of funding for the remaining gap

- No amortizing debt
- Focus on construction and renovation costs, also allow fast/flexible acquisition funding, operating subsidies, reserves
- New funds could include new rent assistance, new government-issued bonding, and/or sales tax proceeds

Findings

Seek patient / non-amortizing capital, requiring minimal layering, and allow sufficient reserves; work with existing funders to explore removing barriers to SRO eligibility and competitiveness; recognize the impact of property taxes on feasibility and seek alternatives.

Appendix A: Resolution 20-0429R1

Board Action Request

Item Description:

Creation of a Hennepin County Single Room Occupancy Task Force - offered by Commissioner Opat

WHEREAS, there are 73,660 Hennepin County households with incomes below 30% of the area median, and only 14,192 housing units affordable to them; and

WHEREAS, three out of five Hennepin County households with incomes below 30% of the area median pay more than half of their monthly income toward housing costs, making it hard to cover basic needs such as transportation, food, and healthcare; and

WHEREAS, people of color disproportionately have incomes below 30% of the area median, with Black and Native households four times as likely as white households to have extremely low incomes; and

WHEREAS, subsidizing the cost of building traditional housing is insufficient to make it affordable to someone with income below 30% of the area median without additional rental subsidies; and

WHEREAS, single room occupancy buildings can provide independent, stable, and dignified housing that is affordable to people with income below 30% of the area median, often without the need for costly development or rental subsidies; and

WHEREAS, a safe and affordable place to live is the foundation on which our residents build healthy lives and contribute to their communities; and

WHEREAS, Hennepin County recognizes the importance of including the expertise of the construction and development industries, our municipal partners, and property managers in designing programs and initiatives that will promote housing affordability.

Resolution:

BE IT RESOLVED, that the Hennepin County Single Room Occupancy Task Force is hereby created. The purpose of the Task Force is to develop strategies to create and support single room occupancy housing. The Task Force will:

- identify types of existing properties that could be converted or rehabilitated;
- develop design ideas for durable construction of housing that can be operated efficiently and that complement their cities and neighborhoods;
- recommend effective municipal zoning changes;
- present viable and innovative financial models regarding ownership and financing of capital costs; and
- define effective operation and management of deeply affordable housing.

The Task Force roster is attached and consists of members chosen for their affordable housing development and/or management experience. Members represent the housing construction industry, affordable housing developers and property managers, and municipal partners expert in zoning matters. The Single Room Occupancy Task Force shall be staffed by the Housing and Economic Development Department, and will meet at least monthly through September 2021; and

BE IT FURTHER RESOLVED, that the Single Room Occupancy Task Force Roster is approved; and

BE IT FURTHER RESOLVED, that the Single Room Occupancy Task Force will present a summary of their work and recommendations to the Housing and Redevelopment Authority by October 1, 2021.

Background:

Current request

Authorize establishment of a Single Room Occupancy Task Force to present recommendations to the Housing and Redevelopment Authority by the end of September, 2021.

Impact

Creation of this Task Force effort will facilitate and incent re-introduction of this deeply affordable element into Hennepin County's housing continuum.

Hennepin County Single Room Occupancy Task Force Roster

Hennepin County Housing
and Economic Development:
Julia Welle Ayres, Chair

Supportive Housing Developer/Operator:
Steve Horsfield, Simpson Housing Services

Affordable Housing Developer/Operator:
Mike Goze, American Indian Community
Development Corporation Affordable Housing

Developer/Operator:
Barb Jeanetta, Alliance Housing

Affordable Housing Developer/Operator:
Abbey Loosen, Project for Pride in Living

Municipal partner: Amber Turnquest,
City of Minneapolis

Municipal partner:
Kimberly Berggren, City of Brooklyn Park

Architect:
Keon Blasingame, LSE

Architect:
Todd Novak, RSP Architects

Construction:
Brent Webb, Mortenson

Construction:
Maureen Michalski, Ryan Companies

Appendix B: Stakeholder input

In addition to ongoing input from the task force, input was solicited in these ways:

- Listening session hosted over Microsoft Teams on August 5. Audience: Cities, developers, service providers, advocates
- Listening session hosted at Central Lutheran Church on August 19 for Street Voices of Change, a local advisory group made up of people with lived experiences of homelessness
- Listening session hosted over Zoom on August 23 for Freedom from the Streets, a local advisory group made up of people with lived experiences of homelessness

Below, input from people with lived experience of homelessness is denoted with an asterisk (“*”).

Single room occupancy housing and tenants themes

- Set rents based on amenities. *
- Set rents to be affordable to incomes in shelter, and keep them that way*
- Will there be options for people on GA / with no income?
- Will food be supplied like at Avivo Village?
- Will renters remain eligible for homeless-designated housing? Or be expected to move towards living in an apartment vs living in SRO indefinitely?
- Standardize the SROs [in order to get county approval/funding], e.g. items provided in units, habitability standards
- Create an “intake” process to connect new renters with services and resources they might need (i.e. case management, budgeting*)
- Screen out people with MI/CD, and refer to supportive housing instead*
- Not good for children; allow couples*

Location themes

- Downtown is best because there are bus lines to get everywhere on time. Near north is also good. *
- Stay away from crime / drug sales. Look at emerging job districts.*

Zoning themes

- Love the idea of this in complete neighborhoods
- One issue with SF home might be definition of family / number of unrelated individuals allowed in a units

Design themes

- Better to have own bathrooms and kitchens so people have less to fight about*
- Can you integrate SRO units into mixed income projects?
- I like the idea of retrofitting a SF home.
- Require individual, locked mailboxes*
- Provide basic furnishing (bed, bed cover, dresser) - adds to that sense of “home” and basic dignity.

Operations/management themes

- Set expected living standards to hold tenants accountable once in the housing.*
- How will the shared kitchen work?
How will cleaning duties be determined?
How will you address too many cars at one home?
Will substance use/tobacco use be allowed?
Will occupants be allowed to have guests - including overnight guests?
- Create a variety of environments: some dry, some with guests, etc.
- With SROs not including support, why focus on “proven owners”?
- Find operators with experience being homeless / working with homelessness, and whose staff are diverse*
- Operators should be reputable, and should meet required qualifications*
- The caretaker needs to be able to handle unrest among the renters*.

- Have 1 lease per person (as opposed to a shared lease)
- Will the Caretaker receive discounted rent?
- Educate tenants on Tenants and Landlords Rights and responsibilities.
- Security on site?
- Month-to-month leases are good*
- Will there be men in one building/ floor and women on another?
- The Operator should be required to make fixes within a certain amount of days.*
- Add tenant selection plan tool kit
- Will “proof of vaccination” be required?
- How would you make sure that the renters are the target demographic? / Are college students?
- Will there be ways for people to access this type of housing outside of the Coordinated Entry system?
- Proof of income is a huge burden on renters! / Should meet income cap requirement on entry, but not on-going.
- Promote the units in a way to make them accessible to the target population
- Ensure that folks want shared living before moving in*
- Create a shared application across many properties with eligibility plus preferences. Post on HousingLink.*

Finance themes

- How much have you coordinated with other funders?
- If tenant rents cover 90% of operating cost, where do you see providers getting the additional 10%?
- Will the operating cost include not just direct staffing but also some and some level of overhead from the organization?
- Can ARP funds be used to purchase/convert more buildings?

Appendix C: More examples of SRO's

Row House to SRO Conversion

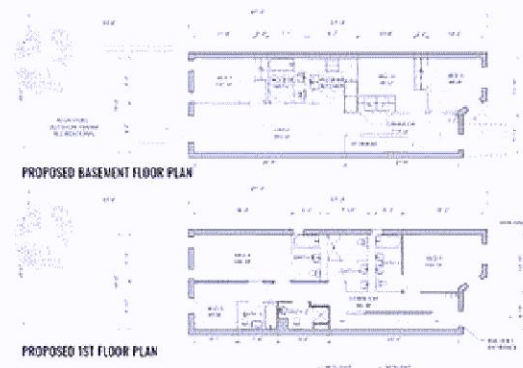
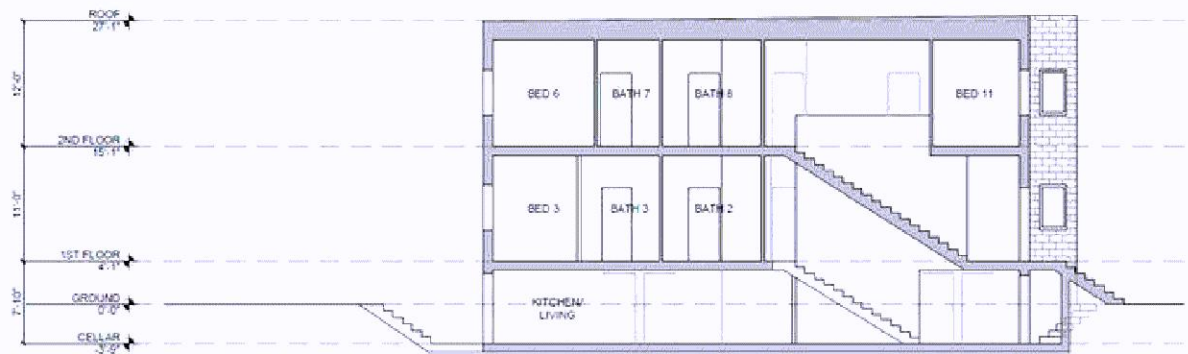
<https://anhd.org/blog/resurgence-single-room-occupancy-housing-affordability>

Model for conversion of 2 unit Row House to SRO

- New York City, NY
- 11 Single Room Occupancy Units

Considerations

- Existing building re-use
- Less invasive Rehab
- Model replicable
- Existing tenants maintained



Historic Hotel to SRO Conversion

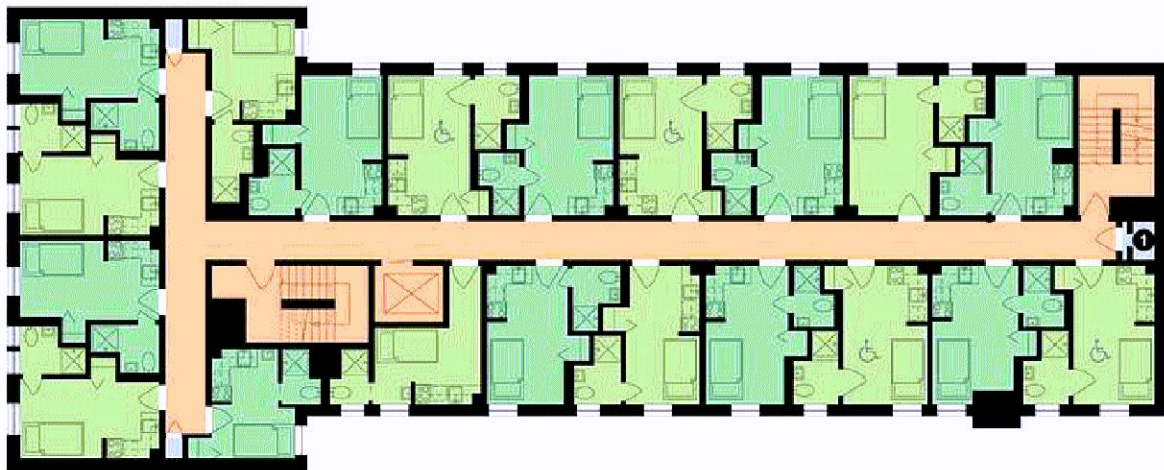
<https://www.landonbonebaker.com/work/los-vecinos-sro/>

Gut Rehab from Hotel to SRO and Services

- Chicago, IL
- 62 Single Room Occupancy Units
- Community Space/ Service Training
- 24/7 onsite staff

Considerations

- Existing building re-use
- Location and acceptance of "Hotel"
- Building arrangement well suited for conversion to SRO
- Complete Gut, given age of building



Office Conversion to SRO

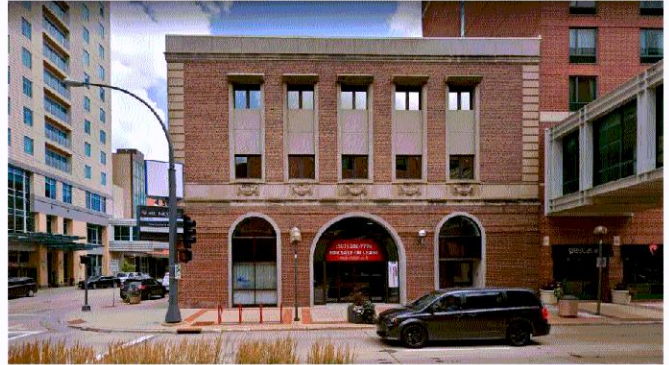
RSP Project

Conversion of vacant office building to housing

- Rochester, MN
- Project Designed as affordable housing but well suited as SRO

Considerations

- Building reuse
- Building shape/ structure well suited to rehab
- Existing elevators (over elevated)
- Removal of elevator allows new vertical chase
- Minimal gut due to TI
- New Mechanical



New Hotel to SRO Conversion

<https://www.affordablehousingpipeline.com/blogs/california-affordable-housing/hillview-court-milpitas>

<https://cdn.shopify.com/s/files/1/0072/3019/3782/files/jamboree-hillview-court-community-meeting-milpitas-ca-102220.pdf>

<https://www.sanjoinside.com/news/project-homekey-funds-motel-to-housing-conversion-in-milpitas/>

Adaptive Reuse of an extended Stay of America

- San Jose California
- 132 single room occupancy units
- 6,000sf of community space
- 24/7 on-site staff

Considerations

- Speed to market (conversion took approximately 2 months)
- Age of building meant most components complied with code
- Minimal construction changes



Office Conversion to SRO

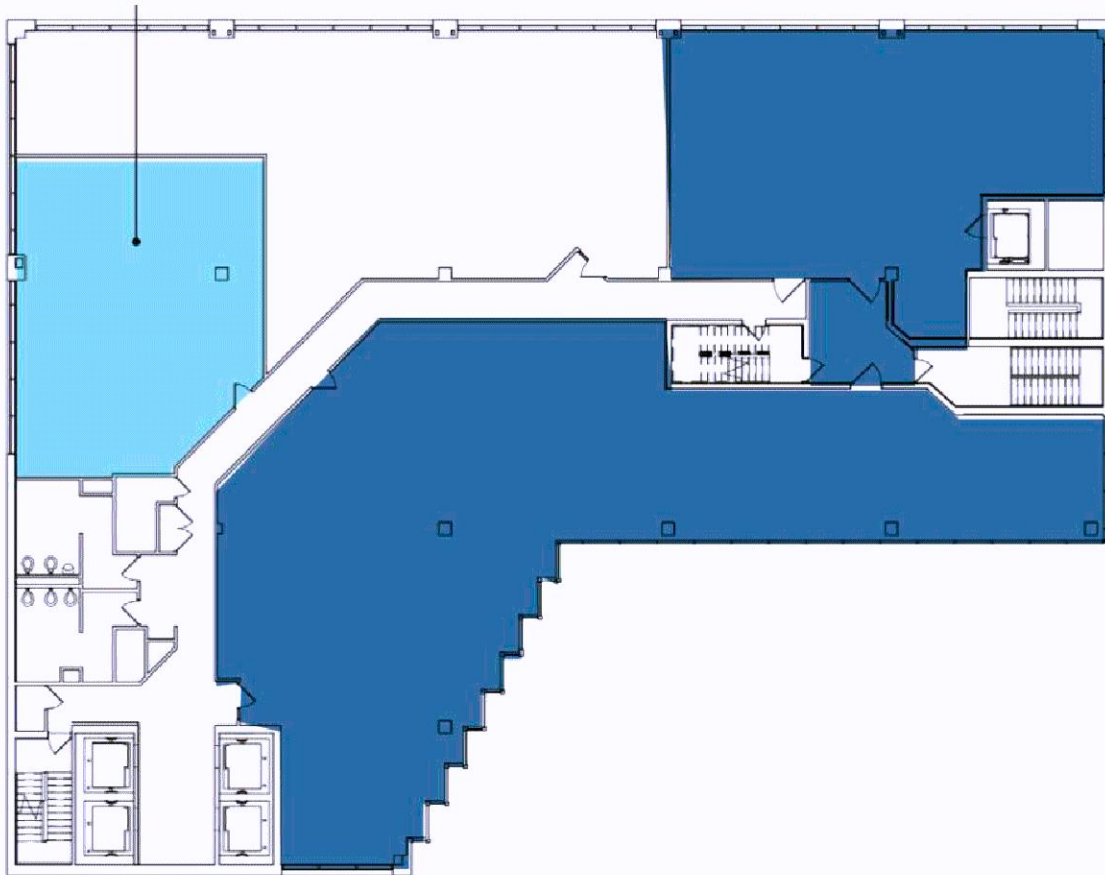
RSP Project

Review of office building to housing conversion

- Duluth, MN

Considerations

- Building reuse
- Building shape/ structure well suited to rehab
- Existing Elevators (over elevated)
- Removal of elevator allows new vertical chase
- Existing bathroom group & plumbing
- Minimal gut due to TI
- New mechanical



Hospital Conversion to SRO

RSP Project

Adaptive reuse of former 1960's Hospital to housing

- Ft Worth, TX
- Project Designed as Market Rate but well suited as SRO

Considerations

- Building reuse
- Building shape/ structure well suited to rehab
- Complete gut
- Cost



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Hennepin County
Housing and Economic Development
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