

2014

Santa Monica Rent Control Board



2014 Consolidated Annual Report

Status of Controlled Rental Housing
Impact of Market-Rent Vacancy Increases
Impact of the Ellis Act

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Introduction

For the Rent Control Agency in Santa Monica, 2014 was another busy year. The Agency provided direct services to the residents and owners of more than 28,000 controlled rental units, mailed periodic newsletters to all tenants and owners, and offered a series of seminars on topics of interest to the community.

One highlight of the Agency's public outreach efforts was a joint seminar offered with the Consumer Protection Division of the City Attorney's Office. On a rainy morning in December, more than 100 people attended the workshop which covered "hot topics" in Santa Monica landlord-tenant law. Given the positive response to the presentations and the number of questions posed by audience members, we plan to offer this seminar on an annual basis. The 2015 presentation will be taped for broadcast on City TV, so people who are unable to attend can share in the information provided.

The challenges posed by the slow erosion of rent controlled units occupied by tenants who moved in before vacancy decontrol continued. Market-rate rents established for new tenants in 2014 were the highest since full implementation of the Costa-Hawkins Act in 1999. The pressure resulting from ever-increasing market-rate rents has resulted in an increase in the number of tenants complaining of feeling harassed by actions of their landlords. Following hearings at Rent Control Board and City Council meetings in which tenants testified about their individual experiences, the City Council strengthened the Tenant Harassment Ordinance and clarified behaviors that can be considered harassment.

During 2014, the Rent Control Board developed and proposed to the City Council a ballot measure that would establish a maximum annual registration fee for controlled units and limit the amount that owners could pass-through to tenants to 50 percent of the fee. The City Council placed Measure FS on the ballot, and it was passed by Santa Monica voters in the November 2014 election.

Ellis activity showed signs of picking up in 2014 as compared to 2013. With 22 units completing the withdrawal process in 2014 and six previously withdrawn units returning to the rental market, there was a net loss of 16 rental units in 2014. Early indications for 2015 show that the improving economy is likely to result in significantly increased Ellis activity going forward.

Looking ahead, Santa Monica residents and property owners are likely to face new challenges in 2015. The historic drought has prompted the City Council to adopt a Stage 2 Water Shortage Response Plan that includes penalties for excessive water use. The Rent Control Board will consider how these penalties should be handled in controlled units. And, like many cities throughout California, Santa Monica will be looking at ways to enhance the safety of occupants living in buildings that may be susceptible to damage in the event of a major earthquake. Once the City Council develops a plan for retrofitting these buildings, the Rent Control Board will hold public hearings to consider if, and how, the costs of these improvements should be shared by property owners and tenants.

When questions about rent control arise, I invite you to contact us directly. I also hope you will use our frequently updated website or follow us on Facebook to stay apprised of the Board's work throughout the year ahead.

Tracy Condon, Executive Director
March 12, 2015

New Developments in 2014

Measure FS Passed, Resulting in the Following Changes:

- **Rent Control Board's Financing**

In November 2014, Santa Monica voters approved Measure FS and amended the City Charter to establish a maximum annual per unit registration fee that the Board can require property owners to pay. The City Charter continues to require the Board to set the fee each year at the level needed to finance its reasonable and necessary expenses, but it now caps the fee at a maximum of \$288. Based on current projections, increases to the registration fee will be modest, with the fee not likely to increase to the maximum of \$288 for at least a decade. Any increase above that amount will need to be approved by the voters.

- **Registration Fees to be Shared**

The City Charter now provides that owners may pass through one half (50 percent) of the registration fee to the tenants as a monthly surcharge on the Maximum Allowable Rent (MAR).

- **A Smaller Pass-Through for Tenants**

Beginning with the registration fee assessed in July 2015, the portion that owners may pass-through to tenants will go down. If the 2015 fee remains \$174.96 per unit, starting in September of 2015 the tenants' share will be a maximum of half that or \$7.29 per month.

The Board will determine the 2015 registration fee in June of 2015 when it adopts the fiscal year 2015/2016 budget.

Landlord – Tenant Forum Added to Annual Seminars

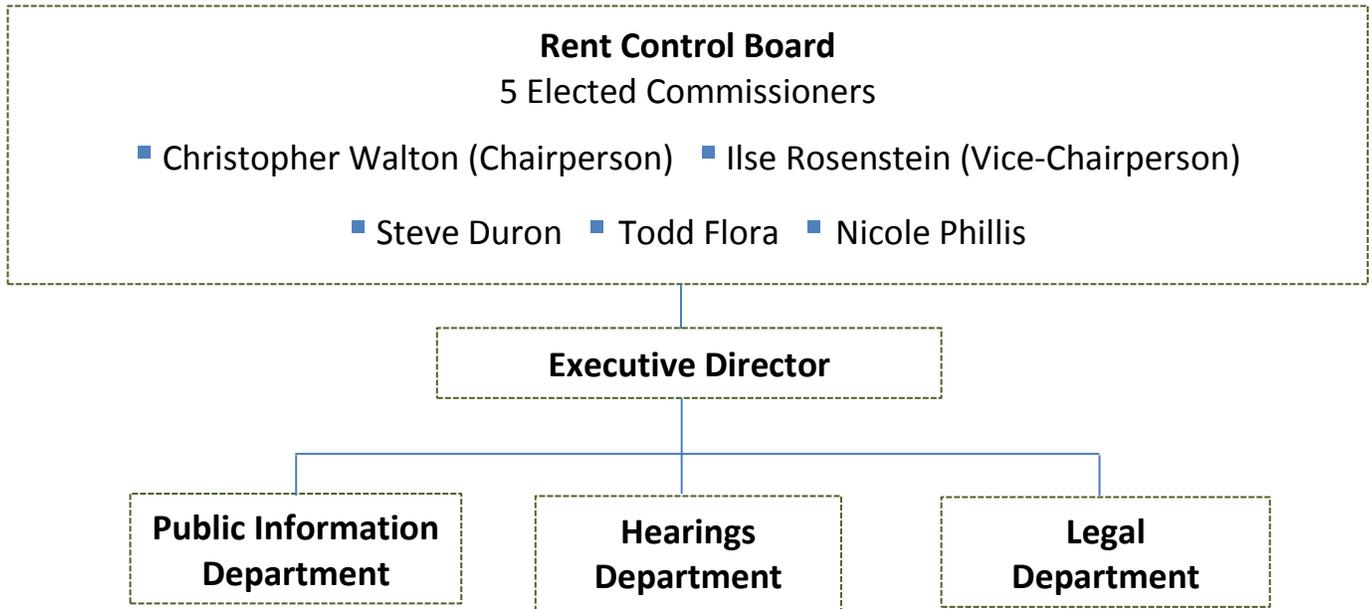
In 2014, the Rent Control Board added a joint presentation with the City Attorney's Office to its lineup of annual seminars. In December, more than 100 Santa Monica tenants, property owners and building managers participated in a lively workshop on "Hot Topics in Santa Monica Landlord-Tenant Law." Presentations by Adam Radinsky of the City Attorney's Consumer Protection Unit and Joe Jaurequi of the Rent Control Agency covered how California law affects a landlord's right to enter a tenant's unit, as well as a landlord's obligations regarding acceptance of rent. Also on the agenda was how Santa Monica law affects a landlord's right to offer tenants money to move out of their units; landlords' and tenants' obligations regarding repairs and maintenance of rental units; and eviction protections. Each topical presentation was followed by questions posed by workshop attendees.

2014 General Adjustment

Based on a Consumer Price Index (CPI) increase of 1.0 percent for the year ended March 2014, the Board announced a general adjustment of 0.8 percent for 2014. This was the second year that the formula approved by voters in Measure GA was applied, making the general adjustment equal to 75 percent of the change in the CPI, rounded to the nearest tenth of a percent. Following a public hearing on June 12, 2014, the Board decided to set a dollar-amount ceiling of \$14, according to the methodology prescribed in the Rent Control Law.

Administration

The Rent Control Board at a Glance



Rent Control Board Commissioners

The Rent Control Board is composed of five elected Commissioners who are responsible for exercising the powers and performing the duties under Article XVIII of the City Charter. The Commissioners typically meet one or two times a month in the City Council chambers at a scheduled public meeting. In 2014, the Rent Control Board convened 12 regular meetings and one special meeting.

Agendas for Board meetings are available in the office of the Rent Control Agency, on the Agency's website at www.smgov.net/rentcontrol and via e-mail for people who sign up for electronic communications. Board meetings are shown live on City TV and by webcast. An archive of past meetings is available online at our website.

The Executive Director

The Executive Director, who is appointed by the Board, oversees the day-to-day functioning of the Rent Control Agency, including: developing a budget; overseeing personnel, contracts and purchases; as well as assisting the Board in developing regulations to implement the Rent Control Law. The Administration

Department she oversees also provides direct support to the elected Commissioners by preparing agenda packages, scheduling Board meetings, archiving Board actions and processing correspondence for the Board.

The Administration Department also provides information technology and systems support to the Agency by maintaining the property database, website and software systems, as well as computer and peripheral electronic equipment.

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BOARD MEETINGS

Public Information Department

The Public Information Department responds to questions from the public about the Rent Control Law and the current status and history of specific controlled units. The department also informs the public about the Agency's services using a variety of media to reach all of the Agency's constituents. The department publishes semiannual newsletters and prepares an annual report for the Santa Monica City Council. It also updates the Agency's website and social media presence, and presents seminars for tenants, landlords, property managers, realtors and other interested members of the public.

Hearings Department

The Hearings Department is responsible for scheduling and holding hearings on tenant- and landlord-initiated petitions, conducting investigations and issuing recommendations and decisions. The department also handles mediation of decrease and excess rent cases and mediates other types of disputes between landlords and tenants.

Legal Department

The Legal Department advises the staff and Board regarding interpretations of the law and represents the Board in legal disputes to which the Board is a party. It prepares and presents staff reports on appeals of hearings and administrative decisions, as well as removal permit applications and exemption applications. It also drafts and updates regulations for Board consideration and adoption to implement the Rent Control Law.

Phone/Public Counter/E-mail Contacts with the Public in 2014

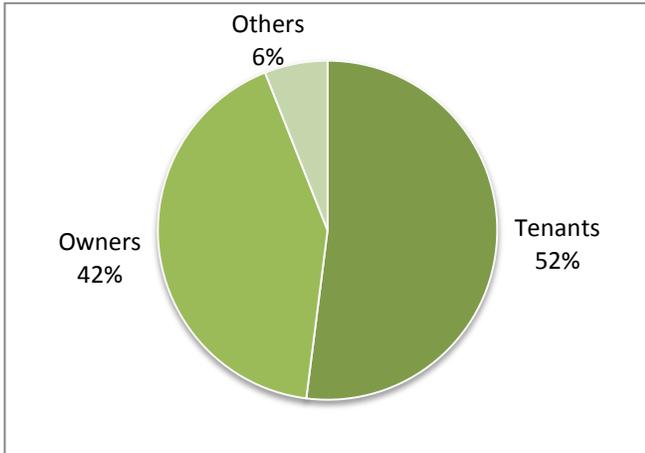


Figure 1

12,301
CONTACTS WITH THE PUBLIC
REQUESTING INFORMATION

Status of Controlled Rental Housing

Changes in the Housing Stock

The Santa Monica Rent Control Law, approved by voters 36 years ago, generally applies to units that were used for residential rental on April 10, 1979.

The total number of rental units subject to the Santa Monica Rent Control Law at any given time, however, varies due to permitted removals, temporary “use exemptions”, various permanent exemptions and withdrawal of units pursuant to the Ellis Act, as described later, a state law that allows for the withdrawal of accommodations under certain conditions. Units rented to people participating in the Section 8 program are also not counted while rents are governed by federal contracts. Withdrawn units will again be subject to rent control if used as residential rentals. Similarly, exempt units will again be subject to rent control if the exemption lapses.

28,069

TOTAL CONTROLLED RENTAL UNITS

Controlled Rental Units

As of December 31, 2014, the total number of rental units subject to the Santa Monica Rent Control Law was 28,069. This number is down 33 from 28,102 at the end of 2013.

Units Not Subject to Rent Control as of 12/31/2014

Ellis Act withdrawals	1,973
Removed per permits	1,756
Owner-occupied exemptions	1,408
Other “use” exemptions	3,662
Total	8,779

Figure 2

Types of Rental Units

The Rent Control Agency tracks controlled units by type – 0-bedroom, 1-bedroom, 2-bedroom and 3(+)-bedroom units. Almost half of the controlled housing stock in Santa Monica is 1-bedroom units, and more than a third are 2-bedroom units. Large units with three or more bedrooms, on the other hand, comprise less than 10 percent.

Percentage of Controlled Rental Units by Unit Size

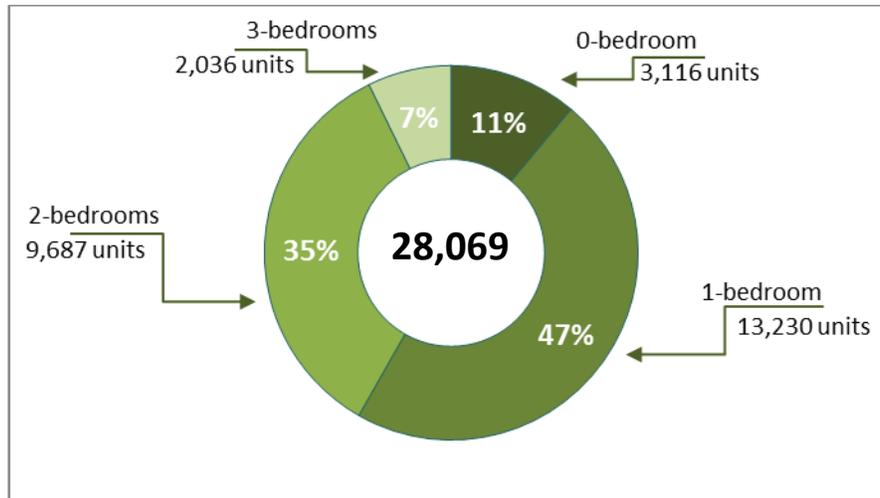
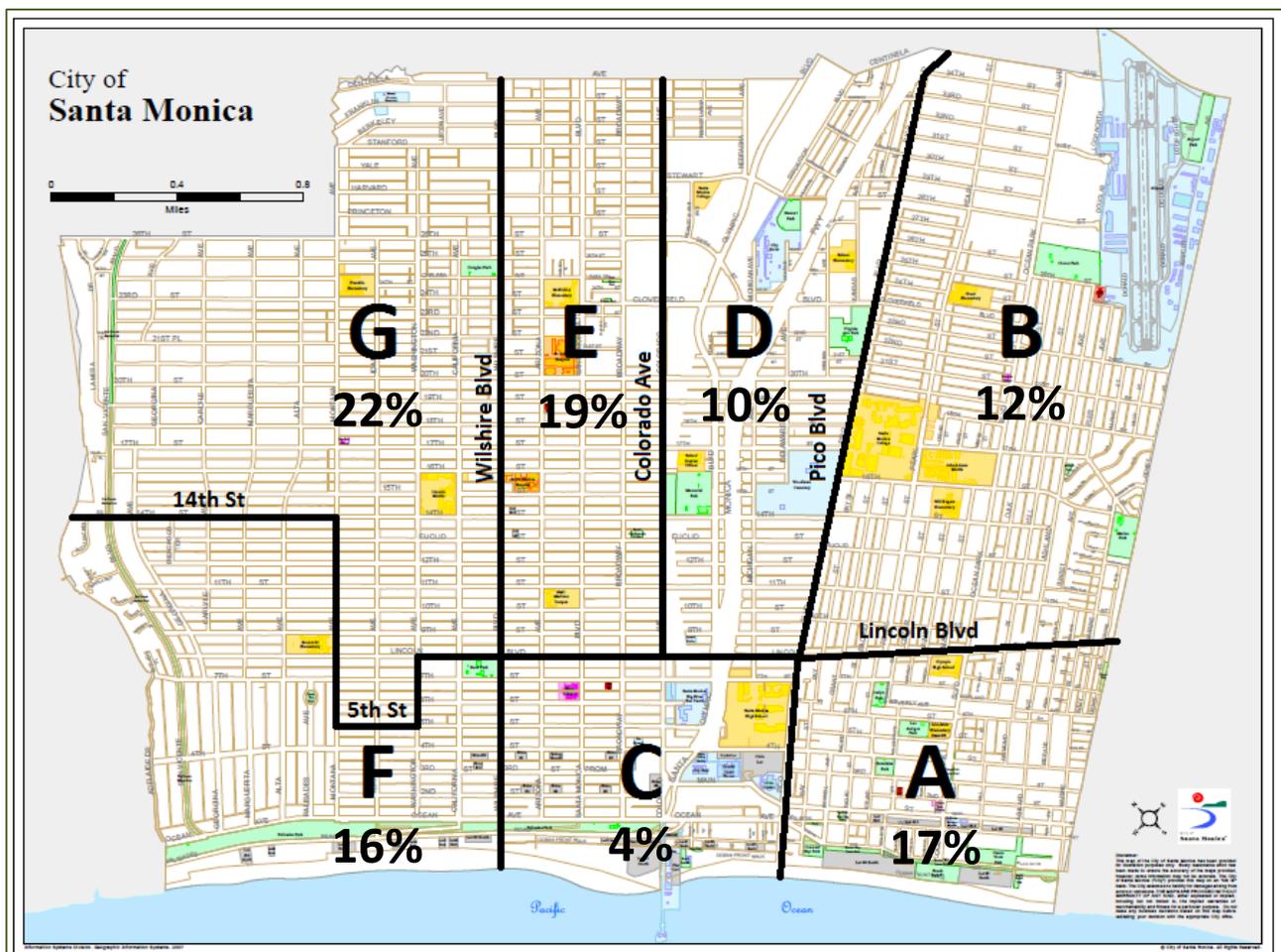


Figure 3

Mapping the City

To assess changes in the housing stock in the city, the Rent Control Agency segments the city into seven areas, identified as City Area A through City Area G. These seven areas roughly parallel the city's neighborhoods and census tracts. The map below shows these city areas and the percentage of controlled rental units in each as of December 31, 2014. While the number of controlled units varies yearly, the percentage of rent-controlled units per city area has remained unchanged for more than a decade.

City Areas and Percentage of Controlled Rental Units by Area



City Area C (Downtown)

Since the Rent Control Agency has been keeping track of how market-rate rents have affected Santa Monica, Area C has in many ways not been representative of the housing stock in other areas of the city. When area lines were drawn, two buildings in the area constituted 35 percent of the total units in the area. One of these buildings, 1221 Ocean Ave., is entirely luxury rentals, and rent levels are substantially higher than the rest of the city. Since then, a substantial number of units in Area C were removed from rent control. Over the years, 92 units were removed through Ellis Act withdrawals; 268 newly-constructed units, including 148 rent-controlled units have replaced them.

Impact of Market-Rent Vacancy Increases

Sixteen years ago, the full implementation of the Costa-Hawkins Rental Housing Act significantly changed the Santa Monica Rent Control Law. This report attempts to quantify the important impacts of this change.

Before Costa-Hawkins was implemented in 1999, rents of controlled units had been based on 1978 rents plus annual increases implemented to ensure owners a fair return. The allowed rent for a unit was not permitted to change even when units were vacated and re-rented. Once Costa-Hawkins was fully implemented, rents for most tenancies begun January 1, 1999 or after were no longer tied to 1978 rents. Instead, through “vacancy decontrol,” they could be renegotiated with each new tenancy at whatever amount the market would bear – so called “market-rate” rents. Those newly set rents remain subject to Rent Control’s annual adjustment limits.

While the Rent Control Law equally protects tenants who moved in before vacancy decontrol and those who moved in at market rates, initial rents for market-rate units have been and continue to be established at levels that are far above rents paid by “long-term” tenants. Year by year, market forces have been driving initial market-rate rents higher, with few exceptions.

The records maintained by the Rent Control Agency reveal dramatic escalation of rental housing costs in Santa Monica since Costa-Hawkins took effect. When long-term tenants vacate units, owners re-rent these units at levels that are sometimes double what the departing tenants paid. Rental housing costs in Santa Monica are now some of the highest in the Los Angeles basin.

Share of Long-Term and Market-Rate Controlled Housing Stock

Of 28,069 controlled units at the end of 2014, over two-thirds were occupied by renters who moved in since January 1, 1999. Just under one-third of controlled units (8,977) remained occupied by tenants who moved in prior to 1999. There are also some controlled units that have no registered Maximum Allowable Rent (MAR), the rent tracked by the Agency. These 316 units have no rental history because they are, to the Agency’s knowledge, occupied by owners, their relatives, or are otherwise not used for any rental purpose.

Among market-rate units, there is heavy turnover every year. When a long-term tenant vacates and that unit is re-rented, it is subtracted from the number of long-term units and added to the number of units at market rates. Accordingly, the share of market-rate units grows each year, and the number of long-term units declines.

The number of long-term units being vacated and re-rented at market-rate rents has remained relatively stable in recent years. Typically fewer than five percent of the remaining long-term units are vacated annually. In 2014, 453 long-term units were vacated and re-rented.

Controlled Rental Units

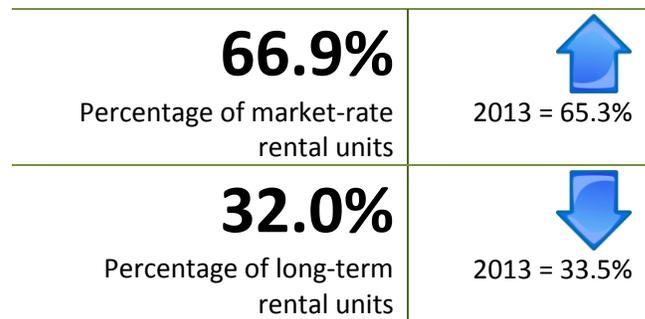
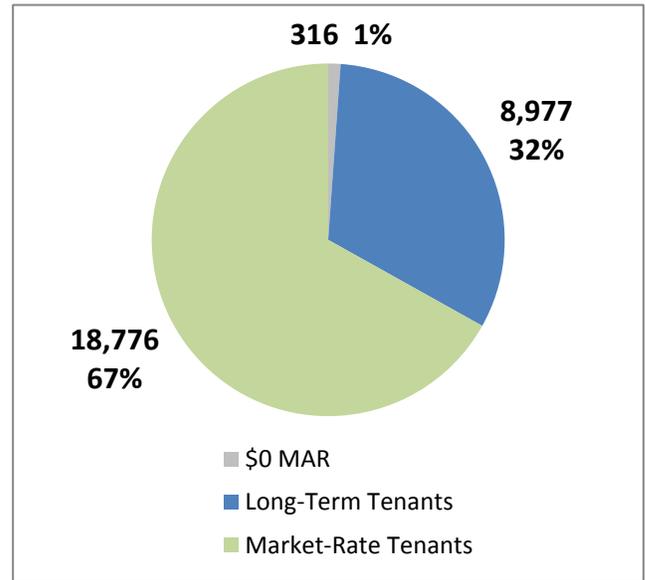


Figure 4

Long-Term Units Vacated by Year

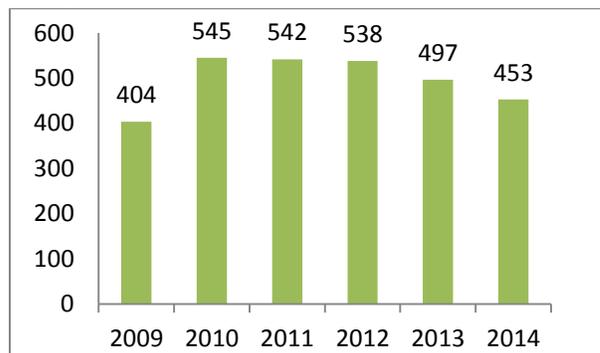


Figure 5

Market-Rate Units Widely Dispersed

Ninety percent of Santa Monica’s rental properties fit within the 4- to 15-unit range if properties of three units or fewer are excluded. (Many single-family dwellings and properties with three units or fewer have qualified for exemptions.) As noted above, roughly two-thirds of units have rented at market rates, but that does not mean a third of property owners have still not seen increased financial returns from vacancy decontrol. As indicated by the three highest bands in Figure 6, the vast majority of the properties in the 4- to 15-unit range have rented at least some units at market rates. Moreover, as the top two bands indicate, on average, over 80 percent of buildings have rented half or more of their units at market rates, up about two percent from 2013. The trends indicated in the graph hold true for properties with 16 or more units. Only a small fraction of properties in that range have experienced no market-rate rentals. Most have half or more of their units at market-rate rents.

Share of Market Rentals by Property Size (4-15 Units)

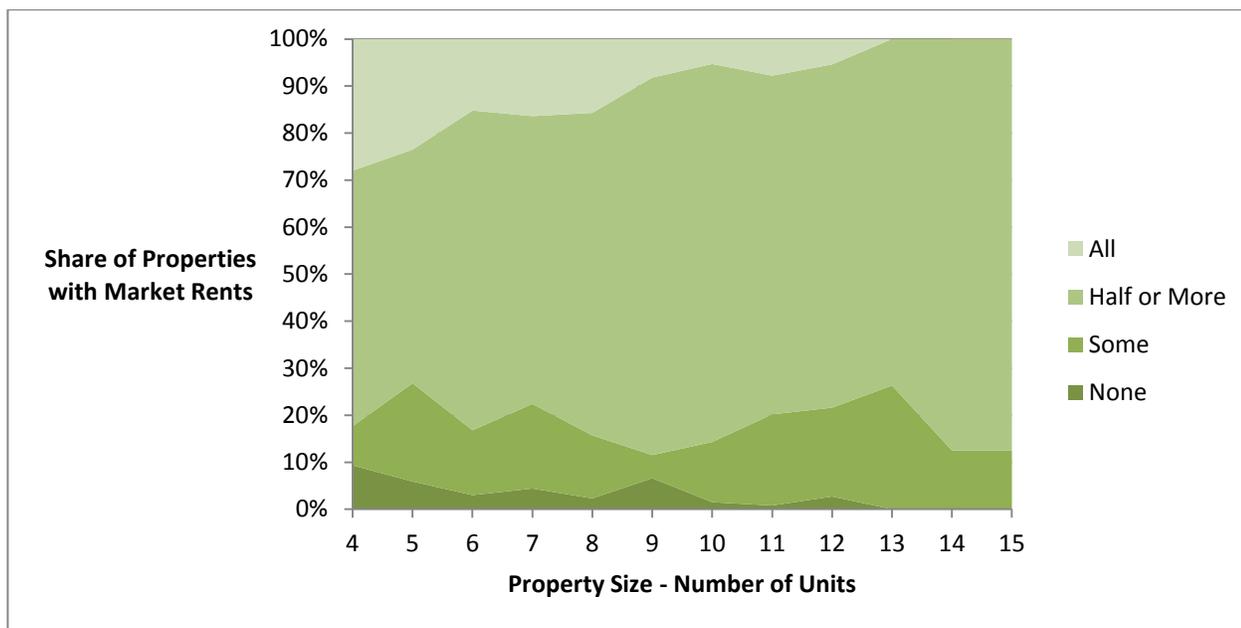


Figure 6

16-Year Review

In 2013, the highest median rents were established for new tenancies in all unit types citywide. As Figure 7 shows, those rents were exceeded again in 2014 for 0-, 1- and 2-bedroom units. Rents appear to have remained stable for the largest units. Rents on 2-bedroom units increased just a fraction of a percent, while the median rent for 3-bedroom units fell short of the \$3,200 record set last year by just \$4. This slowing may be welcome news for renters, but as noted in Figure 3 on page 8, the largest units comprise just seven percent of all controlled units. Turnover is also lower than the turnover rates for studio and 1-bedroom units. Of the 2,862 units that were re-rented in 2014, only 143 were 3-bedroom units.

INITIAL RENTS FOR NEW TENANCIES IN 2014 CONTINUED TO REACH NEW HEIGHTS.

Median MARs by Number of Bedrooms

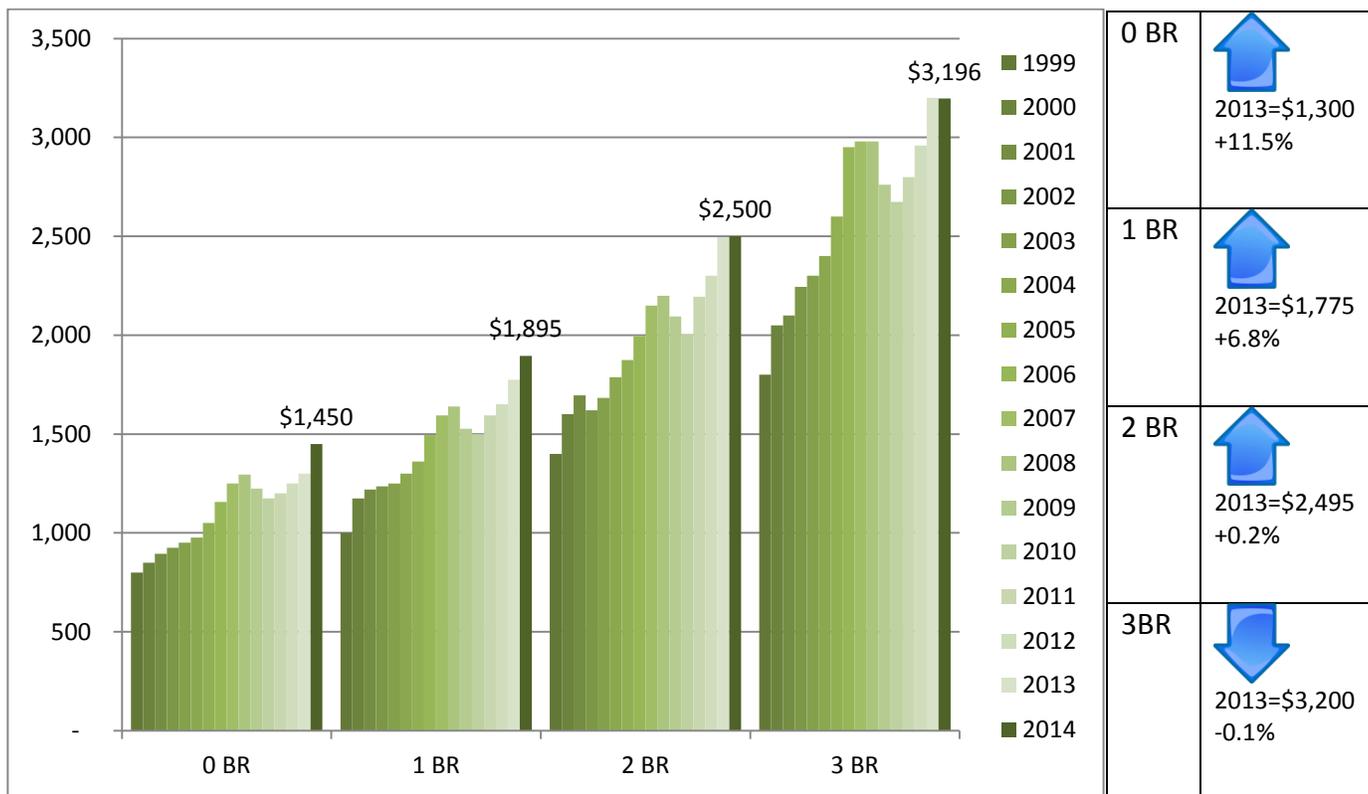


Figure 7. If a unit was re-rented more than once in the 16-year period, only the last established market-rate rent is used here. Chart excludes rentals at 1221 Ocean Ave, a luxury property in Area C where extraordinarily high rents would distort median rents reported. Median rents reported here for prior years may vary from previously reported amounts due to late registration of tenancies by owners and subsequent updates to Board records.

The median initial rents for the 2,862 units rented in 2014 are shown in Figure 8. The chart shows unit sizes and rent levels in the various city areas. Not surprisingly, units nearer the coast, in Areas A, C and F rented at rates higher than those inland. Median rent levels reported here and throughout this report are greatly affected by the number of rentals in each category. The medians reported on the 16-year review on the previous page, which show a reduction in median initial rents for 3-bedroom units rather than an increase, is based on a much larger data-set of rentals in 2014. In any individual city area, the number of units rented by number of bedrooms is relatively small, which results in greater variation in median rents.



2014 Initial Rents, Market-Rate Units by City Area

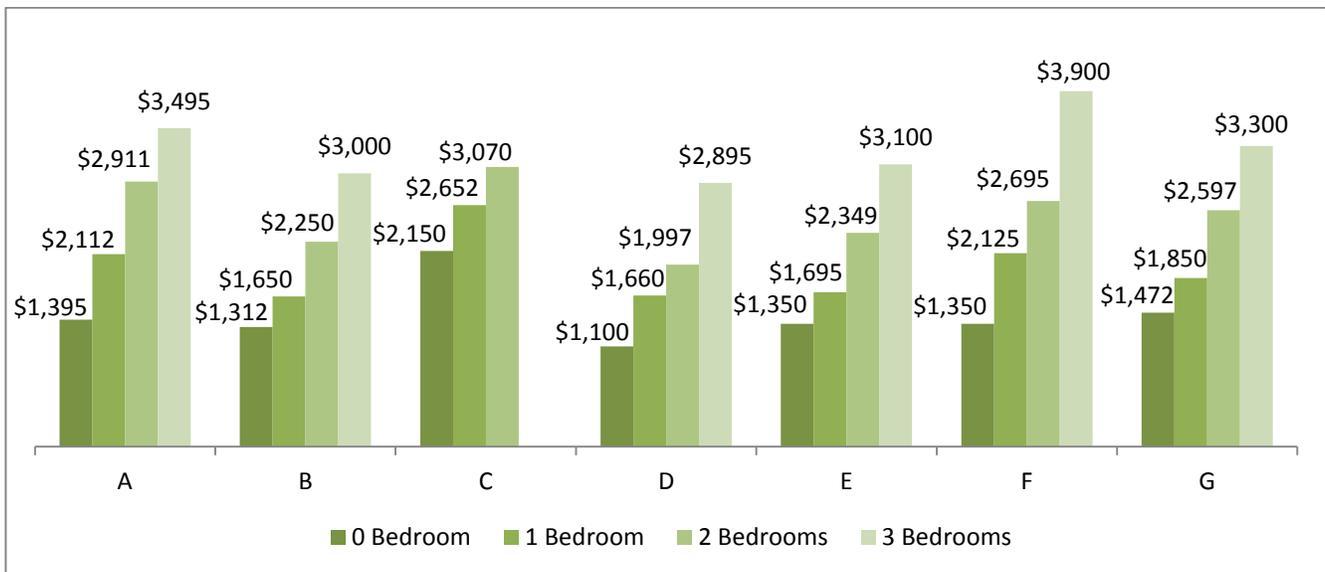


Figure 8. If a unit was re-rented more than once in the one-year period, only the last established market-rate rent is used here. Chart excludes rentals at 1221 Ocean Ave, a luxury property in Area C where extraordinarily high rents would distort median rents reported. Other than at that property, there was only one 3-bedroom unit rented in Area C last year, so no median is reported here.

Three-Year Review by City Area

A three-year view of vacancy increases provides a more complete overview of current market-rate rentals because it includes significantly more units overall as well as many more units of each size.

During the three-year period from the start of 2012 to the end of 2014, initial rents were set for 8,136 controlled units citywide. The median rents for 7,776 of these units are reflected in Figure 9 below. The chart excludes 360 new tenancies started in City Area C during that period, as a large number of these tenancies were at two oceanfront properties which command rents that are not reflective of other buildings in the area.

Pursuant to Rent Control Regulation 3304, the Agency uses this three-year review to establish a market-value rent for some units when a decision is rendered that a tenant does not use his or her unit as their primary residence.



2012-2014 Median MARs, Market-Rate Units by City Area



Figure 9. Chart excludes City Area C, where extraordinarily high rents for two properties would distort median rents reported for the area.

Current Median MARs

Once initial rents are set, the Rent Control Law limits annual increases and establishes a Maximum Allowable Rent, or “MAR”. Figure 10 shows the current median MARs as of the end of 2014 of all controlled units by city area and unit size, no matter when the tenancies began.

Figure 11 reveals by city area and unit size the difference in median rents of units depending on whether they are occupied by long-term or market-rate tenants. The long-term median MARs are those of units still occupied by tenants who moved in before January 1, 1999. It is not uncommon to see market-rate units renting for twice as much as similarly sized units occupied by long-term tenants in each area.

Median MARs of All Controlled Units

City Area	0-Bedroom Units	1-Bedroom Units	2-Bedroom Units	3 Bedroom Units
A	\$1,196	\$1,638	\$2,018	\$1,615
B	\$995	\$1,305	\$1,788	\$1,966
C	\$1,528	\$1,539	\$2,771	\$5,880
D	\$1,001	\$1,275	\$1,296	\$1,408
E	\$1,127	\$1,410	\$1,836	\$1,935
F	\$1,248	\$1,713	\$2,161	\$2,596
G	\$1,209	\$1,608	\$2,118	\$2,566

Figure 10

Median MARs: Market-Rate Units vs. Long-Term Units

City Area	0-Bedroom Units			1-Bedroom Units			2-Bedroom Units			3-Bedroom Units		
	long-term	market	diff.	long-term	market	diff.	long-term	market	diff.	long-term	market	diff.
A	\$607	\$1,100	\$493	\$842	\$1,684	\$842	\$1,031	\$2,250	\$1,219	\$1,215	\$2,425	\$1,210
B	\$575	\$925	\$350	\$748	\$1,250	\$502	\$895	\$1,755	\$860	\$1,146	\$2,100	\$954
C	\$739	\$1,503	\$764	\$777	\$2,174	\$1,397	\$1,341	\$2,745	\$1,404	0*	\$4,750	*
D	\$498	\$950	\$452	\$697	\$1,237	\$540	\$781	\$1,585	\$804	\$958	\$2,250	\$1,292
E	\$627	\$987	\$360	\$760	\$1,297	\$537	\$981	\$1,750	\$769	\$1,272	\$2,270	\$998
F	\$820	\$1,185	\$365	\$905	\$1,649	\$744	\$1,202	\$2,200	\$998	\$1,379	\$3,000	\$1,621
G	\$604	\$1,135	\$531	\$804	\$1,500	\$696	\$1,090	\$2,000	\$910	\$1,407	\$2,845	\$1,438

Figure 11 *There is no longer any 3-bedroom unit in Area C occupied by a tenant who moved in prior to 1/1/1999. As with Figures 7 - 10, this chart excludes rentals at 1221 Ocean Ave. Excluding 1221 Ocean Ave, only three 3-bedroom units have been rented at market rates in Area C. Although they have re-rented a total of nine times, only the most recent rentals are counted.

Current Market-Rate MARs by Year of Tenancy Compared to 2014 Median Initial Rents

As Figure 11 indicates, vacancy decontrol has resulted in median MARs that are much higher for tenants who moved in after 1999 than for long-term tenants. Despite the increase in initial rents due to vacancy decontrol, the benefit of controlled annual increases for tenants who stay in place is also clear. Figures 12 through 15 show by unit size the current MARs based on the median initial rents set each year since 1999 plus the allowed annual general adjustments. The difference indicated at the top of each column compares those rents to the median initial rental rates for new tenancies begun in 2014. Assuming owners are charging the maximum allowable rent, the amount at the top of each column represents the monthly savings afforded to tenants who moved in each year as compared to the market rent established in 2014. Tenants who moved in between 1999 and 2013 are paying less than tenants who moved in in 2014. The only exceptions to this are tenants who moved into 3-bedroom units in 2006 or 2013.

0-Bedroom Units: 2014 Median Initial Rent = \$1,450

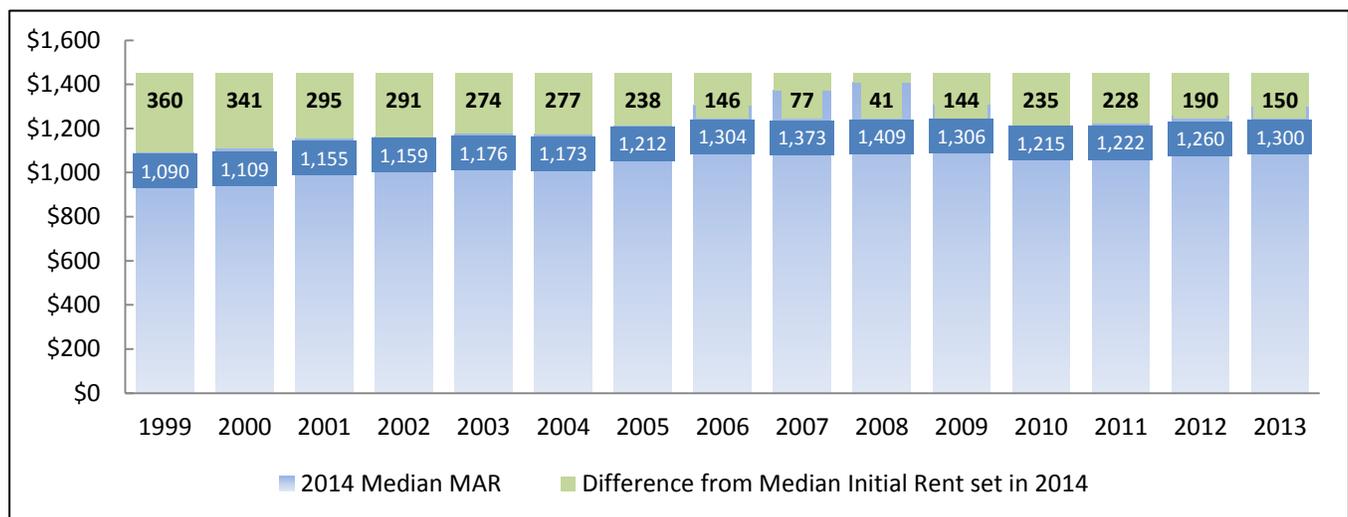


Figure 12

1-Bedroom Units: 2014 Median Initial Rent = \$1,895

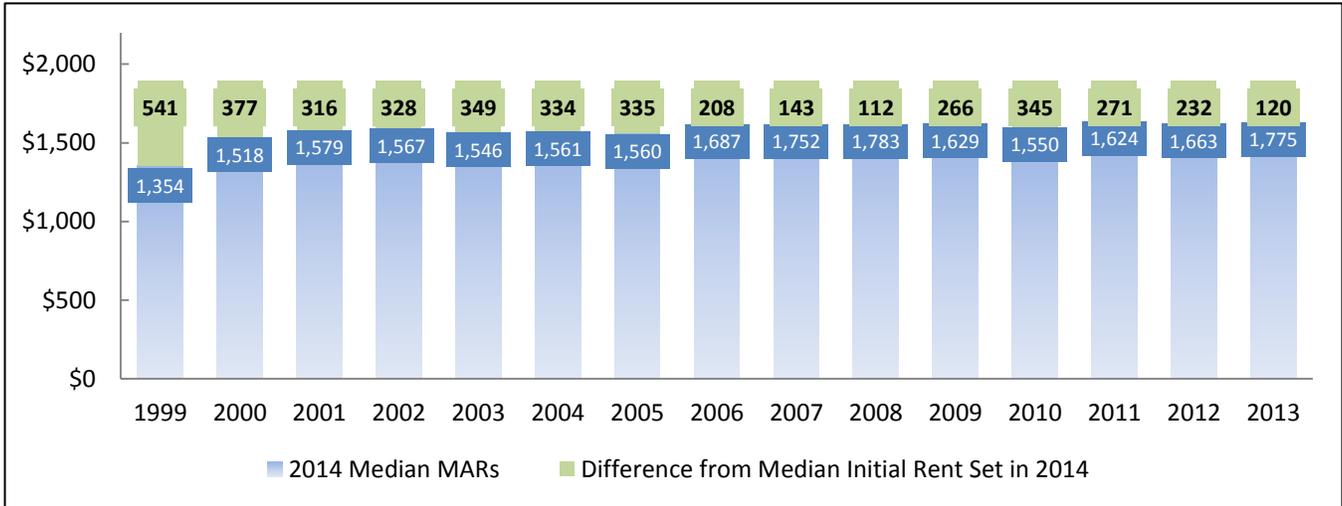


Figure 13

2-Bedroom Units: 2014 Median Initial Rent = \$2,500

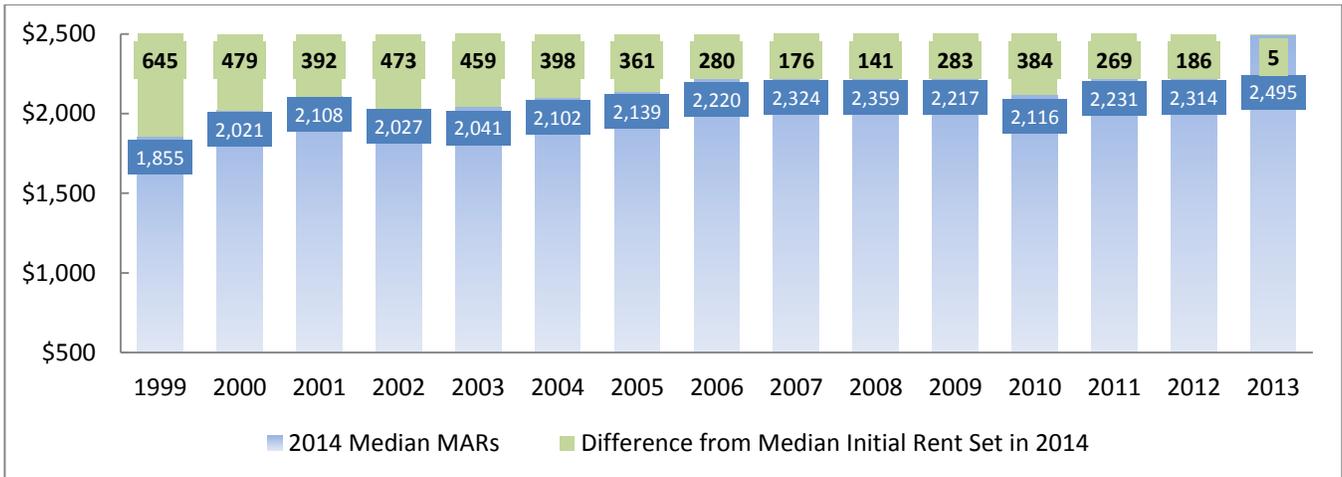


Figure 14

3-Bedroom Units: 2014 Median Initial Rent = \$3,196

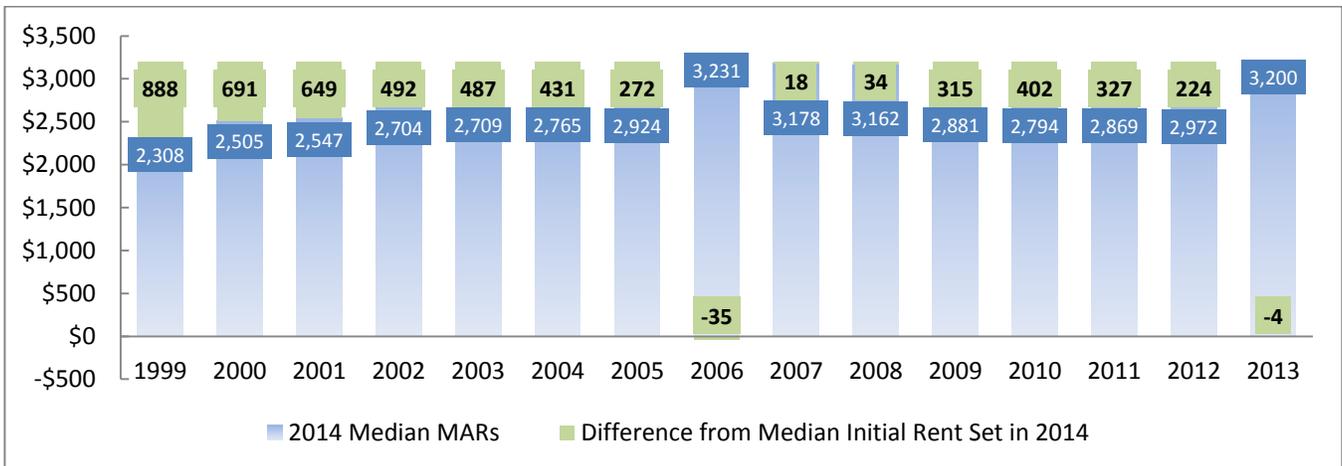


Figure 15

Affordability Analysis

Figure 16 shows the median MARs today for all controlled units that have been rented at market rates at least once since 1999. It also shows what the rents would be for those same units had vacancy decontrol not been enacted. While Figure 11 on Page 16 is based on all controlled units, the long-term median MARS below are calculated for the set of units that have been rented at market rates at least once. In other words, it is an apples-to-apples comparison of the same units with and without vacancy decontrol.

The far right column shows the difference in income that would be required to afford a median-priced market-rate unit with vacancy decontrol compared to without vacancy decontrol. Given that the California Department of Housing and Community Development (HCD) reports that Area Median Income (AMI) for a four-person household in the greater Los Angeles area was \$64,800 in 2014 (a number that has not changed for the past three years), and assuming the U.S. Department of Housing and Urban Development (HUD) recommendation that no more than 30 percent of household income be spent on housing, a four-person household would have needed income that is 26 percent higher than the AMI to afford even a 1-bedroom unit last year. A more reasonable space with two bedrooms would require an income 49 percent higher than the AMI.

Income Needed to Afford a Market-Rate Unit

No. of Bedrooms	HUD Affordability Factor	Household Size Adjustment Factor	Without Vacancy Decontrol		With Vacancy Decontrol		Income Difference
			Median MAR	Income Needed	Median MAR	Income Needed	
0	0.3	0.7	\$740	\$42,286	\$1,227	\$70,114	\$27,829
1	0.3	0.8	\$862	\$43,100	\$1,629	\$81,450	\$38,350
2	0.3	0.9	\$1,082	\$48,089	\$2,166	\$96,267	\$48,178
3+	0.3	1.0	\$1,380	\$55,200	\$2,802	\$112,080	\$56,880

Figure 16: Calculation: $MAR \div [.30 \text{ affordability factor}] \div [\text{household size adjustment factor}] \times 12 \text{ months} = \text{Income needed}$.

Figure 17 shows the availability of controlled rental units for various income categories. Again, the figures assume that no more than 30 percent of income is used for rent. As shown, prior to vacancy decontrol in 1999, rents for 85 percent of units were affordable to households in the low, very low and extremely low income categories. Today, only 5.5 percent of controlled units' rents may be considered affordable to such households. Moreover, about 82 percent of rent-controlled units require an income that is 110 percent or greater than the AMI. The availability of units by income category is represented graphically in Figure 18. The bands show availability across the income spectrum in 1998 with little availability for all but the highest income groups as of 2014.

Comparison of Affordability of Market-Rate Rental Units by Income Category, 1998 versus 2014

Income Category	1998		2014		Change (+/-)
	Units	%	Units	%	
Extremely Low (30%)	1,224	6.5	8	0	-99.3%
Very Low (50%)	3,675	19.6	140	0.7	-96.2%
Low (60%)	4,760	25.4	227	1.2	-95.2%
Low (80%)	6,290	33.5	682	3.6	-89.2%
Moderate (110%)	2,439	13.0	2,804	14.9	15.0%
Higher (>110%)	783	4.2	15,356	81.8	1861.2%

Figure 17

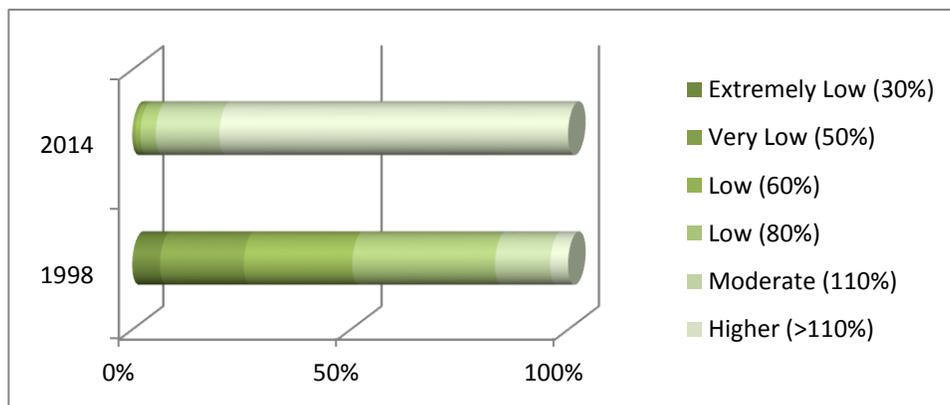


Figure 18

The New Santa Monicans

Slightly less than one-third of units under rent control remain occupied by tenants who moved in prior to vacancy decontrol. With initial rental rates for new tenancies rising annually and roughly double the rent long-term tenants pay, it is not surprising that turnover among units occupied before 1999 has remained relatively low. As indicated by the low vacancy rate of units rented long term, tenants with affordable units are a stable component of the Santa Monica community. These tenants have lived in the city for 15 or more years.

Among tenants paying market-rate rents, however, turnover is considerably higher. Most tenants in market-rate units have been in their units a relatively short time. Of the 18,776 units that have been rented since 1999, 65 percent of units were most recently rented in the past six years. The other 35 percent were occupied during the eleven years before that. As shown in Figures 12 through 15, due to limited annual increases this group pays rates that are relatively low when compared to today's market rates. That value may be an incentive for these tenants to remain where they are.

65%
PERCENTAGE OF MARKET-RATE UNITS WITH
TENANTS WHO MOVED IN SINCE 2009

Market-Rate Units by Year Occupied

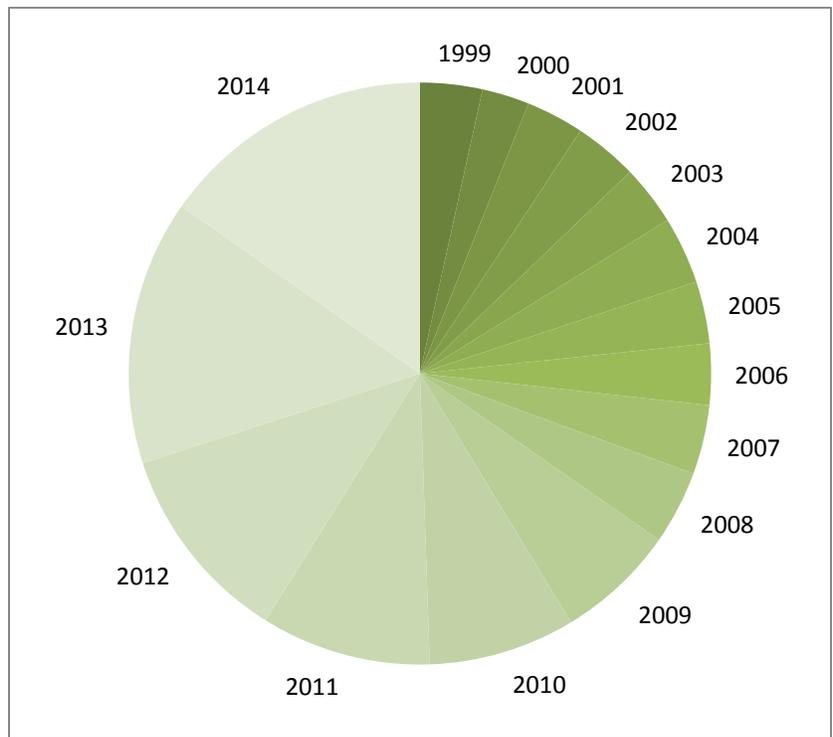


Figure 19

Middle Class Housing Challenge



As shown in the Affordability Analysis section, there is no housing shortage for households in higher income categories, even at today's market rates. The availability of rental housing is different, however, for households earning moderate incomes or less. Households at the lowest income levels face huge challenges, but Santa Monica's commitment to developing and providing affordable housing has helped. Community Corporation of Santa Monica, the City of Santa Monica's Affordable Housing Division and the City's Housing Authority, which administers the Section 8 program, attempt to provide assistance to those who need it most. However, challenges for affordable housing providers have increased in recent years.

Squeezed between prohibitively expensive market-rate units and affordable units for which they do not income-qualify, middle-income households have extremely limited housing options in Santa Monica. Only a small percentage of units being created here can be considered affordable to the middle class. The same is true of the greater Los Angeles region. A July 2014 study on housing affordability in Los Angeles by UCLA's Luskin School of Public Affairs noted the growing challenge for all but the wealthy. "We find that rent burdens have been severe for low-income renters since the 1970s, that burdens have also increased substantially for the middle class over the period studied, and that Los Angeles consistently exceeds the nation in both the share of renters burdened and the severity of the burden."¹

While Santa Monica's diverse economy and that of the region offers middle-class jobs, the dearth of affordable housing is causing the middle-class population to disappear from Santa Monica as US Census data has shown. It is logical to conclude the trend will continue without a concerted effort toward rectifying the problem.

¹ "Impacts of the Widening Divide: Los Angeles at the Forefront of the Rent Burden Crisis", Center for the Study of Inequality, UCLA Luskin School of Public Affairs, July 2014

Impact of the Ellis Act

Almost three decades have passed since passage of the Ellis Act in 1986, during which time units have been withdrawn from the rental market and tenants have been evicted from their rent-controlled apartments. This has resulted in a serious depletion of affordable units, depriving many tenants of a chance to live in Santa Monica.

This report attempts to examine the aggregate impact of the Ellis Act—the number of units removed from the rental market, the number of units returned to residential rental use, and the ultimate use of the withdrawn properties—emphasizing Ellis activity during calendar year 2014.

2014

Report Highlights

Reflecting an upsurge in the economy, Ellis activity increased in 2014. Withdrawal notices rose by almost 75 percent as compared to 2013, and the number of units affected nearly tripled.

16

withdrawal notices filed in 2014

85

units affected by notices filed in 2014

38

number of occupied units affected by notices filed in 2014

1,973

net total of units withdrawn from the Santa Monica rent-controlled housing stock since 1986

Ellis Activity in 2014

Applications to Withdraw Jumped in 2014

Previous Ellis reports pointed to a slumping economy as a major factor in limiting Ellis activity between 2008 and 2013. In those years, an average of eight withdrawal notices were filed affecting an average of 36 units annually. In 2014, an economy in recovery appears to be behind a sharp increase in Ellis activity. Last year, 16 withdrawal notices were filed affecting 85 units.² The contrast from year to year is shown in Figure 20 on page 25.

Withdrawn Units

Nine properties (22 units) completed the withdrawal process in 2014, resulting in 11 evictions, with the remaining units being vacant or owner-occupied. This total includes one four-unit property that started the process in 2013 but did not complete it until 2014 because two of the units were occupied by seniors who qualified to extend their period to relocate to one year.

² Two applications filed in 2014, each involving one unit, will not result in units lost because they affected single-family homes that were not previously considered part of the controlled housing stock.

Units Pending Withdrawal

Under the Ellis Act, a property is deemed withdrawn from the rental market four months after the owner delivers a withdrawal notice to the tenants and Board, but the withdrawal period can be extended to a year for units occupied by senior or disabled tenants. At the end of 2014, 12 properties (80 units) had not yet completed the statutory waiting period required under state law and were still pending withdrawal. Two properties had not completed the withdrawal process because of pending litigation. All of these pending withdrawals are expected to be completed in 2015. Figure 21 on page 27 shows that less than half of the units that started the Ellis process in 2014 were occupied by tenants. More than half were vacant at the time the notice was served.

Units Returned to Rent Control Jurisdiction

Six formerly withdrawn units (on two properties) were returned to residential rental use in 2014. Taking into account the 22 withdrawn units noted above, there was a net loss of 16 rental units in 2014.

Figure 22 illustrates the number of units withdrawn, along with the number returned to the rental market each year from 1986 through 2014. Since it was enacted in 1986, the Ellis Act has been used to withdraw 2,720 units from the Santa Monica rental housing market. A total of 747 of these units have returned to residential rental use, resulting in a net loss of 1,973 units.

Ellis Withdrawal Notices and Units Affected (2009 – 2014)

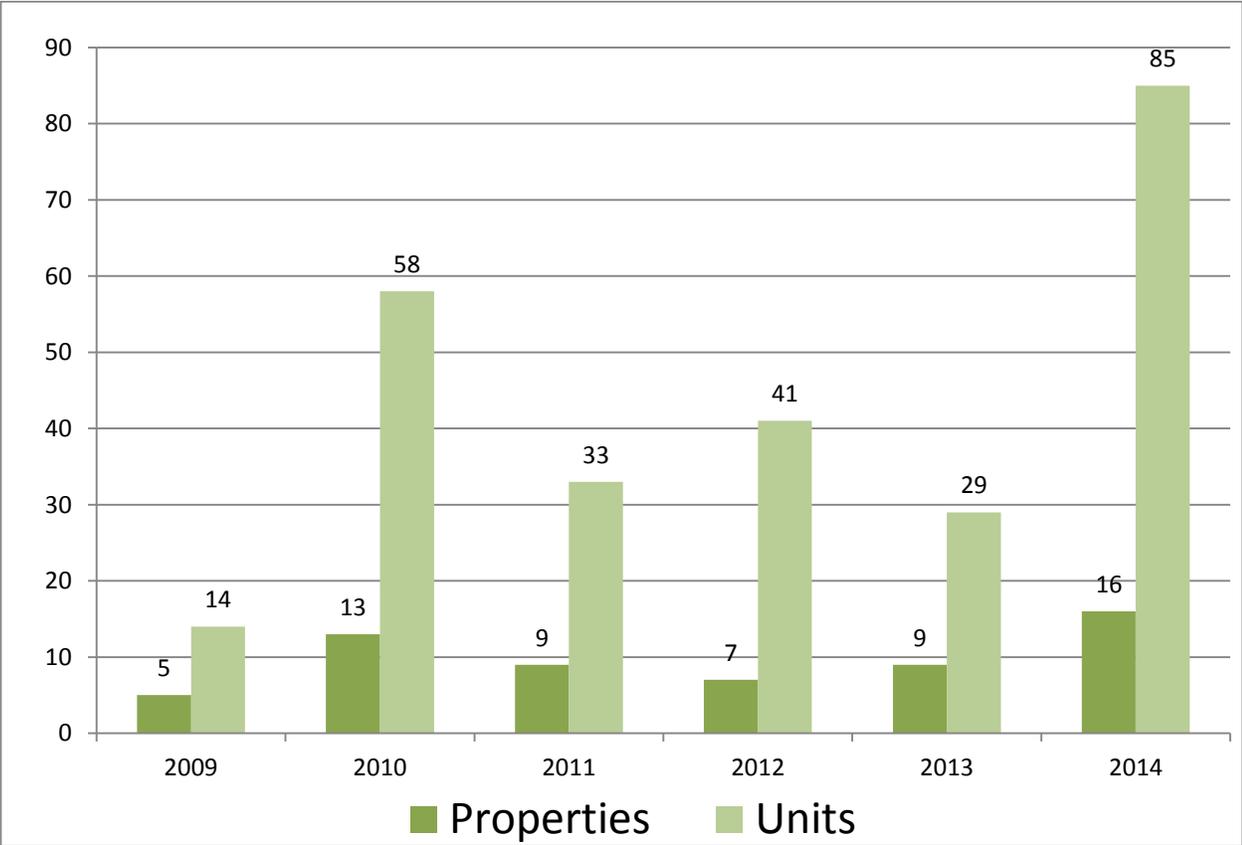


Figure 20

Ellis Notices of Withdrawal in 2014

Location	City Area	Filing Date	Ellis Status	Units Withdrawn	Evictions	Vacant	Family Occupancy
Ocean Park Blvd.	A	2/3/14	Withdrawn	2	0	2	0
22nd St.	G	3/26/14	Withdrawn	1	0	1	0
Ashland Ave.	B	3/28/14	Withdrawn	1	0	1	0
Palisades Beach Rd.	C	4/17/14	Pending	8	7	1	0
Woodacres Rd.	F	4/24/14	Withdrawn	1	0	1	0
3rd St.	F	5/12/14	Pending	2	2	0	0
11th St.	E	6/23/14	Pending	6	5	1	0
5th St.	A	9/10/14	Pending	2	1	1	0
21st St.	B	10/2/14	Pending	1	0	1	0
21st St.	B	10/2/14	Pending	1	0	1	0
Wadsworth Ave.	A	10/9/14	Pending	2	0	2	0
10th St.	E	11/3/14	Pending	21	6	15	0
Montana Ave.	F	11/12/14	Pending	18	4	14	0
34th St.	B	12/17/14	Pending	12	10	2	0
23rd St.	G	12/17/14	Pending	5	3	2	0
Raymond Ave.	A	12/24/14	Pending	2	0	2	0
Totals				85	38	47	0

Figure 21

City Area	Total Units	%
A	8	9.4
B	15	17.6
C	8	9.4
D	0	0
E	27	31.8
F	21	24.7
G	6	7.1
TOTAL	85	



Historical Ellis Activity

Controlled Rental Units Withdrawn* and Re-Rentals Returned to Controlled Status

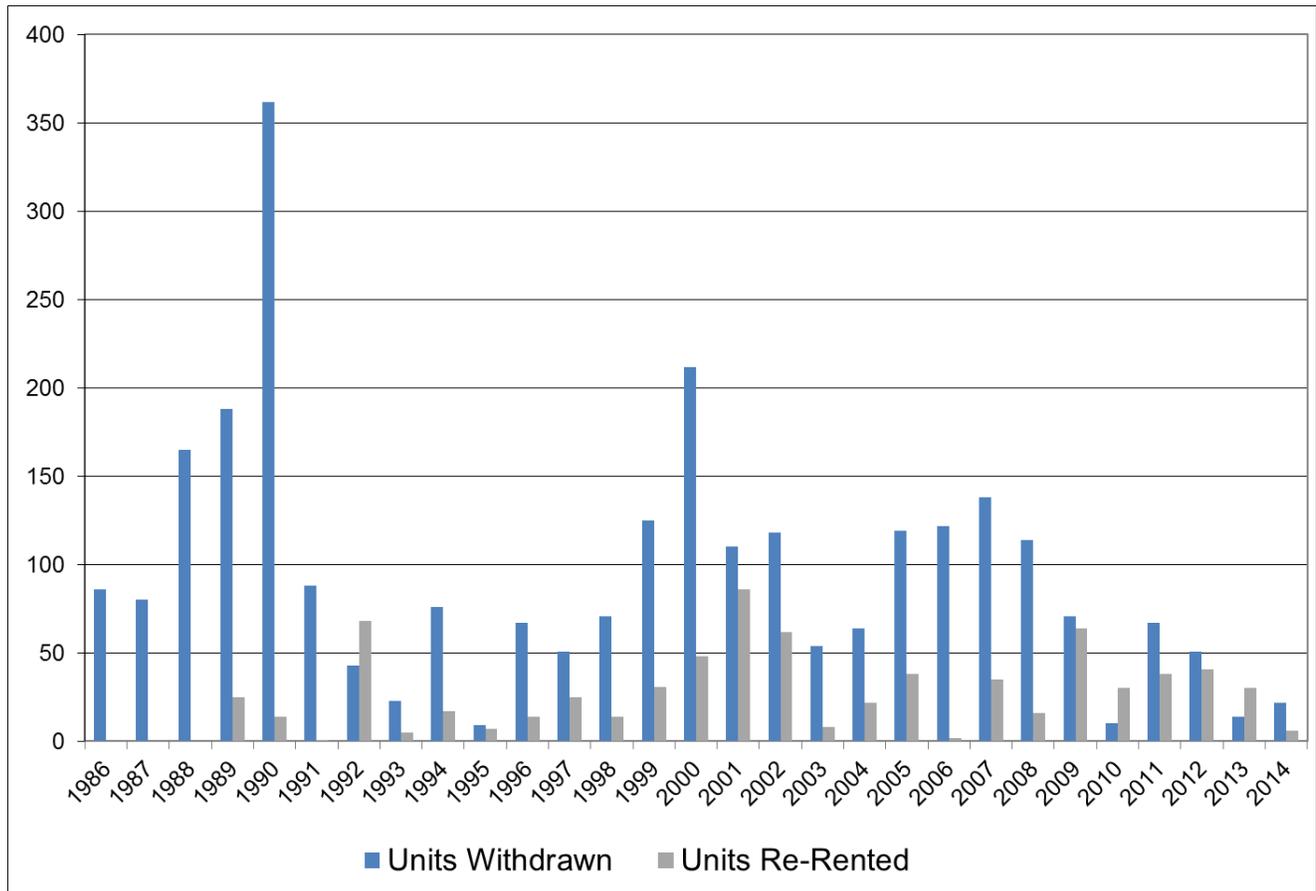


Figure 22 *Based on year withdrawal was completed

Status	Units	Properties
Withdrawn from the rental market	2,720	565
Returned to the market and under rent control ³	747	150
Net loss of units due to withdrawal	1,973	415

Figure 23

³ Ten properties returned to the rental market with a different number of controlled units than were on the properties when withdrawn. This resulted in a 20-unit difference in the number of units withdrawn and later returned to residential rental use for these properties.

Post-Ellis Activity

Post-Ellis monitoring of withdrawn properties continued in 2014 ensuring compliance with laws imposed when a property is withdrawn from the rental market. These laws include Ellis Act restrictions on the ability to return units to the rental market after they are withdrawn, as well as Santa Monica laws requiring that withdrawn units be issued a re-occupancy permit before they may again be used for any purpose.

Over the years, the use of properties withdrawn from the rental market has remained relatively constant. Approximately 23 percent of withdrawn properties are now being used for a non-residential purpose (business/commercial, schools/childcare centers/churches, parking lots or vacant lots). Of these withdrawn properties, 62 were demolished and replaced with new construction, and 33 were converted to a non-residential use.

Nineteen percent of withdrawn properties are being used as single-family dwellings (53 new structures, 25 properties converted to use as single-family dwellings). Almost 20 percent are being used for non-rental residential occupancy (i.e., family occupancy) or show no permit activity and have been left vacant but otherwise unchanged.

Residential development remains the most common use. Approximately 38 percent of the properties have been redeveloped for multi-family residential use, either condominiums or apartments. Some also include a commercial or mixed-use component.

Figure 24 shows the current status of all 415 properties that remain withdrawn since the inception of the Ellis Act.

Overall Summary of Post-Ellis Use of Withdrawn Properties	End of 2014 Totals	
Apartments	18	4%
Apartments / Mixed Use	20	5%
Condominiums	120	29%
Condominiums / Mixed Use	1	<1%
Single-Family Dwellings	78	19%
Commercial	54	13%
Parking Lot	12	3%
School / Childcare / Church	17	4%
Vacant Lot	12	3%
Totals	332	
Family Occupancy / No Activity	83 ⁴	20%
Grand Totals	415	100%

Figure 24

38%

ELLISED PROPERTIES
REDEVELOPED FOR MULTI-
FAMILY RESIDENTIAL USE

(13 OF THESE PROPERTIES WERE
RETURNED TO RENT CONTROL
JURISDICTION BECAUSE THEY
WERE BUILT AND OFFERED FOR
RENT WITHIN FIVE YEARS OF
WITHDRAWAL)

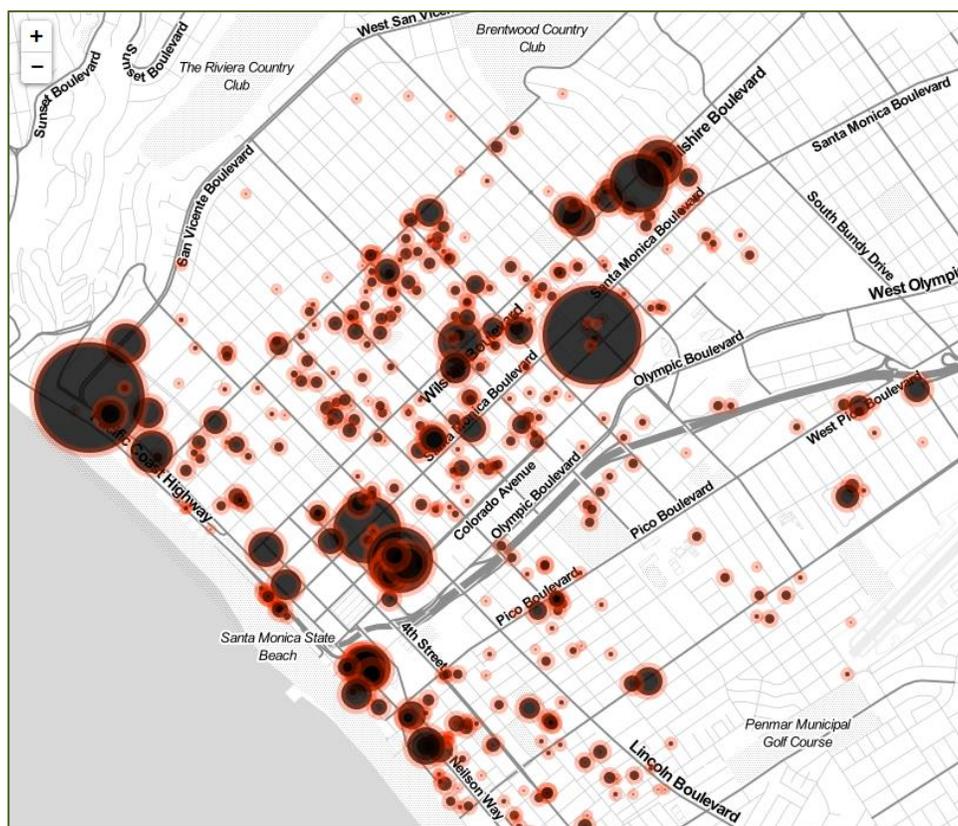
⁴ Thirty-nine of these properties have received re-occupancy permits. One additional property did not require a permit.

Post-Ellis Monitoring and Enforcement

Rent Control staff routinely monitors Ellised properties for enforcement and compliance with state law and the Rent Control Law. As it appears Ellis activity is picking up, staff is concerned about the effect on residents displaced by Ellis evictions. During 2015, the Agency will again conduct surveys on tenants' overall experiences in finding new housing.

The Rent Control Agency provided Ellis withdrawal information to the Pico Neighborhood Association (PNA) for its Ellis eviction mapping project. The Pico Neighborhood Association worked with a Bay-area group called the Anti-Eviction Mapping Project to create a time-lapse map that provides a vivid illustration of the rent-controlled units that have been lost in Santa Monica since 1986. To view this time-lapse map online, go to www.anti-evictionmappingproject.net/santamonica.html.

Anti-Eviction Mapping Project



Enforcement for 2014

Board staff investigations found:

- An Ellised two-unit property in City Area G was listed for sale. Staff discovered the advertised listing stating “the seller rents out for short-term weekly and monthly rental at approximately \$10K per month...” The Board asserted jurisdiction and deemed the property to have returned to the rental market on April 9, 2014. The new owners complied with Board regulations and filed a Notice of Intention to Re-rent the units with the Board on June 10, 2014. The Board contacted the previously displaced tenant and advised him of his right to request an offer to re-rent his unit, which he declined. The property is now being rented to tenants at market rate because more than five years had elapsed since the withdrawal of the property under the Ellis Act.
- The Board is monitoring an Ellised five-unit property in City Area G. The Board investigator was sent out to the property and spoke with an occupant in one of the units. The Agency wrote a letter in November advising the owner to complete a Notice of Intent to Re-Rent if the property has returned to the rental market. The owner has not yet contacted the Rent Control Board regarding the rental status of the Ellised property.

The Rent Control Board in conjunction with the Planning Department, Code Compliance and the City Attorney’s Consumer Protection Division work together as a task force in overseeing all post-Ellis activity to ensure compliance with laws imposed when a property is withdrawn from the rental market.

Conclusion

Ellis activity has increased for 2014 with 16 notices filed affecting 85 units. This upward trend in Ellis withdrawals is continuing in 2015 with several filings in the beginning of the year affecting multi-family units and displacing long-term residents. This increased activity can be attributed to the recovering economy. Other factors contributing to the increase in Ellis activity could include banks offering lower interest rates and Santa Monica (AKA Silicon Beach) being a desirable place to live. We anticipate we will see a continuation of the renewed pace of Ellis withdrawals in 2015, which will further reduce the existing rent-controlled housing stock.

Policies & Programs

Public Information Programs

Santa Monica Rent Control staff communicate regularly with a variety of constituents, including tenants, property owners and managers, real estate agents and other City departmental staff. Mailings, seminars and interdepartmental meetings provide opportunities to discuss Rent Control Law applications in specific contexts and to coordinate solutions.

Public Outreach and Inter-Agency Activity

Newsletters

The Santa Monica Rent Control Agency publishes a newsletter, the *Rent Control News*, twice a year -- in the spring and fall. A Spanish version is available on request. Articles usually address changes to the Rent Control Law as well as state and city laws that affect tenants and owners of residential rental property in Santa Monica.

In 2014, articles in both spring and fall newsletters reminded tenants and owners of the on-going, urgent need to conserve water, and warned of potential surcharges if water use exceeds a given baseline. Other articles described Rent Control registration basics and gave instructions for signing up to receive communications from the Agency and City Alerts electronically.

Articles also provided information about voter-approved Measure FS, which sets a maximum annual registration fee assessment and allows for 50 percent pass-through to tenants, and the new Landlord/Tenant Forum held with the Consumer

Protection Division of the City Attorney's office to advise the public about the impact of local and state laws on landlords and tenants.

Notices of upcoming seminars and inter-agency events were given as well as a listing of legal resources in the community and a contact agency for a program to help individuals reduce unmanageable clutter.

Newsletters mailed to tenants included the current MAR for each tenant's unit according to the Agency's records.

All tenants and owners were also informed of the city's prohibition on short-term rentals in the Agency's summer mailing.

Electronic Communications

Constituents who prefer receiving periodic e-mails regarding Board meeting agendas, newsletters and announcements may complete a sign-up form on the Board's website at www.smgov.net/rentcontrol.

Educational Programs

Rent Control staff participates in a variety of events organized to interact with the community and convey information about the Rent Control Law. Some of these events are part of a larger, citywide occasion like the annual spring Santa Monica Festival, and others are designed to offer a forum for public input on current city priorities like the fall 2014 Santa Monica Talks series.

Every year, the Agency presents seminars tailored specifically to owners and tenants. Those seminars for 2014 were:

- Owning Rental Property in Santa Monica
- Tenant Seminar on the Rent Control Law
- Calculating the Annual Rent Increase
- Rental Property Maintenance (co-presented with the Code Compliance Division)

In 2014, the Landlord/Tenant Forum was added to the Rent Control outreach list and was offered in conjunction with the Consumer Protection Division of the City Attorney’s Office.

Smaller presentations can also be tailored for specific requests from groups such as realtor associations or building-specific tenant organizations. In 2014, staff addressed the Beverly Hills Realtors Association at its annual meeting.

47,851
TOTAL WEBSITE
VISITS

30,988
UNIQUE WEBSITE
VISITORS

42%
OF PUBLIC INQUIRIES ARE FROM PROPERTY
OWNERS AND THEIR REPRESENTATIVES

Public Inquiries			
	Telephone	Public Counter	Email
Tenants	4,855	1,227	697
Owners	3,668	1,202	
Others	554	98	

Figure 25

Temporary Relocation Counseling

Santa Monica law requires that owners pay a tenant’s expenses in certain situations when the tenant is forced to vacate an apartment temporarily. Some examples of when an owner must pay relocation costs are for termite fumigation or “tenting” of a building, for extensive repair or remodel work where a unit becomes temporarily uninhabitable, and when the city orders tenants to temporarily leave because of code violations.

If a tenant is relocated for less than 30 days, the tenant must be paid an amount intended to cover temporary housing, food, laundry and pet boarding. The City Council has set fixed amounts to cover these expenses. If a tenant is relocated for 30 days or more, the tenant is entitled to alternate comparable rental housing.

The Rent Control Agency assists tenants in obtaining temporary relocation benefits and assists landlords in complying with temporary relocation requirements. Assistance typically involves educating tenants and landlords about their rights and responsibilities under the temporary relocation law. It also involves interacting with the staff of the city’s Code Compliance Department to clarify whether the tenant is entitled to relocation and, if so, for how long. Additionally, in cases where landlords are reluctant to pay relocation fees, Rent Control staff refers the matter to the Consumer Protection Division of the City Attorney’s Office for enforcement.

Eviction Monitoring

The Rent Control Agency monitors evictions for two main reasons:

- 1) To ensure compliance with the Rent Control Law, which limits the grounds for eviction; and
- 2) When a tenant is evicted without fault (for example, so an owner can move onto the property), the rent for the next tenancy in the unit is restricted to the pre-eviction level plus intervening general adjustments.

Eviction monitoring was enabled by an amendment to the Rent Control Law in 2002 that requires property owners to file with the Agency copies of any eviction notice terminating a tenancy, except when the reason is nonpayment of rent. An owner's failure to submit the copy to the Board within three days of serving the tenant may be used by the tenant as a defense in an eviction action.

The Board received 116 separate notices of eviction in 2014 (this normally excludes notices for Ellis withdrawals but includes six notices for non-payment of rent and six notices related to the granting of removal permits). The notices included 49 for alleged nuisance, 38 for breach of contract (lease terms), six for illegal subtenants, and one for a tenant's alleged refusal to provide access to their unit. Ten notices of eviction were received for owner move-ins.

In 2010, Measure RR changed the law to require owners to give warning letters to tenants prior to starting an eviction action for breach of contract, nuisance or denying reasonable access to a unit. The warning letter gives tenants an opportunity to correct the problem identified before it rises to a cause for eviction. The law does not require owners to file warning letters with the Rent Control Board. Nevertheless, 38 warning letters were received.

Participation in Inter-Agency Committees

Rent Control staff members participate in several of the city's interdepartmental groups designed to educate employees about the city's larger comprehensive goals.

The *Public Information Team* (also known as the PIT crew) meets once a month. The objective of this group is to enhance communication among city staff and with the public at large for various endeavors such as events, festivals and emergency preparedness.

The *Sustainability Advisory Team* meets during the year to discuss ways city departments can meet sustainability goals.

The *Electric Vehicle Infrastructure Task Force* meets periodically to discuss issues and develop plans to enhance electric vehicle charging opportunities throughout the city.

The Agency provided information to Community and Cultural Services to assist in the development of *The Wellbeing Project*, an effort to measure and actively improve community wellbeing.

Smaller groups, organized to accomplish the specific tasks of normal operations of the city, meet as the need or opportunity arises. Rent Control co-sponsors the Maintenance of Residential Rental Property seminar with Code Enforcement and communicates with the City Attorney's Office regularly regarding relocation disputes.

116

EVICITION NOTICES RECEIVED IN 2014

Apartment Listing Service

The Rent Control Agency provides a free service for landlords to advertise their available rental units in the city. The list of available apartments is updated weekly and may be obtained on our website at www.smgov.net/rentcontrol or at the office in City Hall.

Owners can submit a listing by telephone or in person at the Rent Control office or by using a convenient e-mail form. The listing includes the unit's address, number of bedrooms and bathrooms, rent amount, amenities, phone number, contact person and brief comments.

In 2014, the Rent Control Agency received 78 listings.

78

APARTMENT LISTINGS IN 2014

Fee Waivers

The Rent Control Agency may approve waivers of Rent Control registration fees for units occupied by owners, subsidized by HUD (Section 8 and HOME) or other affordable housing programs, or occupied by very-low-income tenants who are senior or disabled people. There are also fee waivers for condominiums and single-family dwellings for which rent restrictions have been lifted pursuant to the Costa-Hawkins Rental Housing Act.

The change in the number of low-income senior fee waivers since the full implementation of vacancy decontrol 16 years ago is noteworthy. At the end of 1998, 791 tenants held senior fee waivers. As the following table shows, there were only 268 senior fee waivers as of December 31, 2014.

The following table shows the number of fee waivers of each type that were active in 2014, along with the change in the quantity from 2013.

Type of Fee Waiver	As of 12/31/14	Change from 2013
Low-income senior	268	-41
Low-income disabled	100	-26
Owner-occupied	2,206	-21
Single-family dwelling	1,482	+28
HUD subsidized (Section 8)	748	-7
HOME/Tax Credit Units	173	+4
Total fee waivers	4,977	-63

Figure 26

Hearings Department

The Hearings Department handles tenant- or landlord-initiated petitions, complaints and applications. It conducts mediations and hearings to assist members of the public seeking to resolve rent control-related issues.

The Hearings Department provides mediation services as part of the decrease petition and excess rent complaint processes, as well as for some matters not raised by petition. Hearings are held for decrease and excess rent cases not fully resolved through mediation and for all other types of petitions, complaints and situations for which Rent Control regulations call for a hearing. If they disagree with the outcome, petitioners and respondents may appeal a hearing officer decision to the Rent Control Board, and the appeals are handled by the Board's Legal Department. Contested applications for exemption of two- and three-unit owner-occupied properties are referred to the Hearings Department for a hearing resulting in a recommendation to the Board.

Mediation

Mediation is a service the Rent Control Board provides to settle disputes without the need for a hearing. Participation in mediation is voluntary.

Why it works

Settling disputes through mediation, with the help of a trained facilitator (the mediator), is often less confrontational and allows the parties to settle their issues in a way where differences are safely aired and where agreements that are reached are mutually satisfactory. Additionally, mediation provides an opportunity for the parties to tailor solutions that meet their specific needs.

How it works

Some petitions are resolved after the first mediation conference while other cases require on-going mediation before an acceptable resolution is reached. Assuming the parties come

to an agreement, the mediator writes up a settlement agreement (a contract) that is signed and is binding on both parties. The agreement may provide for a schedule of repairs or a voluntary rent decrease. In excess rent matters, the parties may work out a repayment schedule. Rent decrease and excess rent cases are the types of cases most frequently mediated.

Success rate

The mediators have been very successful in settling a large percentage of cases, either in whole or in part, resulting in the need for fewer hearings or fewer issues to be considered at a hearing.

Petitions and Complaints

Individual Rent Adjustments: Decrease Petitions

Tenants whose rental units need repairs or maintenance, or whose housing services have been reduced, may petition to have their monthly rent decreased. The tenant’s initial step is to request in writing that the owner repair the problem or restore the service. If the owner does not meet this request, the tenant may petition for a rent decrease. When a decrease petition is filed, a mediation settlement conference is scheduled in an attempt to resolve the issues without a hearing. Matters not resolved go to a hearing where the hearing officer considers all of the evidence and issues a written decision that could include the granting of a rent decrease if warranted.

Reinstatement of Decreases

If a decrease is granted, the decrease amount will be reinstated (added back into the rent) when the owner makes the required repairs or restores services for which the decrease was granted. Property owners wishing to have a decrease amount reinstated must first file a notice (“Request for Compliance and Addendum”) with the Agency that the subject problem has been corrected. Once the Agency receives a compliance request, action is taken to verify that the conditions for which the decrease was granted are corrected and a proposed addendum is issued. If the petitioner and/or respondent disagree with the proposed addendum, a hearing is held, after which a final addendum is issued. If no hearing is requested, the proposed addendum is made final. Decrease amounts are reinstated for each properly corrected condition. Addenda may be issued on cases issued during the current year or on decisions issued in prior years.

New Decrease Petitions in 2014

Total decrease petitions filed		62
<i>withdrawn or dismissed prior to mediation or hearing</i>	8	
<i>referred to mediation</i>	46	
<i>referred directly to hearing</i>	8	

Mediation Activity

Cases mediated during 2014		58
<i>current year cases</i>	46	
<i>carried over from prior year</i>	12	
Status at end of 2014		
<i>withdrawn / dismissed after mediation</i>	2	
<i>resolved — case closed</i>	9	
<i>no resolution — referred to hearing</i>	22	
<i>partial resolution — referred to hearing</i>	4	
<i>pending</i>	21	

Hearing Activity

Active cases during 2014		51
<i>referred directly to hearings</i>	8	
<i>referred from mediation</i>	26	
<i>ongoing from prior year</i>	16	
<i>remanded back to hearings</i>	1	
Status at end of 2014		
<i>withdrawn or dismissed</i>	12	
<i>decision granting decrease</i>	24	
<i>decision denying decrease</i>	8	
<i>pending</i>	7	
Decisions with rent reinstatements		20
<i>Rents fully reinstated</i>	11	
<i>Rents partial reinstated</i>	9	
Proposed addenda issued		23
<i>In some instances, multiple addenda are issued for decisions reflecting incremental compliance.</i>		
Final Addenda after Hearings		3
<i>In one instance, the Final Addenda reinstated additional decreases. In the remaining cases the Proposed Addenda were made final as originally issued.</i>		

Figure 27

Appeals of Decrease Petition Decisions

Ten appeals were filed on hearing officer decisions in 2014. Eight of the decisions had granted decreases for various conditions while in two instances the hearing officer denied the petitions and no decreases were granted. The Board fully affirmed the hearing officer decisions in five of the appealed cases, three of which had been filed by tenants and two by owners. The Board modified one decision appealed by the owner eliminating one decrease. The Board remanded one decision appealed by the tenant back to the hearing officer to seek out and include additional evidence in the record. One appeal filed by the owner was rejected as the owner was actually seeking compliance. Two appeals filed by owners were pending at the end of the year.

24%

MEDIATED CASES FOR DECREASE PETITIONS
RESOLVED IN MEDIATION
(EXCLUDING 21 PENDING CASES)*

50%

DECREASE PETITIONS FILED IN 2014 FOR
MARKET-RATE TENANCIES (31 UNITS)

* Note: The percentage of mediated decrease cases fully resolved in 2014 is less than is typical. This is due primarily to the fact that a significant number of cases (21) were still pending at the end of 2014. Many of those were in varying stages of resolution per active settlement agreements at the end of 2014.

Individual Rent Adjustments: Construction Decrease Petitions

On October 1, 1999, the Rent Control Board enacted regulations allowing for rent decreases to help mitigate certain construction-related impacts on tenants residing in buildings undergoing substantial rehabilitation. The decrease amounts are based, in part, on the length of time tenants experience problems, the severity of the problems, and the specific impact on the petitioning tenants. During 2014, the Agency issued notices to three properties informing the tenants and property owners that tenants may file decrease petitions for claims of construction-related losses. Seven petitions seeking decreases for construction-related impacts were filed on one of the

properties, while eight were filed on another (one additional petition was filed on that property in 2015). All the petitions were referred to mediation.

Construction Decrease Petitions in 2014

Total construction decrease petitions filed and referred to mediation		15
<i>resolved – case closed</i>	1	
<i>no resolution - referred to hearing</i>	8	
<i>pending in mediation</i>	6	

Hearing Activity

Active cases during 2014		9
<i>referred from mediation</i>	8	
<i>ongoing from prior year</i>	1	
Status at end of 2014		
<i>decision denying decrease</i>	1	
<i>pending</i>	8	

Figure 28

Individual Rent Adjustments: Increase Petitions

Property owners may petition the Rent Control Board for rent increases above the yearly general adjustment for completed or planned capital improvements, lack of a fair return or increased operating expenses not covered by the general adjustments. During 2014, no petition of this type was filed. However, during 2014 one proposed addendum was issued on an increase decision issued in the prior year. The addendum granted increases for completed capital improvements that were proposed and authorized in the original decision.

Excess Rent and Non-Registration Complaints

Rent Control regulations allow a tenant who believes he or she is paying more than the maximum legal rent or whose landlord has not registered the property or tenancy with the Rent Control Agency to petition the Board for recoupment of extra monies paid or to withhold rents until the landlord has registered the property or tenancy. The cases are initially sent to a mediator for resolution. During 2014, some cases were resolved administratively by proposing resolution in writing to the parties prior to forwarding the cases to the mediator. Unresolved cases are decided by a hearing officer following an administrative hearing.

Appeals of Excess Rent Complaint Decisions

An appeal was filed by the complainant on one of the six decisions issued during 2014. The Board affirmed the hearing officer decision on that appeal.

Newly Filed Excess Rent Petitions in 2014		
Total excess rent petitions filed		24
<i>withdrawn or dismissed prior to mediation or hearing</i>	3	
<i>referred directly to hearing</i>	1	
<i>referred to mediation</i>	20	
Mediation Activity		
Cases mediated during 2014		26
<i>current year cases</i>	20	
<i>carried over from prior year</i>	6	
Status at the end of 2014		
<i>withdrawn or dismissed without mediation</i>	1	
<i>resolved — case closed</i>	8	
<i>resolved administratively</i>	4	
<i>no resolution — referred to hearing</i>	7	
<i>pending</i>	6	
Hearing Activity		
Active cases during 2014		8
<i>referred directly to hearings</i>	1	
<i>referred from mediation</i>	6	
<i>ongoing from prior year</i>	1	
Status at the end of 2014		
<i>withdrawn or dismissed</i>	0	
<i>decision substantiating complaints</i>	5	
<i>decision not substantiating complaints</i>	1	
<i>Pending</i>	2	

Figure 29

63%

EXCESS RENT COMPLAINTS FULLY RESOLVED
ADMINISTRATIVELY OR BY MEDIATION
(EXCLUDING 6 PENDING CASES)

79%

EXCESS RENT COMPLAINTS FILED IN 2014
FOR MARKET-RATE TENANCIES (24 UNITS)

Tenant-Not-in-Occupancy Petitions

Rent Control Regulation 3304 allows for a one-time increase to market level for a unit the tenant does not occupy as his/her usual residence of return. When a tenant-not-in-occupancy case is accepted for filing, the petition is handled administratively if the tenant does not contest the owner's petition or is referred to a hearing if the tenant contests the petition. A petition may be dismissed if a sufficient *prima facie* case is not made at the time of filing or be withdrawn if the subject unit is vacated. If the petition is granted, the Board sets the new Maximum Allowable Rent (MAR) for the unit based on rents for comparable units on the property or the three-year median MAR for the city area.

During 2014, ten new petitions were filed. Three petitions were withdrawn (but were subsequently refiled). Two of the petitions were dismissed: in one instance the tenants had vacated the unit rendering the petition moot, and the other petition had not properly followed the regulation regarding noticing tenants of the intent to file. The remaining five cases were referred to hearings, as the tenants contested the petition. In three of those cases, the tenants withdrew their objections and administrative decisions were issued granting the petitions and setting new rents. The other two cases went through the hearing process and decisions were issued; one decision was granted and set a new rent level; the other was denied.

Appeals of Tenant-Not-in-Occupancy Decisions

No appeals were filed on the decisions issued for Tenant-Not-in-Occupancy petitions.

Petitions to Register Previously Unregistered Units

Petitions may be filed with the Rent Control Board when an owner seeks to register a unit not previously registered. This most often occurs in cases where a unit was built without permits (i.e., a bootleg unit). For a unit to be qualified to register, the petitioner must show that the unit was used as a residential rental unit in April 1979, or in the 12 months that preceded April 1979, or that the unit was created by conversion and conforms to the city's zoning and development standards and is either habitable or capable of being made habitable. During 2014, no new petitions of this type were filed.

Base Rent/Amenities Determinations

Under certain circumstances, an owner or former owner, tenant or former tenant of a property, or any Board Commissioner or the Board's Executive Director may petition for a hearing to establish correct apartment and building amenities and/or base rents. During 2014, two base amenities petitions were filed. One was resolved through mediation and one was pending a hearing officer decision at the end of 2014. In addition, three cases required hearings for base rent determinations. One decision was issued resulting in a change to the maximum allowable rent for the unit. The remaining two were in the hearing process at the end of 2014.

Owner-Occupied Exemption Applications



Exemptions are available for properties with three or fewer units that are owner occupied. Although many owner-occupied exemption cases are decided by the Rent Control Board without an administrative hearing, there are occasions when an evidentiary hearing is necessary to determine questions of fact or law. In many of these cases, the exemption is contested by one or more tenants. Hearings may also be required in cases where the lapse of an exemption is contested by the owner. The hearing officer issues a recommended decision that is considered by the Board in making a final determination on the exemption application or lapse of an exemption.

During 2014, four exemption applications were referred for evidentiary hearings. Hearing officer recommendations to deny the exemptions were issued for three cases; the recommendation in the fourth case was to approve the exemption. The Board adopted staff's recommendation to deny the exemption in two cases and approved an exemption where the recommendation had been to deny. The final case with a recommendation to deny was pending Board decision at the end of 2014.

Legal Department

Under the direction of the General Counsel, the Legal Department serves two principal functions: it advises the Board and the Agency on all legal matters, and it represents the Board in litigation.

Of necessity, much of the department's advisory work occurs outside the public view in order to preserve attorney-client confidentiality. But there are important exceptions to this. As a legislative and quasi-adjudicatory body, the Board must operate openly, publicly and transparently. Thus, when the Board decides whether to enact or amend a law, or when it hears an appeal of a hearing officer's decision, its deliberative process must be fully public. As part of that public process, the Legal Department prepares a written report that analyzes the issues presented and advises the Board about legally appropriate outcomes. Last year, the Board's lawyers prepared a number of public reports, which are detailed in the statistical overview at the end of this Annual Report. The Board considers the advice given, but it is not bound by it; rather, the Board makes its final decision based on its independent assessment of staff's advice (including legal advice), public input and its own public deliberation.

The Legal Department has no policy-making role. It is the Board, and not its lawyers, whom the public has elected; therefore, the only "policy" advanced by the Legal Department is that which is embodied in the City Charter or the Rent Control regulations enacted by the people's duly-elected representatives. Nor does the department have any political role. Because its function is to offer the Board complete, accurate, and independent legal advice, it necessarily does so without considering politics, and without favor toward tenants, owners or others.

Lawsuits Filed in Prior Years but Resolved in 2014

Barnes v. City of Santa Monica and SMRCB

Judgment for the Board

In October 2013, Brenda Barnes filed what she claimed was a class-action writ petition against the Board arising out of the Board's grant of a removal permit. The complaint also included various other causes of action. The Board demurred to the petition and complaint on the ground that it lacked all legal merit. The court agreed. An order of dismissal is pending.

Dellagatta Family Trust v. SMRCB

Judgment for the Board

After Dellagatta won a petition for writ of administrative mandamus in 2012, the Board reconsidered a rent-decrease case in accordance with the Superior Court's writ. Dellagatta then objected to the Board's new action and sought \$75,000 in attorney's fees against the Board. The court rejected Dellagatta's objection and denied her attorney's fees motion. Despite these rulings, Dellagatta filed a new complaint in superior court in 2013 making the same arguments to a new judge. The court again found Dellagatta's claims to be without merit and judgment was entered for the Board.

HRCLA v. City of Santa Monica and SMRCB

Judgment for the Board

The Housing Reform Coalition of Los Angeles sued the Board and the City, challenging the City's anti-smoking ordinance, and challenging a Board regulation forbidding landlords to evict purely for violation of that ordinance. HRCLA alleged that the City's ordinance places unlawful burdens on landlords, and that the Board's regulation prevents landlords from evicting tenants who are committing a nuisance by smoking. The Board opposed the petition on the grounds that the Board's regulations do not conflict with State law. The court agreed and entered judgment for the Board.

Solomon v. SMRCB

Writ granted

In 2012, the Board granted an excess rent petition requiring landlord Alvin Solomon to reimburse his tenant for rent that she claimed had been illegally collected from her. Solomon petitioned the Superior Court for a writ of administrative mandamus, alleging that the Board's decision was in error. The court found that Solomon—as sole beneficiary of a living trust—qualified as a new owner of the property after his mother died and was therefore not liable for excess rent collected by his mother.

Lawsuits Filed Against the Board in 2014

Action Apartment Association v. SMRCB

Pending

Action Apartment Association has sued the Board to challenge the increase to the registration fee adopted by the Board by regulation in 2013. Action argues that under Proposition 26 (enacted in 2010), the registration fee is a tax that cannot be increased without approval by the voters. It also claims that the increase to the registration fee is in conflict with the Charter's requirement that the annual general adjustment shall be equal to 75 percent of the change in the CPI.

Gray-Bleiberg Investments VIII, Ltd. v. SMRCB

Writ granted

In 2013, the Board denied Gray-Bleiberg Investment VIII, Ltd.'s petition for a rent increase based on a determination that the tenant was not in occupancy. The tenant had been absent from the property in order to care for her ill cousin. Gray-Bleiberg petitioned the Superior Court for a writ of administrative mandamus, alleging that the tenant was absent too long and the landlord should be entitled to a rent increase. The court agreed with the landlord and granted the writ petition.

Gabriel v. SMRCB

Judgment for the Board

In 2013, the Board granted a rent decrease to a tenant for loss of an on-site parking garage. In 2014, the landlord, Isaac Gabriel, filed a federal lawsuit against the Board, seeking reversal of the Board's decision and alleging several constitutional and civil rights violations. The Board opposed his claims on the ground that they lacked all legal merit. The court agreed and dismissed the case.

Naughton, et al. v. City of Santa Monica and SMRCB

Pending

Four plaintiffs—Peter Naughton, Brenda Barnes, Michael McKinsey and Linnea McKinsey—sued the City and the Board challenging the City's and the Board's actions related to approval of the Development Agreement and Removal Permit for the Village Trailer Park.

Lawsuits Filed in Prior Years and Still Pending

Action Apartment Association v. City of Santa Monica and SMRCB

Pending

Action Apartment Association has sued the Board and the City to challenge a 2010 amendment to the City Charter (Measure RR) that requires landlords to give tenants a warning and reasonable opportunity to correct an alleged tenancy violation before beginning the eviction process. Action argues that this provision of the City Charter is preempted by State law.

Sidenberg v. SMRCB

Judgment for the Board, Appeal Pending

In 1995, a property owner entered into a contract with the Board allowing the owner to temporarily vacate the property so that it could be repaired after the Northridge earthquake. Under the contract, the owner agreed to set aside two units as permanently affordable to low-income persons, in exchange for which the Board allowed the owner to charge market-rate rents for the remaining units when they were first returned to the rental market after repairs were completed. The contract was recorded. The owners died, leaving the property to their daughter who has now sued the Board alleging that the contract's affordable-unit set-aside was invalidated with the enactment of the Costa-Hawkins Rental Housing Act in 1996. The Board opposed the complaint on the grounds that the owner's claims are barred by the statute of limitation and because Costa-Hawkins does not apply retroactively to invalidate pre-1996 contracts. The trial court agreed with the Board and entered judgment for the Board. The property owner has sought review by the Court of Appeal.

Exemption and Removal Permit Applications

The Rent Control Law applies to all residential rental units in Santa Monica, except for those units specifically exempted under certain criteria. Some exemptions are permanent, while others are “use exemptions,” which remain in effect as long as the criteria for which the exemption was granted continue to be met.

Exemptions

Permanent Exemptions

Subject to certain limitations, new construction (completed after April 10, 1979) and single-family dwellings are eligible for permanent exemption from the Rent Control Law.

In 2014, there were 71 declarations submitted for single-family dwellings stating that the structures were not rented on July 1, 1984 and eligible for permanent exemption. As long as the information in these declarations is accurate, the subject properties are exempt.

Three single-family dwellings that didn't qualify for the automatic exemption were granted an exemption by the Board after each owner filed an exemption application based on two years of owner occupancy.

3

SINGLE-FAMILY
DWELLING
EXEMPTIONS
GRANTED

71

SINGLE-FAMILY
DWELLING
DECLARATIONS
FILED

Use Exemptions

“Use exemptions” or “temporary exemptions” may be granted for several different uses of a residential rental property that would otherwise be subject to the Rent Control Law. Although tenants living on exempt properties do not have rent-level protections, eviction protections were extended to these tenants with the amendment to the City Charter following the passage of Measure RR in November of 2010.

The “owner-occupied exemption,” which only applies to properties with three or fewer units, is the temporary use exemption that affects the greatest number of properties. Last year, 16 applications for owner-occupied exemptions applications were received. Most applications for this type of exemption are handled administratively provided the owner submits the required documentation and the tenants (if any) verify the owner's residency. Staff prepares a recommendation for the Board, which then determines the property's exemption status. In some instances, applications are referred to the Hearings Department for evidentiary hearings to determine if the owner-applicants meet all the residency requirements to qualify for this exemption. In these cases, a hearing officer

makes a recommendation for the Board’s consideration and decision. During 2014, four applications were referred for evidentiary hearings.

Board decisions were issued on 13 of the 16 applications: owners of ten properties received owner-occupied exemptions, and three of the applications (all of which had been referred for hearings) were denied by the Board. For the remaining three applications, one was withdrawn prior to the issuance of a Board decision, and the other two were pending before the Board at the end of 2014.

Regarding the 13 properties for which decisions were issued, 11 of the properties had owner-occupied exemptions in the past – five within the past five years. The other two properties received an owner-occupied exemption for the first time.

Owner-occupied exemptions lapse by operation of law when the owner moves off the property or when ownership is transferred. The Rent Control Agency monitors owner-occupancy exemptions

and regularly researches changes in ownership of all residential Santa Monica properties. Most exemptions lapse due to a change in ownership. In 2014, 21 exemptions were verified to have lapsed.

Examples of other use exemptions include: residential units in hotels, hospitals, religious institutions, and extended medical care facilities; commercial units; non-rental units; and units owned and operated by governmental agencies.

10
OWNER-OCCUPIED
EXEMPTIONS GRANTED

21
OWNER-OCCUPIED EXEMPTIONS
VERIFIED TO HAVE LAPSED

Removal Permits

To protect the controlled rental housing stock, the Rent Control Law provides strict criteria the Board must apply before granting permits removing units from rent-control jurisdiction. During 2014, three applications for removal permits were received. Two applications filed for adjacent properties were withdrawn by the owner, as he was not able to provide the required documentation. The third application was pending approval at the end of 2014. Regarding the third application, staff’s recommendation to the Board was to grant the removal of one unit that was shown to be incapable of being made habitable in an economically feasible matter.

Appendix

Statistical Overview

Board Meetings		
Board meetings convened and staffed		13
<i>Regular meetings</i>	12	
<i>Special meetings</i>	1	
Public Outreach		
Contacts with people seeking information		12,301
<i>Counter (20%)</i>	2,527	
<i>Phone (74%)</i>	9,077	
<i>E-mail (6%)</i>	697	
Constituency-wide mailings produced and distributed		3
<i>General Adjustment mailings (includes citywide MAR Report mailing)</i>	1	
<i>Newsletters</i>	2	
Community meetings/seminars		10
<i>Seminars by Rent Control staff</i>	4	
<i>Beverly Hills Realtor Association</i>	1	
<i>Santa Monica Festival</i>	1	
<i>Landlord/Tenant Forum w/City Attorney's Office</i>	1	
<i>Santa Monica Talks</i>	3	
Rent Control Seminar Attendance		98
<i>Owner seminar</i>	22	
<i>Tenant seminar</i>	30	
<i>General adjustment seminar</i>	16	
<i>Maintenance seminar</i>	30	
Website Visits		47,851
Petitions/Complaints		
Petitions processed on intake		112
<i>Decrease petitions filed</i>	62	
<i>Construction decrease petitions filed</i>	15	
<i>Increase petitions filed</i>	0	
<i>Excess rent complaints filed</i>	23	
<i>Base amenities petitions filed</i>	2	
<i>Unregistered unit petitions filed</i>	0	
<i>Tenant-Not-in-Occupancy petitions filed</i>	10	

Hearings held		66
<i>Decrease Petitions</i>	46	
<i>Construction Decrease petitions</i>	2	
<i>Increase petitions</i>	0	
<i>Excess rent complaints</i>	7	
<i>Exemption applications</i>	4	
<i>Unregistered units</i>	0	
<i>Potential lapse of exemptions</i>	0	
<i>Tenants-Not-in-Occupancy</i>	5	
<i>Base rent/amenities petition</i>	2	
Written decisions issued		49
Proposed addenda issued		23
Final addenda after hearing issued		3
Interpreter services provided		0
On-site investigations conducted		118
<i>Upon scheduling decrease petitions</i>	46	
<i>In response to compliance requests</i>	18	
<i>Exemption use investigations</i>	22	
<i>Ellis investigations</i>	14	
<i>Occupancy, unit use, residence verification, construction activities etc.</i>	14	
<i>Other (e.g., measuring, service of documents, etc.)</i>	4	
Ellis Withdrawals, Exemptions and Removals		
Ellis withdrawals (properties) filed		16
<i>Completed</i>	8	
<i>Pending</i>	8	
Ellis returns (properties) to rental market		2
<i>Units returned to market</i>	6	
Exemption applications filed		19
SFD declarations filed		71
Removal permit applications filed		3
Apartment Listing Service		
Number of listings received		78

Forms and Permits Processed

Status forms to submit development applications		123
Demolition permits		94
Building permits		580
Property registrations		561
Vacancy registration forms		4,597
Separate agreement registration forms		43
Tenant-filed rental unit registration forms		7
Registration fee payments		3,869
Fee waivers		85
Clean Beaches Tax waivers		92

Appeals and Litigation

Staff reports on appeal		9
<i>Decrease petitions</i>	<i>8</i>	
<i>Excess rent complaints</i>	<i>1</i>	
<i>Increase petitions</i>	<i>0</i>	
<i>Tenants-Not-in-Occupancy</i>	<i>0</i>	
<i>Unregistered units</i>	<i>0</i>	
Exemption Staff Reports Prepared and Reviewed		19
Supplemental staff reports prepared		3
Litigation cases		10
Administrative records prepared		2

Legal Advisory

Miscellaneous staff reports written		8
Occupancy permits advisory		10
Responses to subpoenas & Public Records Act requests		39

Regulations and Resolutions

New or amendments prepared		3
<i>2014 General Adjustment resolution (announcing the 2014 GA of 0.8% with a \$14 ceiling)</i>	<i>1</i>	
<i>Exemption Applications moved to consent calendar (amendment to Regulation 12056(d), to require that exemptions be considered as jurisdictional matters, rather than heard as part of the Board's consent calendar)</i>	<i>1</i>	
<i>Order of Business (amendments to Regulation 1005 to comply with the Brown Act, and Regulation 1023 to more closely track Roberts Rules of Order)</i>	<i>1</i>	