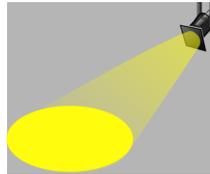




Rent Control News

Surcharges in the Spotlight



The total rent a landlord may collect has three components:

- the Maximum Allowable Rent (MAR), which is the base rent plus annual rent increases (general adjustments tied to inflation);
- a pass-through of half of the registration fee that Rent Control charges property owners (half of the fee is currently \$8.25 monthly); and
- surcharges (or pass-throughs) based upon five assessments on the owner's property tax bill.

The Rent Control Board has been focused on the third component, property-tax-related surcharges, since late last year. After hearing comments from tenants in buildings that sold in recent years and who have seen their surcharges increase significantly (\$50 - \$100 or more a month in some cases), the Board held multiple public hearings and received dozens of written comments. In January, the Board adopted a regulation eliminating property-tax-related pass-throughs in some cases. (See "New Regulation Eliminates Surcharges" on page 2.)

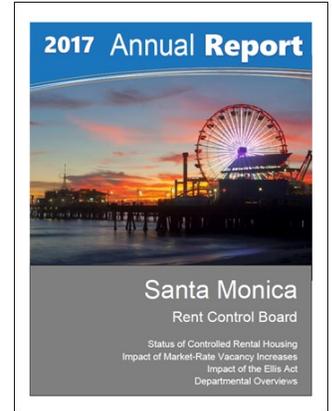
Having addressed future tenancies and ownership changes, the Board is now considering limiting surcharge amounts that landlords may pass through to current tenants. Today, landlords may be reimbursed for 100% of the tax-assessments itemized on the following page by passing through a proportionate monthly share to tenants in each of the units on their property.

Each of these assessments results from ballot measures authorized by Santa Monica voters in past elections. With renters making up almost 70% of Santa Monica residents, it is clear that tenant support helped pass the measures.

The Board has heard from landlords who say that tenants are the primary beneficiaries of the (cont. on p.2)

Highlights of the 2017 Annual Report

Each year, the Rent Control Agency prepares an annual report highlighting the status of controlled rental housing in Santa Monica. Reviewed by the Rent Control Board at its April meeting, the 2017 Annual Report includes sections on the Status of Controlled Rental Housing, the Impact of Market-Rate Vacancy Increases and the Impact of the Ellis Act. The report also highlights the work of the Rent Control Board's five elected commissioners and explains how the Agency's four divisions act to inform the public of its rights and responsibilities and to enforce the rent control law. A few highlights from the report follow.



Controlled Housing Stock

- At year-end, there were **27,375** residential rental units currently subject to the rent control law. Additional units subject to temporary use exemptions will return to controlled status if the exemption lapses.
- **82%** of units are 1- or 2-bedroom units; the rest are studios and 3-bedroom units.

Activities of the Rent Control Board and Agency

- More than **13,000** people contacted the Rent Control Agency office by phone, email or by visiting City Hall last year.
- The Board implemented a requirement that owners provide all new tenants with an Agency-produced information sheet about the rent control law. The **Rent Control Information Sheet** was mailed to all property owners and existing tenants in June of 2017.
- **72** petitions for rent decrease were filed in 2017; about **50%** were resolved in mediation. (cont. on p.3)

Santa Monica Rent Control Board

1685 Main Street, Room 202, Santa Monica, CA 90401

Commissioners: Steve Duron, Todd Flora, Anastasia Foster, Nicole Phillis, Caroline Torosis

Executive Director: Tracy Condon

Hemos preparado también una copia de este boletín en español. Para obtener esta versión traducida, llame a nuestra oficina al (310) 458-8751.

Surcharges in the Spotlight (cont.)

improvements resulting from the assessments and therefore, they should foot the bill. Some apartment owners have also commented that they did not oppose these measures because they believed they would be reimbursed by their tenants for 100% of the costs.

Five Allowable Surcharges from the Property Tax Bill

1. Santa Monica College Bonds (voted indebtedness)
2. Santa Monica Malibu School District Bonds (voted indebtedness)
3. The Stormwater Management Fee (direct assessment)
4. The Clean Beaches and Ocean Parcel Tax (direct assessment)
5. The Santa Monica Malibu School District Parcel Tax / Meas. R (direct assessment)

Tenants, on the other hand, have commented that it is unfair for landlords to pass through 100% of property-tax-related assessments because good schools, a strong community college and clean beaches also benefit property owners. In fact, tenants assert, these community resources contribute to the high market-rate rents that owners collect from new tenants.

While surcharges have existed for years, the hot real estate market in Santa Monica has brought new attention to the issue. Because the voted indebtedness line items relate directly to a property's assessed value, the surcharges that may be passed through to tenants can increase significantly upon a building's sale. In one real-life example, in tax year 2016, a long-time owner (since 1972) of a 21-unit property could pass through \$6.06 per unit per month in surcharges. He sold the building in 2016 and its value was reassessed. When the assessments were recalculated for the 2017 tax bill, the new owner could pass through \$79.76 per unit per month in surcharges. Tenants who have experienced this type of increase in their surcharges have explained to the Board the impact this change has had on their ability to predict stable, and affordable, rents.

A number of factors affect surcharge calculations and the Board has studied a variety of approaches to address surcharges going forward. In addition to reassessments upon sale, the number of units in a building can affect pass-through amounts. When there are more units to divide the assessments among, the cost for each unit is reduced.

After considering various approaches and hearing from dozens of members of the community, the Board is moving toward establishing a cap, or maximum amount, that any tenant would pay toward the property-tax-related assessments. By setting a maximum, tenants on properties that sold in recent years for significantly increased values would have limited liability for unexpected increases over which they had no control.

At their April meeting, Rent Board commissioners expressed interest in setting a maximum pass-through amount of be-

tween \$30 and \$40 per month. A cap of this amount would apply to between 15 – 40% of all units. The Board also asked staff to evaluate an alternative cap equal to 4% of the current maximum allowable rent.

At their May 10th meeting, the Board will consider establishing a cap that would be the lesser of 4% of the maximum allowable rent or a set dollar amount (between \$30 - \$40). If the Board implements a cap on surcharges, the change will be implemented with the next annual rent increase in September.

To help everyone understand any changes in surcharge calculations, the Rent Control Agency will send a detailed mailing to property owners and tenants in late June announcing the 2018 general adjustment and decisions of the Board on surcharges. The Agency will also provide a revised Notice of Change in Terms of Tenancy form for owners to use to calculate and notify tenants of rent increases effective September 1st.

New Regulation Eliminates Surcharges for New Tenants

In January, the Rent Control Board enacted Regulation 3120, which will eventually phase out property-tax-related surcharges for many controlled units. Currently, most landlords in Santa Monica are able to pass through the five property-tax-related assessments shown at left as monthly surcharges on tenants' rents.

The new regulation prohibits owners from adding these surcharges to the rent for any new tenancy starting on or after March 1, 2018 or for any unit on properties that are reassessed due to a sale or voluntary improvements on or after that date.

The Board adopted the new regulation in response to public comment by tenants who explained that escalating surcharges made affording their rent more difficult. As properties sell or otherwise increase in value due to elective improvements, the property is reassessed and the taxes go up – sometimes significantly.

The Board considered many factors when enacting this regulation, but two were particularly compelling. First, for new tenancies, owners may negotiate market-rate rents, and they may take all their operating costs, including tax liabilities, into consideration when establishing that rent. Second, tenants in controlled rental units should be able to reasonably estimate how much they must pay for rent and not be subject to large increases resulting from building sales in a heated, and sometimes speculative, real estate market. New owners can take their tax liabilities into consideration when negotiating a purchase price.

More information on surcharges, including links to Board staff reports and meeting videos, is available on our website.

2018 General Adjustment Tied to Inflation

By law, the annual rent increase (General Adjustment or GA) for rent-controlled units in Santa Monica is 75% of the March-to-March change in the Consumer Price Index (CPI) for the greater Los Angeles area. On April 11th, the Bureau of Labor Statistics announced that the number was 3.8%. Accordingly, the 2018 GA is 2.9% (75% of 3.8% = 2.85%, rounded to 2.9%). The Board may decide to set a dollar-amount ceiling on the GA and will hold a hearing at their June 14th meeting to hear from the public on this topic. With proper written notice, owners may implement the approved GA as of September 1, 2018 for tenancies that began before September 1, 2017. The Rent Control office will mail information to all tenants and property owners in late June explaining this year's annual increase along with an explanation of any surcharges that may be included in tenants' rents.

Highlights of the 2017 Annual Report (cont.)

- Of the **15** excess rent complaints submitted in 2017, **47%** were filed by tenants paying market-rate rents. Of these complaints, **70%** were resolved through mediation.

The Impact of Market-Rate Vacancy Increases

- 70%** of all rent-controlled units have been rented to tenants paying market rates since the onset of vacancy decontrol 19 years ago. The share of units occupied by tenants who moved in before 1999 dropped to **27%**. (The remaining units are occupied by lower-income tenants with affordable rents pursuant to government contracts or agreements, or have never been rented.)
- Units vacated by long-term tenants (361 units) accounted for more than **13%** of all vacancies in 2017.
- Almost **50%** of market-rate units were rented to new tenants in the past **4** years.
- For the seventh consecutive year, median initial rental rates for units with one or more bedrooms hit new highs. Median initial rents set in 2017 were **\$1,725** for singles; **\$2,295** for one bedrooms; **\$3,000** for two bedrooms; and **\$3,999** for three or more bedrooms. The overall median rent for all controlled units regardless of size or date of tenancy was **\$1,795**.
- In 1999, prior to vacancy decontrol, rents for **83%** of units were affordable to households in the low, very-low, and extremely-low income categories. In 2017, less than **4%** of controlled units' rents were affordable to such households.
- The median priced two-bedroom unit now requires a household income of more than **\$110,000** to be considered affordable by traditional government standards (tenant pays no more than 30% of their income for rent).

The Impact of the Ellis Act

- Owners withdrew **80** units from the rent-controlled housing stock in 2017. Thirty-one previously withdrawn units were returned to rental use. There was a net loss of **49** rental units during the year.
- Since the Ellis Act was enacted by the state legislature in 1986, a total of **3,042** units have been withdrawn from Santa Monica's rent-controlled housing stock. Owners have returned **836** of those units to rental use, for an overall net loss of **2,206** units since 1986.
- The most common use of properties withdrawn under the Ellis Act has been redevelopment with condominiums. Of the total withdrawn properties, **27%** are now condominiums.

The full 2017 Annual Report is available online at www.smgov.net/rentcontrol.

Electronic Communication and Online Registration

In an effort to raise public awareness on rent control issues, the Agency is ramping up its efforts to disseminate information electronically via email. Tenants and property owners who are interested in receiving announcements, invitations to events, and Rent Control Board agendas from the Agency are encouraged to sign up for email updates. Sign up or register using the links in the blue Quicklinks box on the Agency's home page: www.smgov.net/rentcontrol.

REMINDER: Owners may register new tenancies online. When a tenancy registration form is submitted, the owner is emailed a copy of the registration form confirming its receipt by the Agency.

2018 Seminars

The Rent Control Agency presents several seminars throughout the year. The remaining seminars for 2018 are tentatively scheduled at:
Santa Monica Main Public Library
601 Santa Monica Blvd.
Multipurpose Room, 2nd Floor.

Please register for any seminar you would like to attend.
Call **(310) 458-8751** or send an email to: rentcontrol@smgov.net.
Check our website at www.smgov.net/rentcontrol for calendar updates.

Calculating the Annual Rent Increase

July 24 | Tuesday | 6:30 – 9:00 pm

Designed for owners and managers, this seminar provides an overview of how to calculate and notice the 2018 general adjustment and surcharges. One-on-one assistance is available to help calculate and complete rent increase notices.

Rental Property Maintenance Seminar

Oct. 16 | Tuesday | 9:30 am – noon

Presented with the City's Code Enforcement Division, this seminar addresses the types of maintenance and repairs that are required, how and where to file a complaint, temporary relocation of tenants during certain types of repairs, and issues related to habitability, plumbing and painting. Tenants, owners, and managers are welcome.



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Rent Control Board

1685 Main Street, Room 202
Santa Monica, CA 90401



Rent Control is closed every other Friday.
Please call before coming to be sure it's a Friday we're open.

INFO



Public Counter: 1685 Main St., Room 202
M-Th / Alternate F: 8:00-4:30



Telephone: (310) 458-8751
M-Th: 7:30-5:30 / Alt F: 8:00-5:00



Website: www.smgov.net/rentcontrol



Email: rentcontrol@smgov.net



www.facebook.com/santamonicarentcontrol

TENANTS

The amount in the circle at left is the MAR for your unit, per Rent Control records. **If you moved in recently, our records may still list the MAR for the previous tenancy. In most cases, owners may reset the rent with each new tenancy.** In addition to the MAR, an owner may pass-through to tenants half (\$8.25 per month) of the registration fee Rent Control charges for each unit. *For tenancies that began before March 1, 2018 and on properties not sold or reassessed since then, owners may also add surcharges based on the property tax bill. With the fee and surcharges, the legal rent for your unit may be \$8 to \$60 higher than the MAR shown, sometimes more. If the message is "Tenant Call," or if you have questions about your MAR, fees or surcharges, please call Rent Control at (310) 458-8751.

OWNERS

By early July, Rent Control will send owners a report listing the MARs in our records for every rental unit on each property they own. If you are an owner, the circle at left should not include a MAR. If a MAR is listed, please call Rent Control at (310) 458-8751.

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Inside the Spring 2018 issue:

- Surcharges in the Spotlight ...*
- Highlights of the 2017 Annual Report ...*
- 2018 General Adjustment ...*

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