

2017 Annual Report



Santa Monica

Rent Control Board

Status of Controlled Rental Housing
Impact of Market-Rate Vacancy Increases
Impact of the Ellis Act
Departmental Overviews

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Santa Monica Rent Control Board 2017 Annual Report

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Produced by staff of the Rent Control Agency
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Introduction

For thousands of Santa Monicans, the rent control law plays an instrumental role in their continued residency in our town. The widespread affordable housing crisis throughout Los Angeles and California heightens the importance of laws that limit housing cost increases for renters. Rent control ensures that increases in Santa Monicans' housing costs will be reasonable, greatly limiting situations in which tenants are "priced out" of their homes. Eviction protections under the law also ensure stability by limiting the reasons a tenant may be forced to leave their apartment.

The elected Rent Control Board and its administrative office, the Rent Control Agency in City Hall, oversee the implementation and enforcement of the law enacted by Santa Monica voters almost 40 years ago. Focusing primarily on the local law, Agency staff members answer questions about tenants' and landlords' rights and responsibilities and make referrals to other city departments or community resources as appropriate. Thousands of residents visit or call the rent control office each year seeking information or to get help resolving issues related to their housing. People in the rental housing business also contact the office for information and assistance in complying with the law or to seek administrative remedies.

In this year's Annual Report, we highlight the many ways in which staff members endeavor to administer the law and inform the public of their rights and responsibilities. Board services remain highly utilized. In 2017, more than 13,000 people contacted the rent control office by phone, email or by visiting our office in City Hall, and hundreds learned more about the law by attending topical seminars offered throughout the year.

Behind the scenes, staff members perform a variety of administrative tasks, including: maintaining the rent tracking database; updating property ownership information and mailing addresses; processing registration fee bills, payments and waivers; scheduling, noticing and holding mediations and hearings; investigating and processing various applications and petitions; indexing and archiving documents; managing the Agency's website; planning for technology system upgrades; preparing for and staffing Rent Control Board meetings; conducting research and analysis to aid the Board in policy decisions; as well as a number of other critical functions.

Yet surely, the number of people helped, the number of hearings held or the number of staff reports written tell only part of the story. What is not evident from the numbers--but I believe is apparent to those who interact with our staff members--is the Agency's extraordinary commitment to providing excellent public service. A focus on quality permeates the high quantity of public contacts with the goal of ensuring each person's needs are met thoroughly, efficiently and with respect.

As the numbers show in the *Impact of Market-Rate Vacancy Increases* section of this report, increases in rents when a vacant unit is re-rented continue to rise, making most units affordable to fewer and fewer people. By the end of 2017, after 19 years of vacancy decontrol under the state Costa-Hawkins Act, just 27 percent of controlled units remain occupied by tenants who moved in before 1999. Conversely, more than two-thirds of all controlled units have been rented at market rates since 1999, many multiple times. Rental rates for new tenancies have, for the most part, escalated during the past 19 years. Even so, for tenants who moved in at a market-rate rent, the rent control law's limits on annual rent increases provide housing predictability and

stability. The city-wide annual rent increase for controlled units in 2017 was limited to two percent with a maximum of \$40.

As shown in the *Impact of the Ellis Act* section, a property owner's decision to get out of the rental business by withdrawing controlled rental units and evicting the tenants changes the lives of individuals in remarkable ways. The loss of rental units also exacerbates the already tight rental housing market. By the end of 2017, after 32 years of Ellis Act withdrawals, property owners had removed 2,206 controlled units from the rental housing market. After years of observing Ellis Act withdrawals, in 2016 the Rent Control Board asked the Santa Monica City Council to fund a study aimed at understanding the factors that influence owners to use the Ellis Act. Upon hearing a consultant's preliminary report near the end of 2017, the Rent Control Board suggested some areas for additional research and analysis. That work is underway, and a supplemental report is expected in the coming months. In the midst of the regional housing crisis, and as rents rise to record levels, the rental housing business is strong, and the preservation of existing rental properties is a vital component in solutions to the housing crisis.

Among the major issues the Board addressed in 2017 was the City's seismic safety retrofitting ordinance. After conducting an extensive inventory of properties across the city, the Council adopted an updated retrofitting ordinance. In October 2017, the Building and Safety Department began notifying owners of approximately 2,000 properties, almost 1,300 of them subject to the rent control law, that their buildings may require retrofitting. The Board held a study session and public hearing to seek input from stakeholders. Individual commissioners and staff members also attended meetings of landlord associations and community groups to understand how retrofitting costs might impact property owners given controls on rents.

The primary concern expressed by leaders of property owners' membership organizations was that some owners might face financing challenges. Hearing those concerns, the Board adopted a resolution recommending that the City Council consider ways to provide, or to arrange for, low-cost financing for owners who require it. The Board did not act to authorize owners to pass through any portion of the retrofitting costs directly to tenants. However, if retrofitting costs result in an owner no longer making a fair return, a petition process is available, and rent adjustments may be granted following a net operating income analysis of the property.

The Agency made progress in 2017 toward updating its information systems. Assisted by staff of the City's Information Systems Division, staff members met with representatives from other rent control jurisdictions and various technology vendors to gather information on available solutions. A Request for Information was issued eliciting responses from several vendors. As the year concluded, staff was developing an extensive scope of work to be issued early in 2018, which will solicit system implementation options, plans and costs. We expect to select a vendor/partner in 2018, and work will begin on a multifunctional system to enhance customer service and improve Agency efficiencies.

We welcome your thoughts on any aspect of the work we do. If you'd like to hear from us, apart from our regular mailings and newsletters, please sign up for electronic communications on our website at www.smgov.net/rentcontrol and watch for our social network activity.

Tracy Condon
Executive Director
March 22, 2018

New Developments in 2017

Rent Control Information Sheet

In a continuing effort to raise knowledge and awareness of the rent control law among property owners and tenants, the Rent Control Board now requires that for all tenancies starting on or after July 31, 2017, landlords must give new tenants an information sheet about the rent control law. The single sheet contains basic information about rent increases, eviction protections, maintenance and repairs, and base amenities. The regulation requires that the landlord give the information sheet to the tenant at the time of lease signing and when filing the Vacancy Registration form for the tenancy, sign under penalty of perjury that he or she has complied with this requirement. Property owners who do not comply are prohibited from taking annual rent increases until they do so. The sheet was provided to property owners and existing tenants in the summer mailing and is available from the Board's website or City Hall office.

The declaration requirement was incorporated into the landlord's signature portion of the Tenancy Registration form. Landlords should provide the sheet to the new tenant and confirm they did for all tenancies that began on or after July 31, 2017 by checking the box. The familiar green form with carbon copies was phased out, as that form does not include the required declaration.

Online Filing for Tenancy Registration

To facilitate compliance with its tenancy registration regulations, the Board introduced online registration for new tenancies. Owners can now click the link on the website home page to complete a Tenancy Registration form. Upon submitting the form online, the owner receives an email

confirmation of its receipt by the Agency. Online filings facilitate expeditious updates of the rent tracking system for the unit. Hard copies are still accepted for those who prefer it.

Construction Decrease Process Updates

As the controlled housing stock ages and owners reinvest in their properties, construction work may at times be disruptive to tenants. Santa Monica laws ensure that property owners consider and address the disruption and impacts that construction causes to occupants. If significant disruption caused by relentless noise, dust, odors, utility shut-offs and compromised security create "substantial interference with the right to occupy the premises," tenants may seek a rent decrease from Rent Control. The Board offers informal mediation services that may help owners and tenants avoid problems and facilitate solutions for issues that arise. If construction impacts for upgrades on the property are not reasonably mitigated and efforts to mediate are not successful, tenants may petition the Rent Control Board for construction-related rent decreases. The regulations regarding necessary repairs or mandated work like seismic safety retrofitting are unchanged. Decreases in those situations are only authorized if the work is done in an unreasonable manner or takes an unreasonable amount of time.

The regulations covering the construction decrease petition process, Section 4400, were updated in 2017 to permit that rent decreases may be calculated from the date the construction impact first arose. Settlement agreements reached through mediation may also be included in revised Means and Methods plans that are required by City ordinances and must be submitted to Building and Safety during the permitting process.

Administration

Rent Control Board

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 Board typically meets once a month in the City Council chambers at a scheduled public meeting. In 2017, the Board convened 12 regular meetings.

Agendas for upcoming 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 agendas, minutes and videos of past meetings is available on the Agency's website.

Rent Control Agency

The Executive Director and Administration Department

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 conducting research and 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. To enhance administrative efficiencies and to ensure cross-training, the Agency's administrative support positions are organized as an Office Support Team under the supervision of the Office/Budget Coordinator within the Administration Department.



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 the Agency's constituents. The department publishes semiannual newsletters and prepares an annual report on the state of the controlled housing stock for the Santa Monica City Council. It also creates content for the Agency's website, and presents seminars for tenants, property owners, property managers, realtors and other interested members of the public.

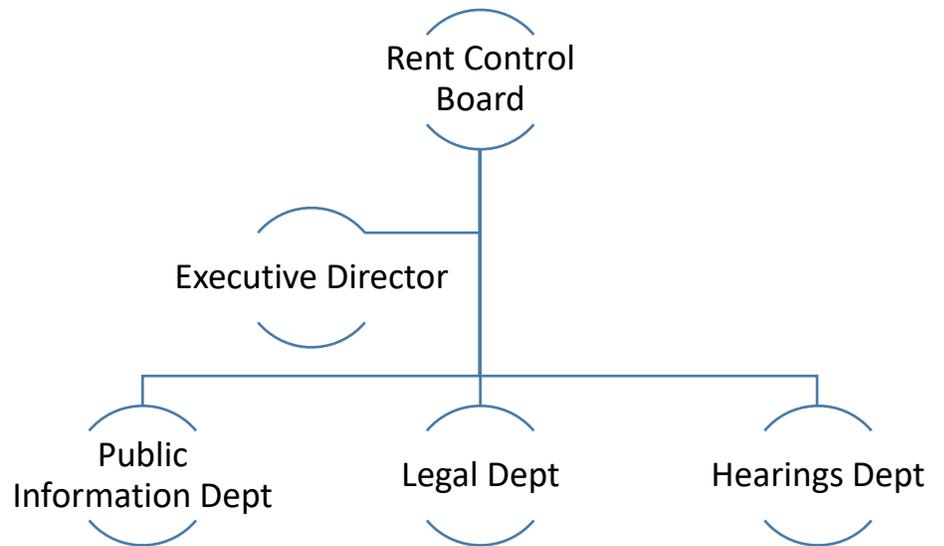
Hearings Department

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 property owners 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.

For details on the activities of the Public Information, Hearings and Legal Departments in 2017, see the overviews beginning on page 33.



Status of Controlled Rental Housing

Housing Stock

The rent-controlled housing stock in Santa Monica consists primarily of residential units that were rented at the time Santa Monica voters adopted the rent control law on April 10, 1979. Units that existed but were not rented at that time became controlled units upon rental. The total number of units subject to the law varies from year to year. This variation is due to fluctuations in the controlled status of units holding temporary use exemptions (i.e. owner occupancy exemptions on properties of three-or-fewer-units), or being granted removal permits, or being withdrawn from the rental housing market pursuant to the Ellis Act. These units return to the controlled housing stock if an exemption lapses, a removal permit is not acted upon or if withdrawn units are returned to the rental market.

At the end of 2017, Board records indicated there were 27,375 residential rental units currently subject to the law. In the past 10 years, the number of controlled units has varied from 28,180 to 27,296. Not included in this number are pads at mobile home parks, units with no rental history, owner-occupied units, units on properties with owner-occupied exemptions and other use exemptions, and certain single-family dwellings and condominiums with decontrolled rents. While there are 118 controlled mobile home park spaces in Santa Monica, they are not subject to the vacancy decontrol provisions of the Costa-Hawkins Rental Housing Act and therefore are not included in the *Impact of Market-Rate Vacancy Increases* section that follows.

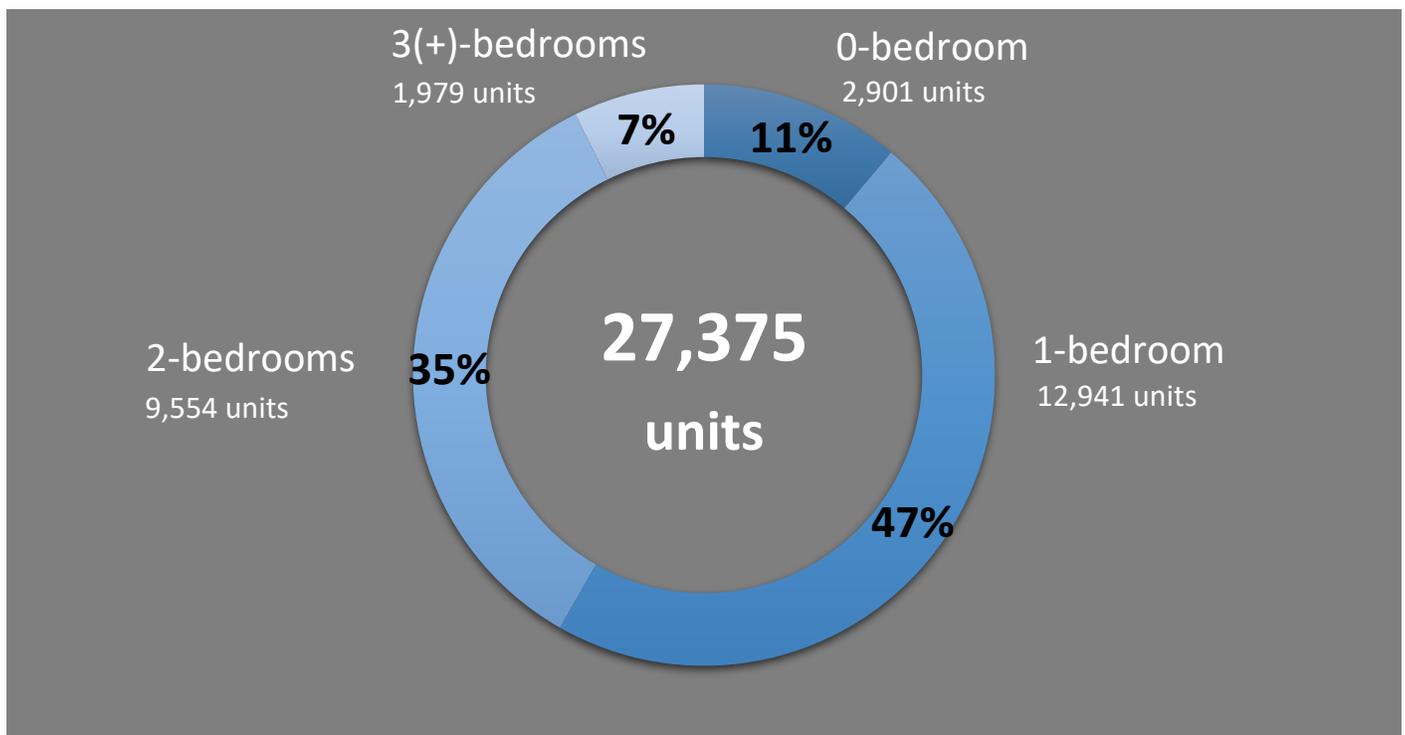


Controlled Units by Type

To better understand the rental housing market in Santa Monica, the Rent Control Agency keeps records by unit type: 0-bedroom, 1-bedroom, 2-bedroom and 3 (or more)-bedroom units. As shown in Figure 1, 47 percent, or nearly half, of controlled units are 1-bedroom units. Two-bedroom units comprise the next largest segment and are more than one-third of the total. Together, 1- and 2-bedroom units comprise 82 percent of the controlled housing stock. Accordingly, the greatest number of tenants are living in 1- and 2-bedroom units, or 22,495 units.

Large controlled units, with three or more bedrooms, are the fewest in number – just 1,979. Studios are only slightly more prevalent with 2,901 controlled units. Despite the higher unit count for studios, a greater number of tenants likely live in 3-bedroom units, which can accommodate more people. In the sections that follow on the *Impact of Market-Rate Vacancy Increases* and the *Impact of the Ellis Act*, it is relevant to consider how changes to the housing stock and median rent levels affect people living in specific unit sizes.

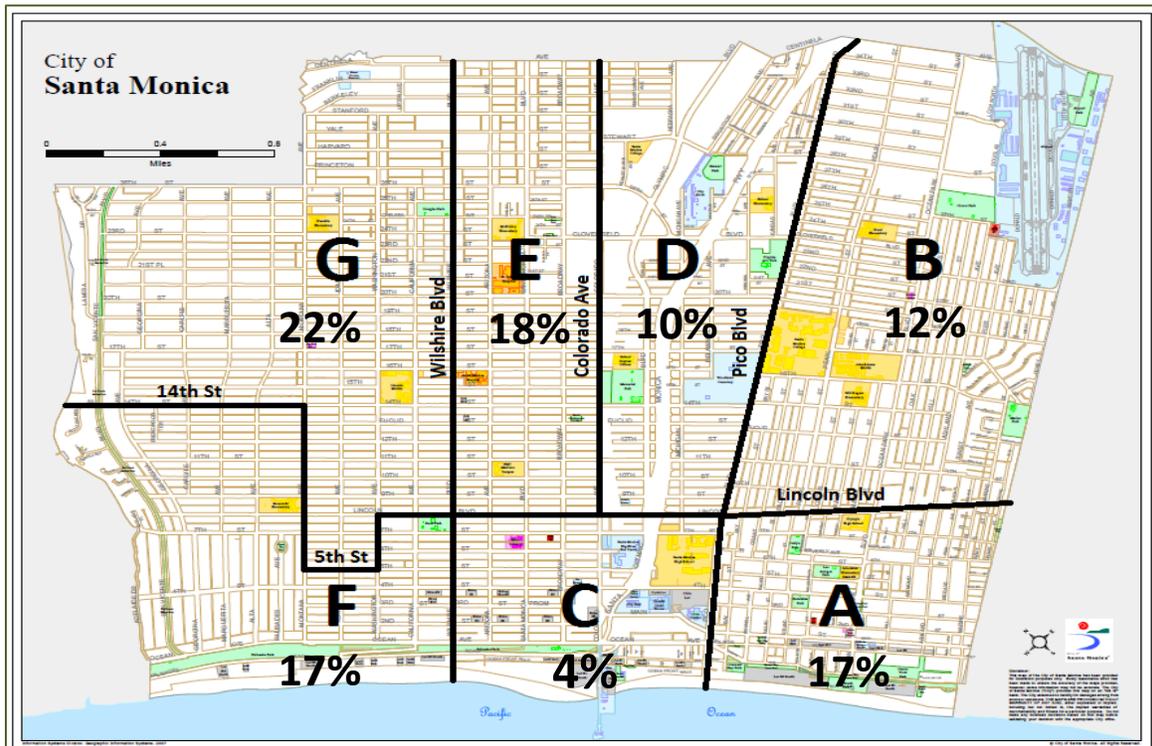
Fig 1 | Percentage of Controlled Rental Units by Unit Size



Mapping the City

In addition to tracking units by their size, the Rent Control Agency segments the city into seven areas that roughly parallel the city’s neighborhoods and census tracts. The Agency reports rental trends by neighborhoods identified as City Areas A through G in the map below. These areas are referenced throughout this report. The map below shows the percentage of controlled rental units in each area as of December 31, 2017. While there are significant differences in the number of controlled units in each area, the share of each area’s units tends to vary little from year to year. The table below the map compares the number of units subject to the law in 2016 and 2017. Annual changes are primarily due to changes in exemption status of properties and Ellis activity.

Fig 2 | City Areas and Percentage of Controlled Rental Units by Area



City Area	Controlled Units as of 12/31/16	Controlled Units as of 12/31/17	Difference
A	4,727	4,696	-31
B	3,296	3,301	+5
C	1,073	1,065	-8
D	2,863	2,856	-7
E	5,015	4,980	-35
F	4,595	4,498	-97
G	6,025	5,979	-46
Total	27,594	27,375	-219

Impact of Market-Rate Vacancy Increases

Introduction

The rent control law was first enacted in 1979. For 20 years, Santa Monica had vacancy control and rent levels for controlled units were pegged to rents in effect in 1978. With the passage of the Costa-Hawkins Rental Housing Act by the California State Legislature, as of January 1, 1999, vacancy decontrol became the norm for rent-controlled jurisdictions across the state. The law significantly changed how rents for new tenancies are established in rent-controlled units in Santa Monica. This report quantifies important impacts of this change over the past 19 years.

As stated above, prior to the implementation of the Costa-Hawkins Rental Housing Act, rents of most controlled units were based on rents in effect in 1978 plus annual increases authorized by the Rent Control Board. Under “vacancy control,” the controlled rent for a unit did not change even when one tenant moved out and a new tenant moved in. Once Costa-Hawkins was fully implemented, however, rents for most tenancies begun January 1, 1999 or after were no longer tied to the rent in effect in 1978. Instead, through “vacancy decontrol/recontrol,” initial rents could be negotiated with each new tenancy at whatever amount the market would bear—so called “market-rate” rents. Those newly set rents are recontrolled and remain subject to rent control’s annual adjustment limits.

The rent control law equally protects tenants who moved in before vacancy decontrol (identified herein as “long-term” tenants, or pre-January 1, 1999 tenants) and those who moved in at market rates (“market-rate” tenants). Initial rents have been rising, as existing tenants move and apartments are rerented. New tenants are starting their tenancies paying rent levels that are not only significantly higher than rents paid by long-term tenants, but in many cases, higher than the rents paid by market-rate tenants who rented their units in Santa Monica just one or two years earlier.

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

As depicted in Figure 3 below, following 19 years of vacancy decontrol, 69.6 percent of all rent-controlled units had been rented to people paying market-rate rents by the end of 2017. The number of units with long-term controlled rents dropped to 27 percent of the total. In 2017, 339 units that had never before been registered at market rates were registered as rented at market rates.

Fig 3 | Controlled Rental Units by Type – 2017

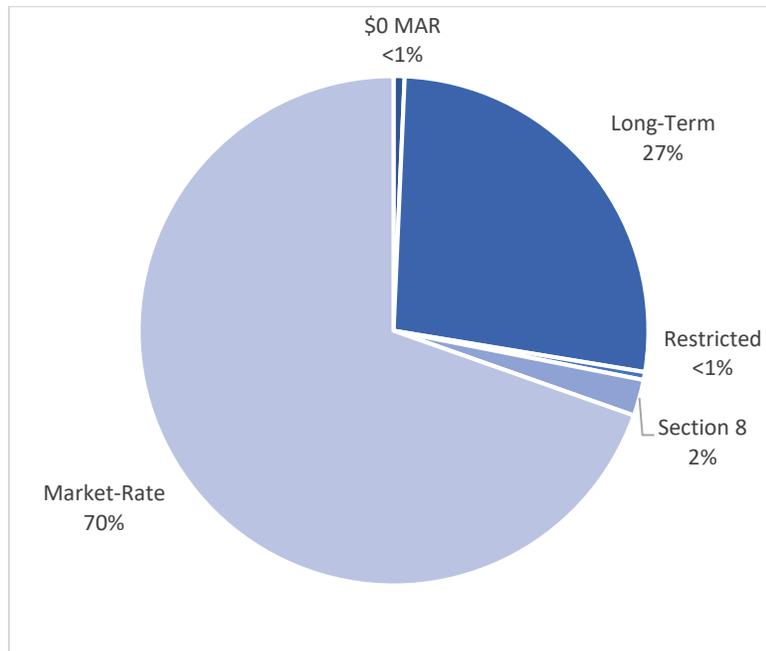
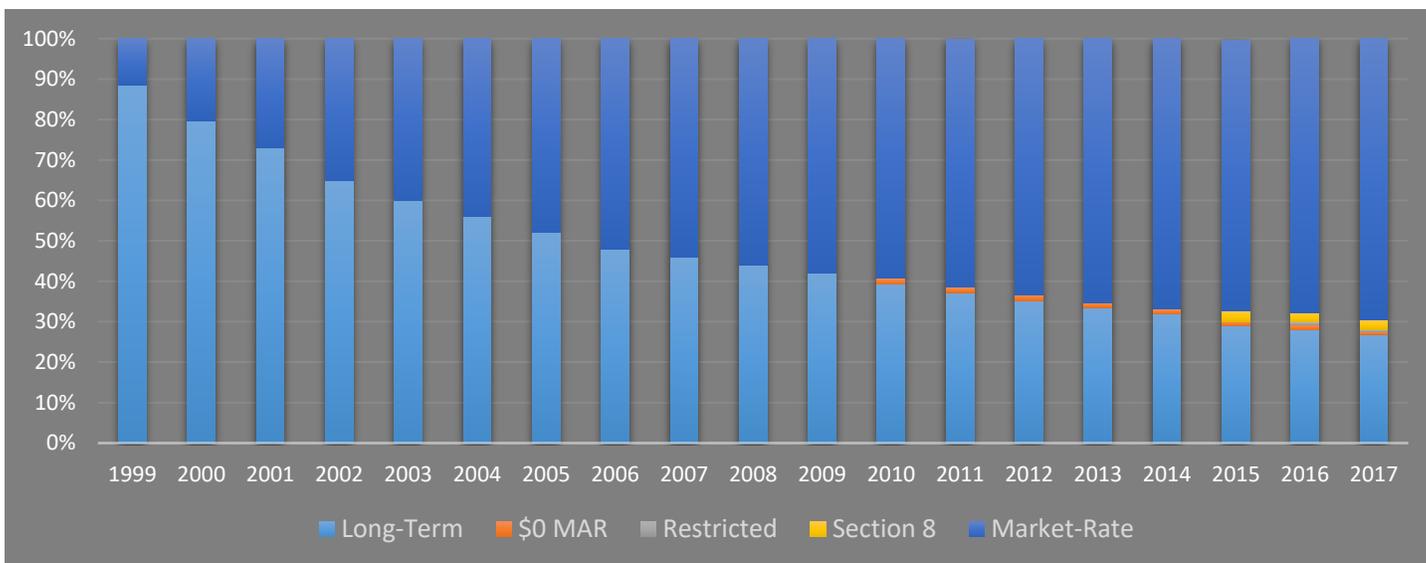


Fig 4 | Controlled Rental Units by Type – 2016 to 2017

	# of Controlled Units 2016	# of Controlled Units 2017	Difference
0 MAR	349	193	-156
Long-Term	7,716	7,355	-361
Restricted	159	139	-20
Section 8	652	631	-21
Market-Rate	18,718	19,057	+339
Total	27,594	27,375	-219

Fig 5 | Controlled Rental Units by Type – 1999 to 2017



The Rent Control Agency only began segmenting controlled units by the five categories indicated above in 2015. Early Agency reports did not distinguish those units with \$0 MARs, those in the Section 8 program or those with restricted rents.

As represented in Figure 5, the share of units rented at market rates has increased as long-term tenants vacate and those units are re-rented. In 2017, 361 units formerly occupied by long-term tenants either were re-rented to market-rate paying tenants, were withdrawn under the Ellis Act or otherwise became exempt. Those 361 units represented 4.7 percent of the housing stock that had been occupied by long-term tenants at year-end 2016. The number of long-term tenancies lost was higher than in 2016, when 269 long-term tenancies were lost. The number of units vacated by long-term tenants in both 2016 and 2017, however, was well below the average number of units vacated by long-term tenants in the five years prior, when roughly 600 units were vacated annually. As detailed later in this report, escalating rents for new tenants make staying in place for existing tenants a relative value – whether tenants moved in before 1999 or since then.

A small number of units with no registered rental history are identified in the figures above as “\$0 Maximum Allowable Rent (MAR)” units. These 193 units are presumed to be owner- or relative-occupied or are not used for a residential rental purpose. The number of units not being used for a residential rental purpose has decreased significantly from years past. Given the record or near-record current rental rates for units of all sizes, it is logical that property owners may be inclined to rent these once non-income producing units.

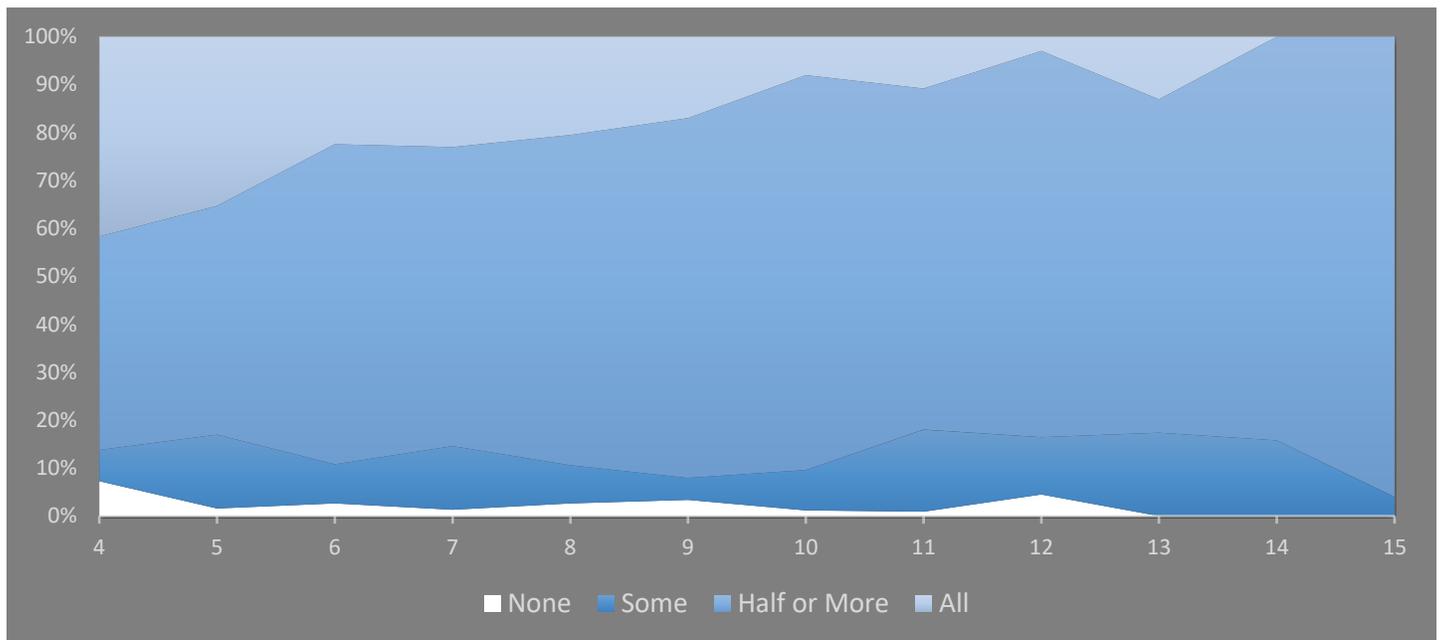
Units identified as “restricted” indicate that the property owner may not be entitled to set a market-rate rent for the unit when it is next rented. The reasons for these restrictions are evictions for owner occupancy, outstanding building code violations or units re-rented within five years of being withdrawn under the Ellis Act.

There was a small decrease in units this year registered as being rented by tenants participating in the Housing Choice Voucher Program, also known as the Section 8 program. Units occupied by tenants with Section 8 vouchers remain subject to the rent control law, but the rents are governed by federal contracts. Agency records of units participating in the Section 8 program are based on registration fee waivers applied for by owners. There may be more or fewer actual units in the program because some owners do not apply for a fee waiver and some may not have informed the Agency that a waiver has lapsed. From 2016 to 2017, there was a net reduction of 21 units recorded as receiving Section 8 fee waivers.

Wide Dispersion of Market-Rate Units

Excluding single-family dwellings and properties with three or fewer units that may qualify for exemption, 90 percent of properties subject to the rent control law are properties with 4- to 15-units. As noted above, long-term tenants continue to occupy 27 percent of controlled units, but that does not mean 27 percent of property owners have not benefitted from vacancy decontrol and higher rental incomes. As shown in Figure 6, the vast majority of properties have units that have been rented at market rates. The top two bands indicate that, by the end of 2017, on average owners of 87 percent of properties in the 4- to 15-unit range had rented half or more of their units at market rates. Represented by the white band in Figure 6, just three percent of properties in this range (73 of 2,335 properties) had no registered market-rate rents. Only four properties with 13 or more units have no registered market-rate rentals. As with the properties shown here, on most large properties with 16 or more units, half or more of the units have been rented at market rates.

Fig 6 | Share of Market-Rate Rentals by Property Size (4-15 Units)



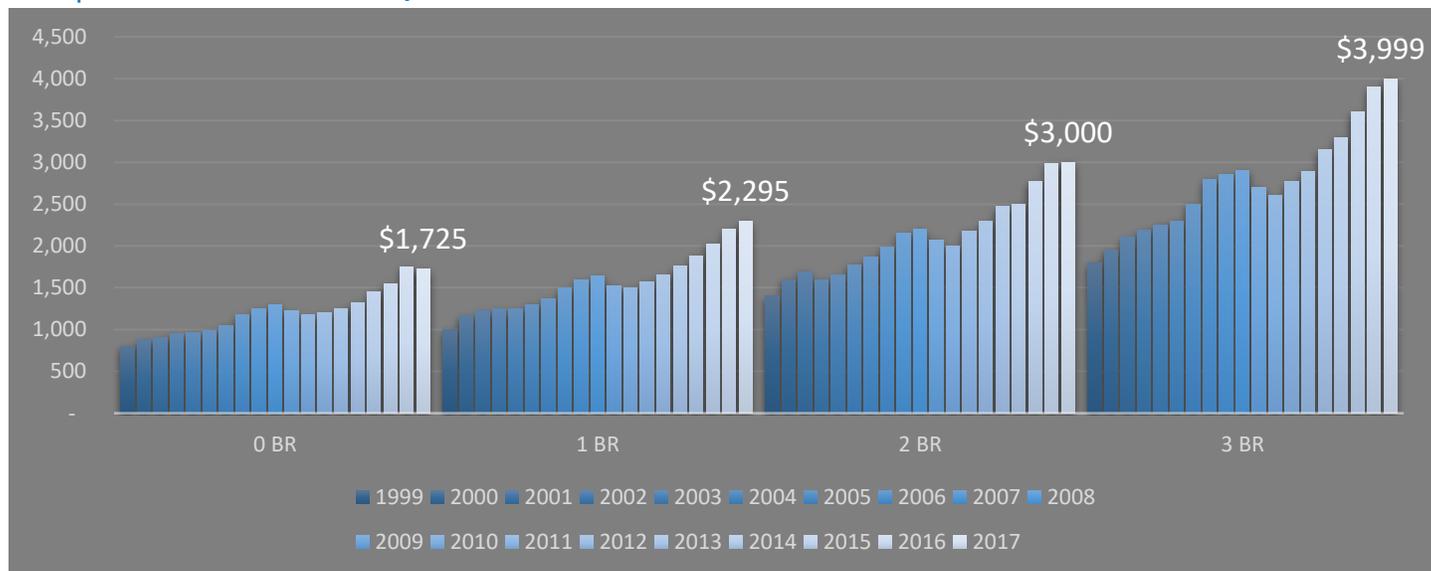
City Area	Market-Rate Units as of 12/31/17	% at Market Rates
A	3,244	69.08%
B	2,277	68.98%
C	795	74.65%
D	1,738	60.85%
E	3,552	71.33%
F	3,083	68.54%
G	4,368	73.06%
CITY	19,057	69.61%

19-Year Review

For the seventh consecutive year, median initial rental rates for units with one or more bedrooms set new highs, as seen in Figure 7 below. On the other hand, median initial rental rates for studio apartments experienced a modest decrease as compared to 2016. The median rent paid by tenants moving into 2-bedroom units last year was \$1,000 higher than the rent paid by a new tenant in a 2-bedroom unit in 2010. The rate of increase in 2017, however, was lower than it has been in the past several years. The most common unit size, 1-bedroom units, saw the largest year-to-year increase, up 4.3 percent, which was just half the 8.6 percent increase from 2015 to 2016. Across all unit sizes, average median initial rents increased more than nine percent from 2015 to 2016, while average median rents rose less than one and a half percent from 2016 to 2017. Median initial rents for 2-bedroom units, which have increased 50 percent since 2010, rose by only one-half percent last year.

The reduction in the median initial rental rate for 0-bedroom units, and the much lower rates of increase on other size units, suggest slight softening of the rental housing market in Santa Monica. As the Affordability Analysis later in this report shows, median rents established in 2017 were affordable only to households earning well above the median family income for a family of four in the greater Los Angeles metropolitan area. With the median priced 2-bedroom unit now requiring a household income of more than \$110,000 to be considered “affordable” by traditional federal government standards, the pool of qualified renters may be shrinking.

Fig 7 | Median Initial Rents by Number of Bedrooms



0 Bedroom	1 Bedroom	2 Bedroom	3(+) Bedroom
 <p>down 1.4%</p> <p>2016 = \$1,750 (+ 12.9%) 2015 = \$1,550 (+ 7.0%)</p>	 <p>up 4.3%</p> <p>2016 = \$2,200 (+ 8.6%) 2015 = \$2,025 (+ 7.7%)</p>	 <p>up 0.5%</p> <p>2016 = \$2,986 (+ 7.6%) 2015 = \$2,776 (+ 11.0%)</p>	 <p>up 2.5%</p> <p>2016 = \$3,900 (+ 8.4%) 2015 = \$3,600 (+ 3.2%)</p>

Charts exclude rentals at 1221 Ocean Ave, a luxury property with extraordinarily high rents that would distort median rents reported. Median rents for prior years vary from previously reported amounts due to late registration of tenancies.

Newly Established Market-Rate Rents in 2017

The median initial rents by city area and unit size for the 2,688 units registered as rented in 2017 are shown in Figure 8. The number of units rented in 2017 was about two percent less than the 2,753 units registered at year end 2016 and five percent less than the 2,838 units registered as rented in 2015.

Again in 2017, the highest rents for studios and 1-bedroom units were set in City Area C, downtown Santa Monica, although the area contains just four percent of the controlled housing stock. About one-third of controlled properties in City Area C are properties returned to rent control following withdrawal under the Ellis Act and redevelopment.

By median price, the most expensive 2-bedroom units were in City Area F north of downtown and along the coast. The median there was \$3,495.

As with prior years, the most affordable median rents were established in City Area D for 0-, 1- and 2-bedroom units, but the median rent for 3-bedroom units was lowest in Area B in 2017.

Median rent levels reported here and throughout this report are affected by the number of rentals in each category. In any individual city area, the number of units rented by number of bedrooms is relatively small, which results in significant variation in median rents.



Fig 8 | 2017 Initial Rents, Market-Rate Units by City Area



Three-Year Review by City Area

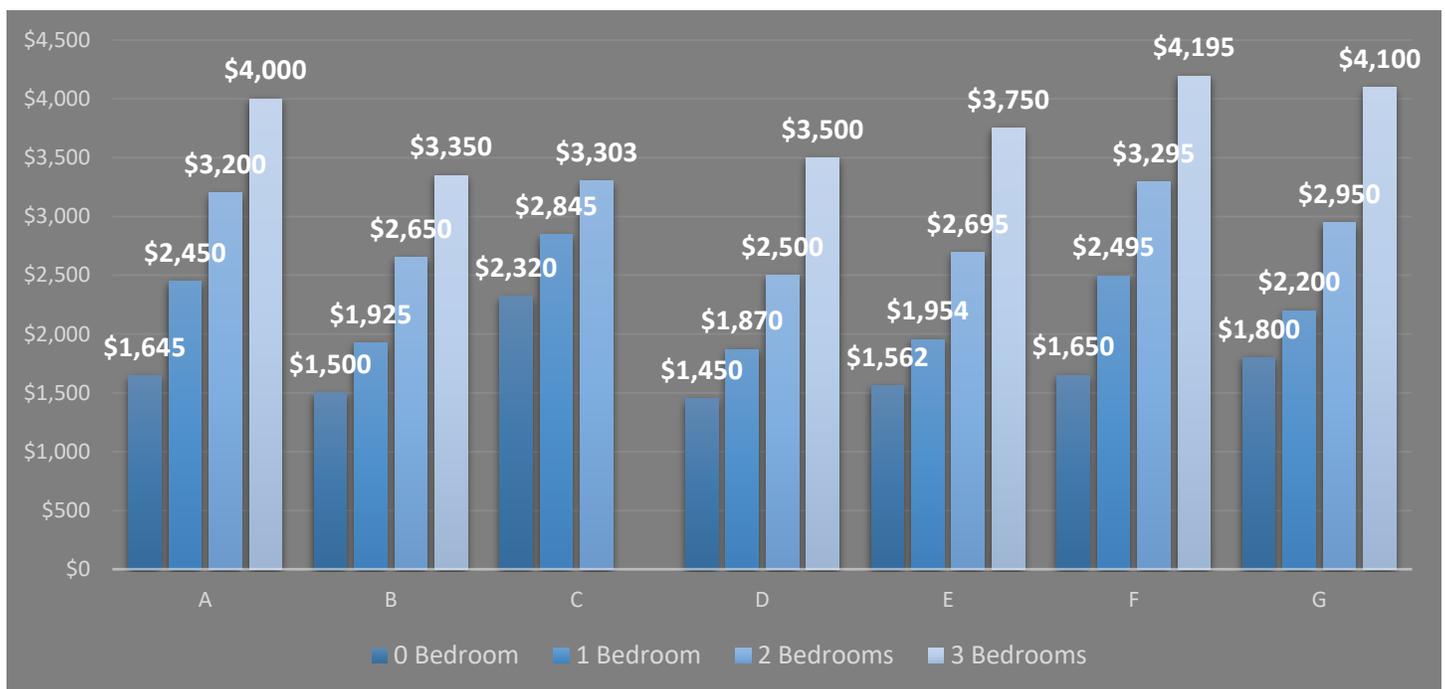
While Figure 8 shows newly set rent levels by city area and unit size, there may be a limited number of re-rentals in any given area from which to report. Similarly, there may be a limited number of re-rentals of units of a certain size. A three-year view of vacancy increases provides a broader perspective of rental rates because the selection set is larger.

During the three-year period from the start of 2015 to the end of 2017, initial rents were set for 7,541 controlled units citywide. Many of these units rented more than one time during the period, but only the most recent rental is considered here. The median rents established over this period are shown below in Figure 9.

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



Fig 9 | 2015-2017 Median MARs, Market-Rate Units by City Area



Figures 8 and 9 exclude rentals at 1221 Ocean Ave, a luxury property in City Area C where extraordinarily high rents would distort median rents reported. Other than at that property, there were no 3-bedroom units rented in City Area C during the last three years, so no median is reported.

Current Median MARs

Once initial base rents are set and registered, the Agency tracks the Maximum Allowable Rent or “MAR” for each unit. While tenants are in place, rent increases are limited to the annual citywide general adjustment or individual adjustments granted through a petition process. Figure 10 shows the current median MARs by city area and unit size for all controlled units, regardless of when the tenancies began. It also shows the citywide median by unit size. The median MAR for all controlled units regardless of size or date of tenancy was \$1,795 at the end of 2017.

Fig 10 | Median MARs of All Controlled Units by Unit Size & City Area

City Area	0-Bedroom Units	1-Bedroom Units	2-Bedroom Units	3-Bedroom Units
A	\$1,319	\$1,831	\$2,185	\$1,960
B	1,128	1,479	1,966	2,074
C	2,032	1,988	2,909	*
D	1,122	1,530	1,577	1,537
E	1,268	1,580	1,985	2,056
F	1,359	1,913	2,401	2,781
G	1,383	1,808	2,353	2,893
CITYWIDE	1,328	1,713	2,120	2,234

Figure 11 displays 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. In each city area, it is not uncommon to see market-rate units renting for twice as much as similarly sized units occupied by long-term tenants.

Fig 11 | Median MARs: Market-Rate Units vs. Long-Term Units

Area	0-Bedroom Units			1-Bedroom Units			2-Bedroom Units			3-Bedroom Units		
	long-term	market-rate	diff.	long-term	market-rate	diff.	long-term	market-rate	diff.	long-term	market-rate	diff.
A	656	1,454	798	873	2,090	1,217	1,040	2,725	1,685	1,268	3,144	1,876
B	609	1,250	641	776	1,660	884	913	2,272	1,359	1,248	2,470	1,222
C	757	2,163	1,406	788	2,682	1,894	869	3,300	2,431	426	*	*
D	560	1,250	690	723	1,716	993	810	1,967	1,157	989	2,652	1,663
E	672	1,356	684	787	1,726	939	1,020	2,292	1,272	1,301	2,886	1,585
F	756	1,505	749	944	2,117	1,173	1,250	2,740	1,490	1,442	3,664	2,222
G	706	1,550	844	830	1,950	1,120	1,136	2,611	1,475	1,468	3,448	1,980
CITY	706	1,498	792	835	1,903	1,068	1,040	2,500	1,460	1,326	3,186	1,860

*As with Figures 8 and 9, Figures 10 and 11 exclude rentals at 1221 Ocean Ave. Aside from 1221 Ocean Ave., there are fewer than five 3-bedroom units in Area C so the median is not reported here.

Current Market-Rate MARs by Year of Tenancy Compared to 2017 Median Initial Rents

As Figure 11 on the previous page indicates, vacancy decontrol has resulted in median MARs that are much higher for tenants who moved in after January 1, 1999 than for long-term tenants. Except for the slight reduction in median MARs set for studios in 2017, the trend for nearly the past two decades has been rising initial rents for new tenancies. The rent control law's limitation on annual rent increases during a tenancy provide protections for in-place tenants from paying ever-rising market-rate rents. Figures 12 through 15 show by unit size and by the year a tenancy started, the monthly savings compared to median initial rents set in 2017. These figures are based on the median initial rents set each year since 1999 plus allowed annual general adjustments. The numbers assume owners are charging the maximum allowable rent for each unit.

Fig 12 | 0-Bedroom Units: Amount Current MAR is Below the 2017 Median Initial Rent of \$1,725

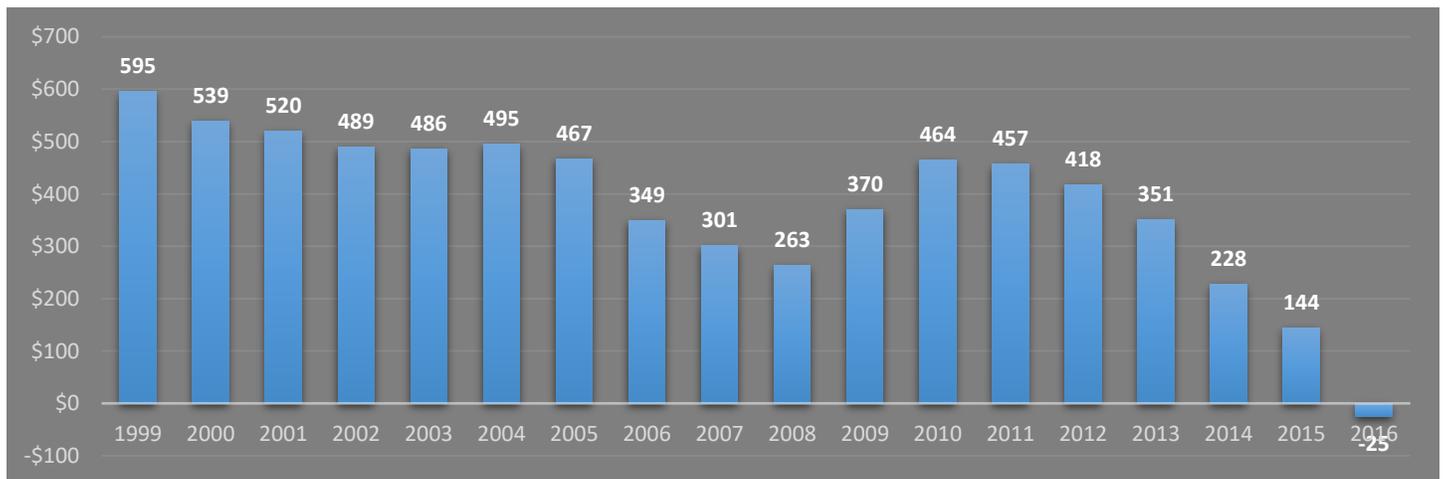


Fig 13 | 1-Bedroom Units: Amount Current MAR is Below the 2017 Median Initial Rent of \$2,295

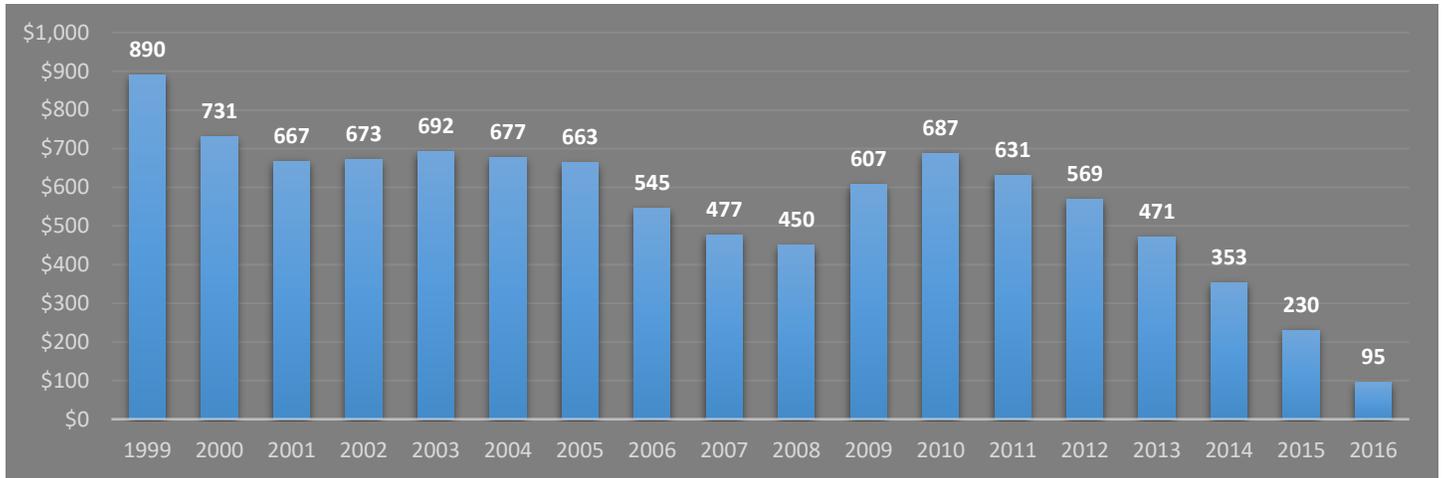


Fig 14 | 2-Bedroom Units: Amount Current MAR is Below the 2017 Median Initial Rent of \$3,000

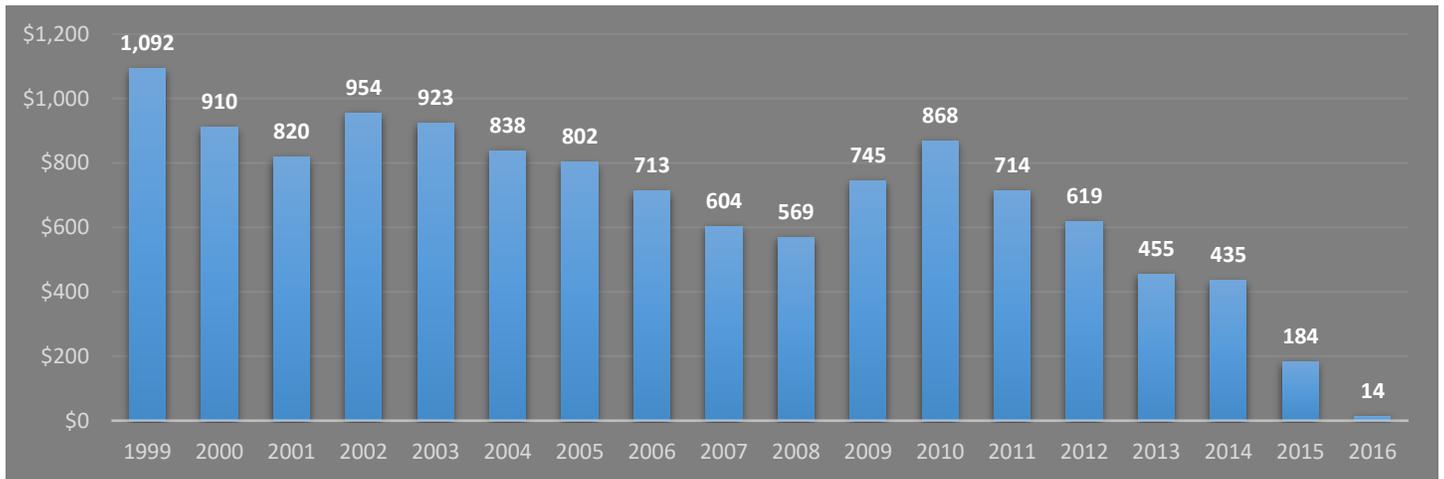
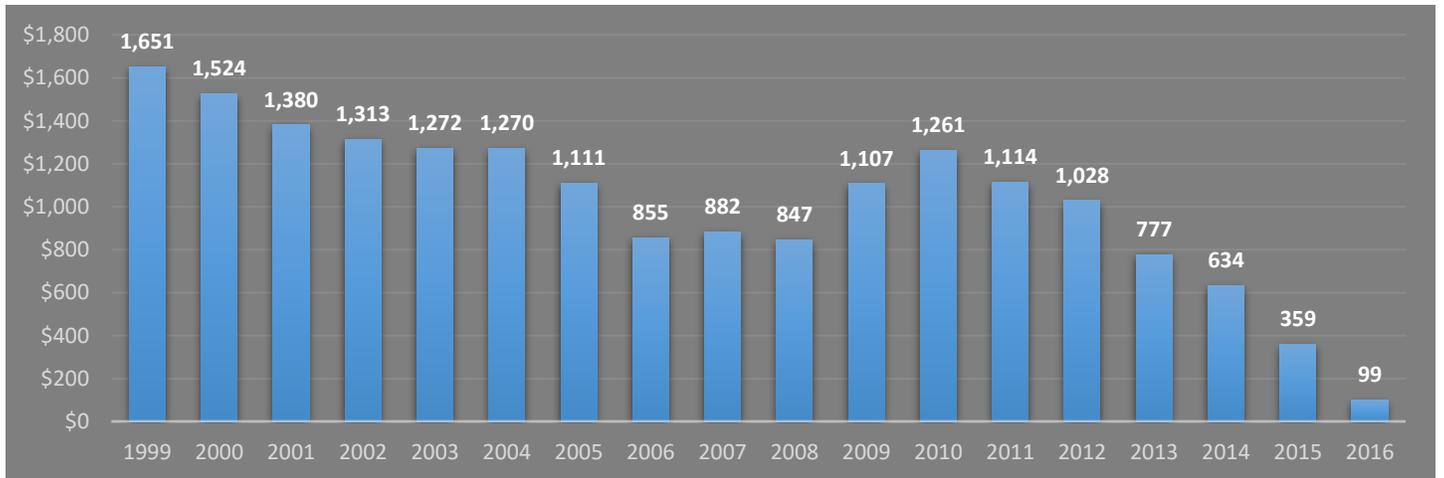


Fig 15 | 3-Bedroom Units: Amount Current MAR is Below the 2017 Median Initial Rent of \$3,999



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. In other words, it is an apples-to-apples comparison of the same units before and after vacancy decontrol.

The far right column shows the difference in income required to afford a median-priced market-rate unit compared to the income needed to afford the same unit today without vacancy decontrol. 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 remained \$64,800 in 2017. Assuming the U.S. Department of Housing and Urban Development (HUD) standard that housing is “affordable” if no more than 30 percent of a household’s income is spent on housing, not even a studio in Santa Monica is affordable to a household making the area’s median income. By HUD affordability standards, a family would need an income of at least \$85,600 to “afford” a 0-bedroom unit, which is 32 percent higher than the AMI. For a 2- or 3-bedroom unit rented in 2017 to be considered “affordable,” a household would need a six-figure income. By contrast, had vacancy decontrol not been implemented, any household earning the median household income would have been able to afford any sized unit last year.

Fig 16 | Income Needed to Afford a Market-Rate Unit

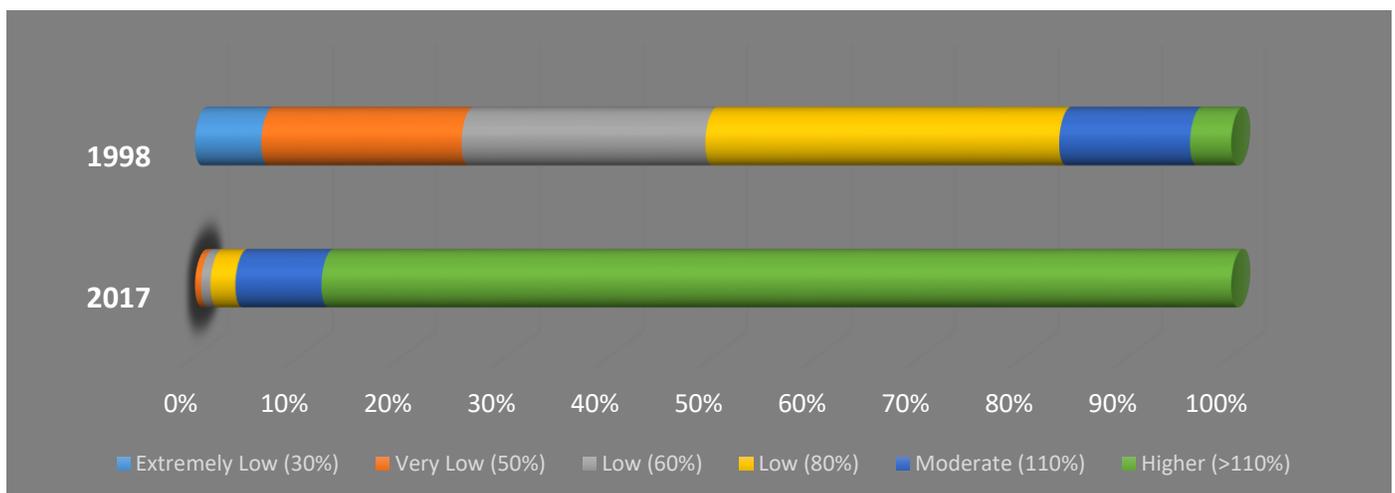
No. of Bedrooms	HUD Affordability Factor	Household Size Adjustment Factor	Without Vacancy Decontrol		With Vacancy Decontrol		Income Difference
			Median MAR	Income Needed	Median MAR	Income Needed	
0	0.3	0.7	\$786	\$44,914	\$1,498	\$85,600	\$40,686
1	0.3	0.8	\$900	\$45,000	\$1,907	\$95,350	\$50,350
2	0.3	0.9	\$1,143	\$50,800	\$2,505	\$111,333	\$60,533
3	0.3	1.0	\$1,460	\$58,400	\$3,200	\$128,000	\$69,600

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 affordable at various income levels and compares the current availability with that prior to vacancy decontrol. Again, the figures assume an affordability standard that no more than 30 percent of income is used for rent. In 1999, prior to vacancy decontrol, rents for 83 percent of units were affordable to households in the low, very low and extremely low income categories. Today, less than four percent of controlled units' rents can be considered affordable to such households. Moreover, many of these units are on properties that are required by agreements with governmental agencies to provide low-income housing. The availability of units by income category is represented graphically below. The bands show availability across the income spectrum in 1998 compared with little affordability for all but the highest income groups as of 2017. Even households earning 110 percent of median family income could find fewer affordable units in Santa Monica last year. From 2016 to 2017, there was a reduction of 320 units that were affordable to this group. Now they are only affordable to households in the highest income category.

Fig 17 | Affordability of Market-Rate Rental Units by Income Category, 1998 versus 2017

Income Category	1998		2017		Change (+/-)
	Units	%	Units	%	
Rent Level Affordability					
Extremely Low (30%)	1,220	6.4	8	0	-99.3%
Very Low (50%)	3,682	19.3	109	0.6	-97.0%
Low (60%)	4,485	23.5	165	0.9	-96.3%
Low (80%)	6,492	34.1	453	2.4	-93.0%
Moderate (110%)	2,417	12.7	1,591	8.3	-34.2%
Higher (>110%)	761	4.0	16,731	87.8	2,098.6%

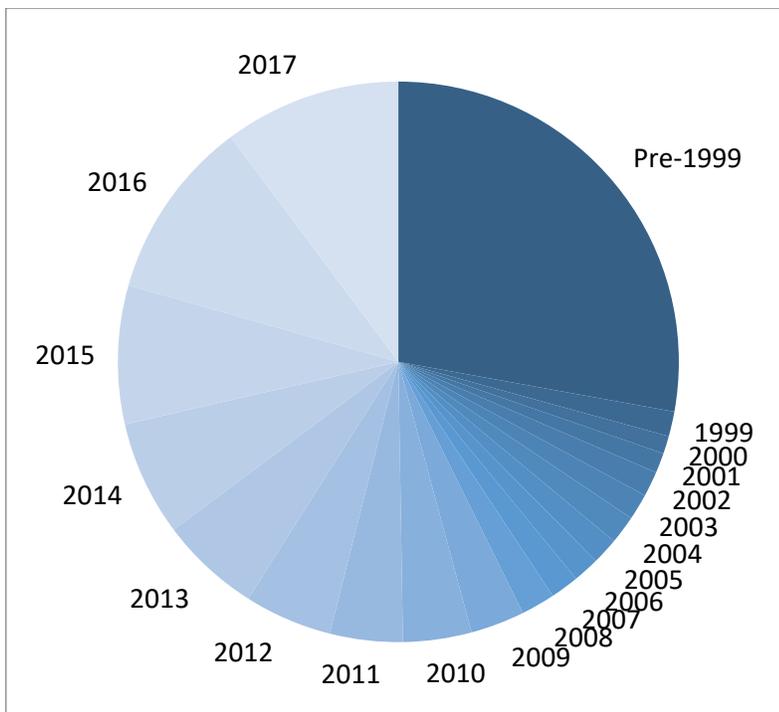


The New Santa Monicans

The years in which current tenants moved into controlled units are represented in Figure 18. This figure excludes units with no rental history, Section 8 units and those with rent restrictions. As explained above, 27 percent of currently controlled units are occupied by tenants who moved in more than 19 years ago. Some tenants in these units have lived in Santa Monica since before rent control began in 1979. Given the lack of affordable housing options, it is not surprising that long-term tenants are not moving from their current residences. Nonetheless, units vacated by long-term tenants accounted for more than 13 percent of all vacancies in 2017.

27.5%
Percentage of all tenants in controlled units who moved in during the past three years

Fig 18 | Controlled Units by Year Occupied



In contrast, more than a quarter of controlled units were rerented in the past three years by new tenants. As Figure 19 on the following page shows, almost 50 percent of tenancies in market-rate units began in the past four years, and more than 75 percent began in 2010 or later. As has been the case for several years, recent tenancies tend not to last long. As shown in Figure 20, although almost all tenancies begun in 2016 continued, about half of the units vacated in 2017 were in units where tenancies had begun within the past four years. The greatest number of vacancies were by tenants who started their tenancies in 2015. With rents that began at rates that for many tenants would not be considered “affordable,” and without deep roots in the community, these tenants appear more mobile. Tenants who have been renting market-rate units for a longer time, however, may realize the financial benefits of remaining in place as shown in Figures 12 to 15.

Fig 19 | Market-Rate Units by Year Occupied

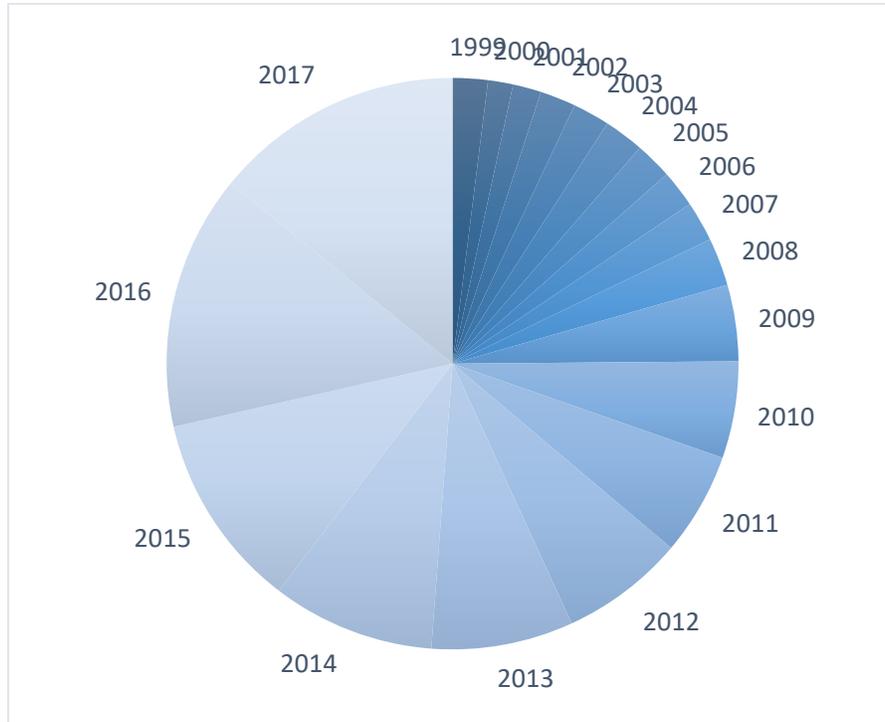
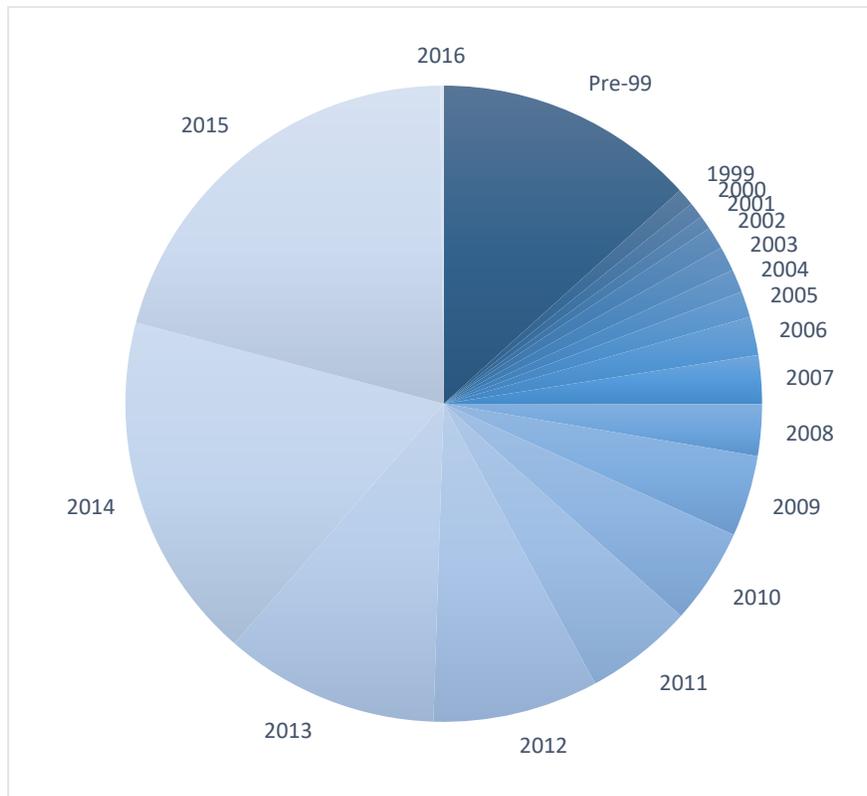


Fig 20 | Units Vacated in 2017 by Year Occupied



Impact of the Ellis Act

Introduction

This report surveys the Ellis Act's cumulative effect in Santa Monica since its enactment in 1986, with emphasis on Ellis activity during the 2017 calendar year.

The Ellis Act allows owners to go out of the residential rental business by evicting tenants and withdrawing units from the housing market. Among the consequences of the withdrawal of units are the displacement of tenants and erosion of Santa Monica's affordable housing stock that has also been significantly impacted by vacancy decontrol-recontrol.

After a property is withdrawn, there are restrictions imposed on the subsequent use of the withdrawn units by the Ellis Act, Rent Control Board regulations and the Santa Monica Municipal Code. Any post-withdrawal occupancy requires approval of an occupancy permit from the City's Planning Department. Post-Ellis activity on withdrawn properties falls into a number of categories: residential re-development (usually involving demolition of existing structures), change of use (including conversion of existing structure to commercial use), parking lots or vacant lots, conversion to single family dwellings, residential non-rental occupancy or no activity at all.

While the Ellis Act grants rights to owners to withdraw properties, it also imposes certain restrictions on units that are returned to the rental market after they are withdrawn. If a unit is returned to the rental market less than five years after it was withdrawn, the rent for that unit remains controlled at its pre-withdrawal level plus intervening general adjustments. If the property is returned to the rental market more than five years after its withdrawal, the owner can rent units at market-rate. For all units returned to the rental market within 10 years of the withdrawal, the owner must give first right of refusal to re-rent the unit to the displaced tenant.

The Rent Control Agency communicates with owners regarding their responsibilities, advises tenants of their rights, and monitors the withdrawal and subsequent use of withdrawn properties. Along with staff from other city departments, Agency staff endeavors to ensure compliance with all city laws.

2,206

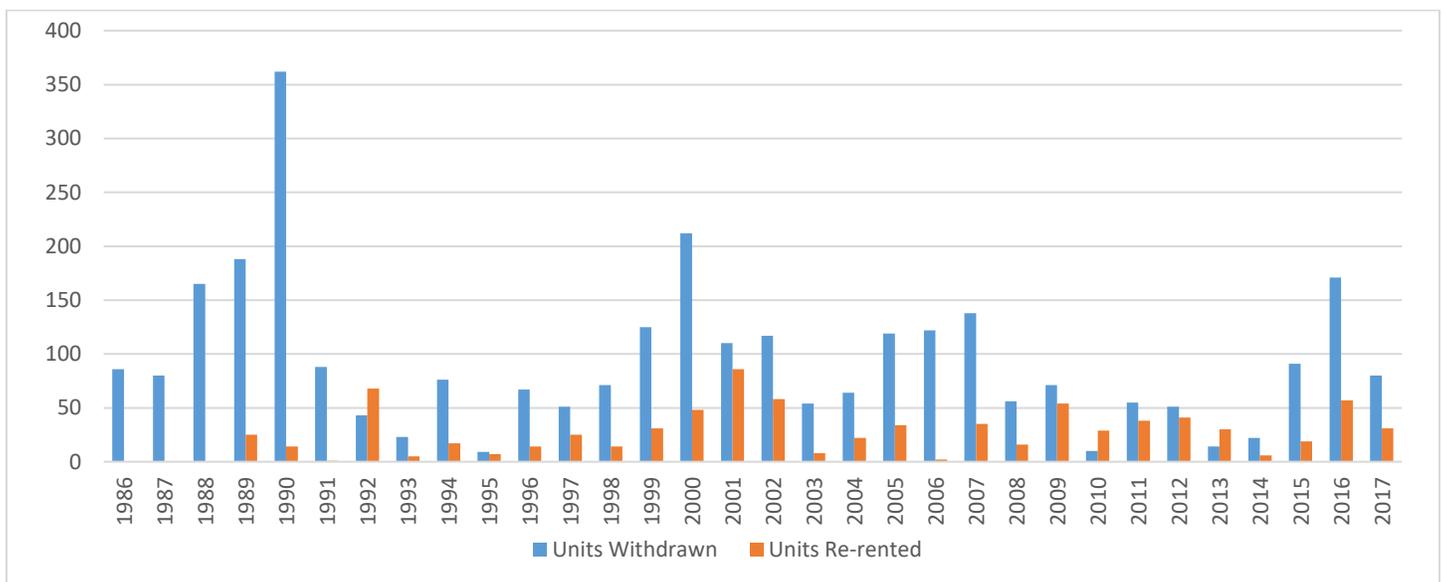
Net total of units
withdrawn from the
Santa Monica rent-
controlled housing
stock since 1986

Historical Ellis Activity

Figure 21 illustrates the number of units withdrawn, and the number or units returned to the rental market, each year from 1986 through 2017, based on the year units were withdrawn and the year units were re-rented. Since it was enacted in 1986, the Ellis Act has been used to withdraw 3,042 units from the market.¹ A total of 836 of the withdrawn units have been returned to the rental market.² Overall, there has been a net loss of 2,206 controlled rental units since the Ellis Act was enacted.

Fifteen withdrawn properties were redeveloped with residential units that were offered for rent within five years of the withdrawal date. The Ellis Act and Santa Monica’s regulations provide that these newly-constructed units are subject to the rent control law. Although not itemized in previous reports, these 258 units could be considered to offset the total units lost to Ellis activity. With these units added, the net loss of controlled units is reduced from 2,206 to 1,948, as shown in the table below.

Fig 21 | Controlled Rental Units Withdrawn and Rerentals Returned to Controlled Status



Status	Properties	Units
Withdrawn from the rental market	615	3,042
Returned to the market and under rent control	158	836
Net loss before redevelopment	457	2,206
Controlled after property redevelopment	15	258
Net loss due to Ellis activity	442	1,948

¹ The 2016 annual report inaccurately reported the total units that had been withdrawn by the end of 2016. That number inadvertently included 13 units withdrawn more than one time since 1986. The correct number of unique units was 2,962.

² The 2016 report also miscounted units that had been returned to the rental market more than once. At the end of 2016, 155 properties with 805 units had been returned to the rental market.

Ellis Activity in 2017

In the first six months of 2017, owners of four properties with a total of 20 units filed notices to withdraw. In the last six months, Ellis filings nearly tripled with 11 notices filed affecting 36 units. By year end, a total of 15 notices to withdraw were received affecting 56 units. Of these 56 units, 35 were occupied by tenants, 16 were vacant and five were occupied by owners. There was almost an even split of units occupied by long-term tenants (moved in before 1999) and those occupied by tenants paying market-rate rents.

As shown in Figure 22 on the following page, only five of the 15 properties with Ellis filings in 2017 completed the withdrawals during the calendar year. A total of 21 units were withdrawn on these properties. Another three properties had units occupied by senior/disabled tenants who invoked their right to stay on the properties for one year before vacating. Owners of two of these properties extended the relocation period for other tenants who were not senior or disabled, postponing the withdrawal of these units. The three properties with senior/disabled tenants and seven properties with notices of withdrawal filed late in the year are expected to complete the withdrawal process in 2018, which will result in the loss of 35 units.

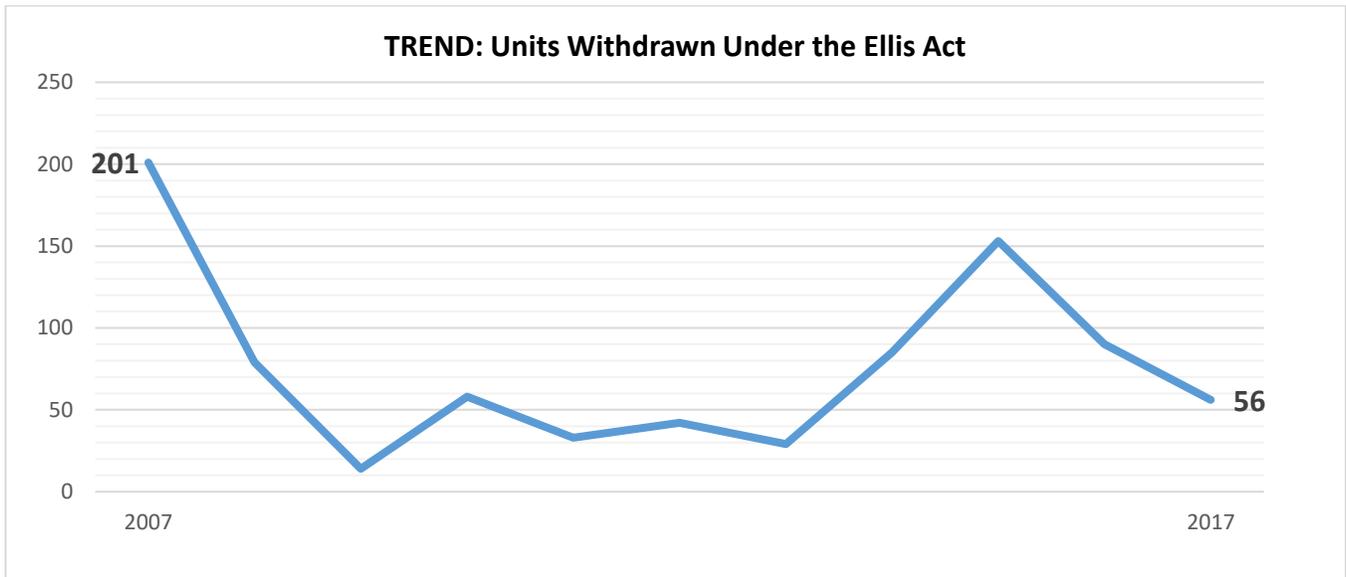


Fig 22 | Status of Properties Receiving Notices to Withdraw in 2017

Location	City Area	Filing Date	Date withdrawn/pending	Units with drawn	Vacant	Evictions	Senior/disabled Tenants	Family occupancy	Long Term Tenants	Post-99 Tenants
1. 7th St	C	03/14/17	07/12/17	8	1	7	0	0	0	7
2. Hill St	A	03/14/17	07/12/17	3	1	1	0	1	1	0
3. 7th St	A	04/20/17	08/18/17	3	1	1	0	1	1	0
4. 29th St	B	08/14/17	12/12/17	3	3	0	0	0	0	0
5. 3rd St	A	08/29/17	12/27/17	4	2	2	0	0	0	2
6. 17th St	G	04/12/17	Pending	6	0	6	5	0	5	1
7. 18th St*	G	07/19/17	Pending	4	0	4	1	0	0	4
8. 6th St	A	09/07/17	Pending	3	0	3	0	0	1	2
9. Lincoln Blvd	B	09/19/17	Pending	3	3	0	0	0	0	0
10. Euclid St	D	09/27/17	Pending	6	1	5	1	0	4	1
11. Yorkshire Ave	D	11/06/17	Pending	1	1	0	0	0	0	0
12. Oak St*	B	11/29/17	Pending	4	0	2	0	2	0	2
13. Bay St	B	12/12/17	Pending	4	0	4	1	0	3	1
14. 2nd St	A	12/12/17	Pending	2	1	0	0	1	0	0
15. Wadsworth Ave	A	12/13/17	Pending	2	2	0	0	0	0	0
				56	16	35	8	5	15	20

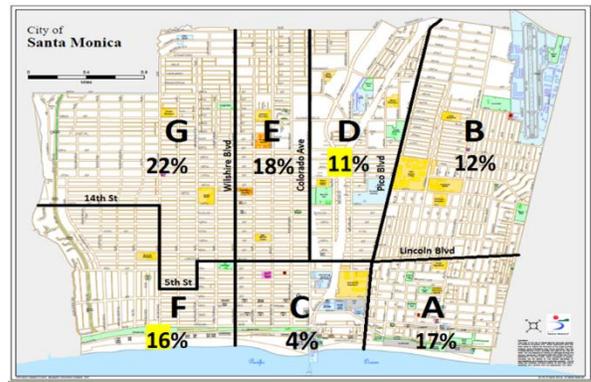
*Two properties are being withdrawn for the second time. As is discussed in the Post-Ellis Monitoring and Enforcement section below, jurisdiction was reasserted on one property after an interdepartmental task force discovered rental activity on the property last year. The owner is in the process of withdrawing the property again.

Ellis Notices of Withdrawal in 2017 by City Area

In 2017, Ellis withdrawals were initiated in five neighborhoods in Santa Monica. As shown in Figure 23, City Areas E and F had no Ellis activity in 2017. In most city areas, Ellis withdrawals are disproportionate to the share of controlled units in the area. This year, City Area A, the Ocean Park neighborhood, experienced 30 percent of the units being withdrawn, although only 17 percent of controlled units are within the area. Similarly, the Sunset Park area, City Area B, represented 25 percent of units being withdrawn although only 12 percent of rent-controlled units are located there. Historically, City Areas E and G have had the most Ellis activity. As shown in the adjacent map, these two areas comprise 40 percent of all controlled units.

Fig 23 | Notices of Withdrawal in 2017 by City Area

City Area	Total Units	%
A	17	30
B	14	25
C	8	14
D	7	13
E	0	0
F	0	0
G	10	18
Total	56	



Units Receiving Notices in 2016 with Withdrawal Completed in 2017

In addition to the five properties initiating and completing the withdrawal process in 2017, 15 properties (59 units) began the process in 2016 and completed it in 2017. As shown in Figure 24, these withdrawals resulted in the eviction of 35 households, more than a third of which included senior or disabled tenants who qualified for the one-year extension. Sixty-six percent of the 35 occupied households were long-term tenants. Twenty-one units were vacant and three units were owner-occupied. Including units on which the withdrawal process was initiated in 2016 and completed in 2017, a total of 20 properties (80 units) completed the withdrawal process in 2017.

Fig 24 | Properties Receiving Notices in 2016 and Completing Withdrawal in 2017

Location	City Area	Filing Date	Withdrawn Date	Units Withdrawn	Vacant	Evictions	Senior / Disabled Tenants	Family Occupancy	Long-Term Tenants	Market-Rate Tenants
1. 9 th St	E	03/11/16	03/11/17	11	2	9	1	0	7	2
2. 18 th St	G	03/29/16	03/29/17	3	0	2	2	1	0	2
3. Hollister Ave	A	06/08/16	06/08/17	3	1	2	1	0	2	0
4. Euclid St	G	08/01/16	08/01/17	4	1	3	1	0	3	0
5. 26 th St	G	08/23/16	08/23/17	4	1	3	3	0	2	1
6. 18 th St	E	09/06/16	01/04/17	2	2	0	0	0	0	0
7. 9 th St	E	09/09/16	09/09/17	11	5	6	1	0	3	3
8. 6 th St	A	09/21/16	09/21/17	6	1	4	1	1	2	2
9. Centinela Ave	D	09/29/16	01/27/17	1	1	0	0	0	0	0
10. Sunset Ave	B	10/03/16	10/03/17	1	0	1	1	0	1	0
11. Main St	A	10/13/16	02/10/17	2	1	1	0	0	1	0
12. San. Mon. Bl	E	10/13/16	02/10/17	3	2	1	0	0	1	0
13. Alta Ave	F	11/18/16	03/08/17	1	0	1	0	0	1	0
14. 19 th St	D	12/15/16	04/14/17	3	3	0	0	0	0	0
15. 10 th St	E	12/30/16	12/30/17	4	1	2	2	1	2	0
				59	21	35	13	3	25	10

Observations

A few overall observations about the properties on which Ellis withdrawals were initiated in 2017:

- 53% of the properties (8 out of 15) were small properties with three or fewer units.
- 33% of the properties (5 out of 15) were vacant at the time the notice was filed with the Board.
- 27% of the properties (4 out of 15) had at least one senior or disabled tenant who was entitled to one year's notice to relocate.
- One-third of the properties filing notices to withdraw in 2017 (5 out of 15) had pre-1999 tenants.

Units Returned to Rent Control Jurisdiction

In 2017, three formerly withdrawn properties (31 units) returned to residential rental use, as shown in Figure 25. One eight-unit property was withdrawn more than 10 years ago, permitting the units to be rented at market-rate rents with no liability to the former tenants. A property with two units was returned to the rental market four years after its withdrawal when staff discovered it had been rented and the Board asserted jurisdiction over it. The third property (21 units) returned to the rental market about two years after it was withdrawn. Board staff notified displaced tenants of their right to reread their former units. Two tenants expressed interest in reread their units but the owner declined and offered to pay damages.

Fig 25 | Units Returned to Rent Control Jurisdiction in 2017

Location	Area	Withdrawn date	Re-rental date	Units
Pico Blvd	B	09/26/86	07/20/17	8
Palisades Beach Rd	F	09/07/13	10/24/17	2
10 th St	E	11/03/15	12/07/17	21

Net Loss of Units in 2017

With 80 units completing withdrawal and 31 units being returned to the rental market, there was a net loss of 49 rental units pursuant to the Ellis Act in 2017.

Post-Ellis Activity

As Figure 26 shows, properties withdrawn from the rental market are used for a variety of purposes. In 2017, there were not many changes in the use of properties as compared to the prior year. Almost 23 percent of withdrawn properties continue to be used for non-residential purposes (commercial, schools/childcare centers/churches, parking lots or vacant lots).

Residential development remains the most common use. Condominium development constitutes the largest reuse category overall. Thirty-seven percent of withdrawn properties have been redeveloped for multi-family residential use, either apartments or condominiums. Just under five percent of these properties also include a commercial or mixed-use component. One withdrawn landmarked property in City Area F with 16 units has been approved to be redeveloped into a 12-unit condominium project that complies with its landmark designation.

Approximately 21 percent of withdrawn properties are now being used as single-family dwellings and 18 percent are being used for non-rental residential occupancy (i.e., family occupancy) or show no permit activity and have been left vacant. Fifteen out of the 20 recently withdrawn properties are in the family occupancy/no activity category.

Figure 26 and the pie chart on the following page show the current status of the 442 properties that remain withdrawn since the inception of the Ellis Act plus the 15 properties that were redeveloped within five years of withdrawal and have new units subject to rent control.

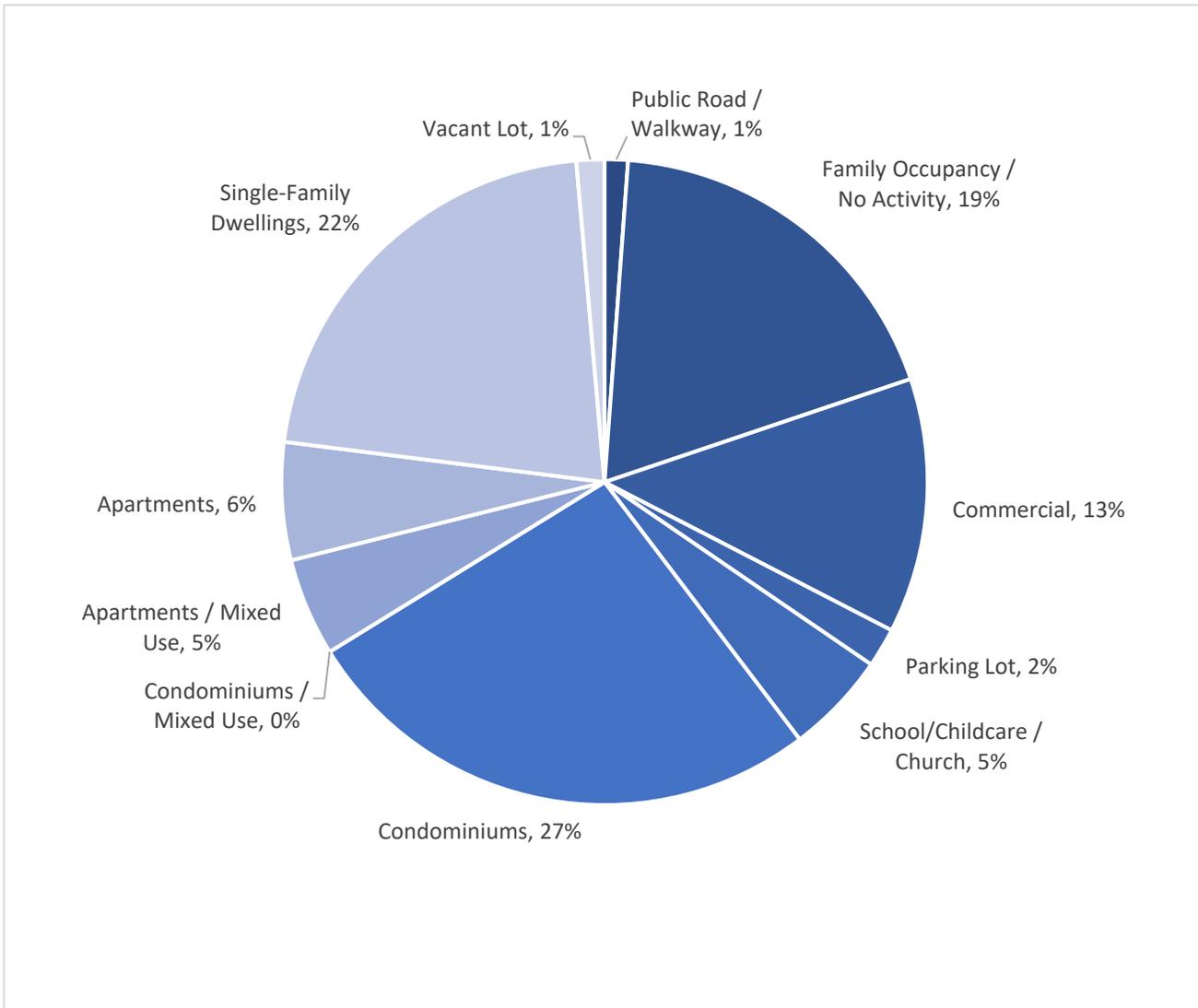
Fig 26 | Summary of Post-Ellis Use of Withdrawn Properties as of 12/31/2017

Post-Ellis Use as of 12/31/17	Properties	Percentage
Apartments	25 ³	5.4
Apartments / Mixed Use	21 ⁴	4.5
Condominiums	123 ⁵	26.9
Condominiums / Mixed Use	1	0.2
Single-Family	99	21.7
Commercial	60	13.1
Parking Lot	11	2.4
School / Childcare / Church	21	4.6
Vacant Lot	6	1.3
Public Road/Walkway	5	1.1
Total	372	
Family Occupancy / No Activity	85	18.6
Grand Total	457	100%

³ Six include controlled rental units.

⁴ Six include controlled rental units.

⁵ Three include controlled rental units.



Post-Ellis Monitoring and Enforcement

The Rent Control Agency in conjunction with the Planning Department, Code Compliance and the City Attorney’s Consumer Protection Division, work together in overseeing post-Ellis activity and to ensure compliance with laws imposed when a property is withdrawn from the rental market. The Agency routinely monitors allegations of any type of rental activity to ensure that owners comply with the restrictions placed on withdrawn properties.

Investigations in 2017 revealed that the owners of a two-unit property, which had been withdrawn less than five years earlier, were re-offering units for rent. The owners had not notified the Board of their intent to re-rent and they were asking for rent far in excess of the Maximum Allowable Rent, both in violation of the law. The Board reasserted jurisdiction over the property, billed the owners for registration fees due, and notified the owners that they may only rent the units at the amount permitted by Board regulations and the Ellis Act. Staff continues to monitor the property should further enforcement action become necessary.

Behind the Numbers

At the Board's November 9, 2017 meeting, Keyser Marston Associates (KMA) presented a report on the Ellis Act and its effects on rent-controlled housing in Santa Monica with an emphasis on factors leading to withdrawal and possible mitigation strategies.

The Santa Monica City Council commissioned the report to study the Ellis Act following a request by the Board (Resolution 16-002). The Board hoped the study would identify factors (i.e. land values, rates of appreciation, zoning, neighborhood, building size, changes in ownership, the ratio of market-rate to long-term rentals) that may make owners more likely to Ellis their properties. The report provided an overview of state and local legislation that affects rent-controlled housing throughout the state and studied what other jurisdictions have done to respond to Ellis activity. The report pointed to economic factors beyond the control of the Board that may compel owners to withdraw from the rental market.

The researchers also reviewed data compiled by the Rent Control Agency regarding rent-controlled properties in Santa Monica to see if there were any similarities among properties that had been withdrawn and to evaluate whether certain properties might be identified as being at risk of withdrawal. A comparison between property sale prices and the number of Ellis evictions showed an upward trend in property values and an upward trend in the number of evictions, yet those fluctuated greatly in the last few years.

Upon reviewing the report, the Rent Control Board offered some suggestions for additional study. That work was underway at the end of 2017, and a supplemental report from KMA will be issued in 2018.

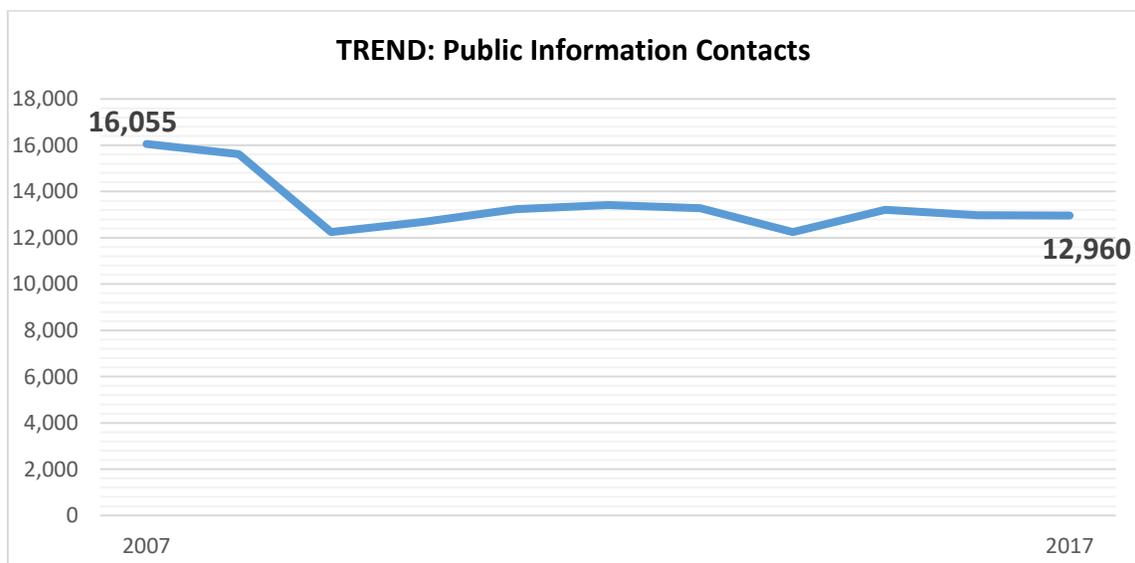
Public Information Department

Public Outreach and Inter-Agency Activity

Direct Communication with Members of the Public

Educating people about the rent control law and answering individual's questions are among the most important services provided by the Rent Control Agency. Whether in person at the Agency's public counter in City Hall, by telephone or via e-mail, the public information staff fields a high volume of inquiries from the public. In 2017, staff members logged 12,960 public contacts. This demand for services has remained relatively constant for the past 10 years. Last year, slightly more than three-quarters of public contact was by telephone, but staff also met in person with property owners, tenants and others close to 2,200 times. Excluding e-mail contact, which is not tracked by user type, 36 percent of contacts in 2017 were with property owners, 56 percent were with tenants, and the balance were with others.

Rent Control staff members communicate regularly with a variety of constituents, including tenants, property owners and managers, real estate agents and other city staff members. Mailings, seminars, community meetings and interdepartmental meetings provide opportunities to discuss the rent control law and to coordinate solutions in specific contexts.



Newsletters

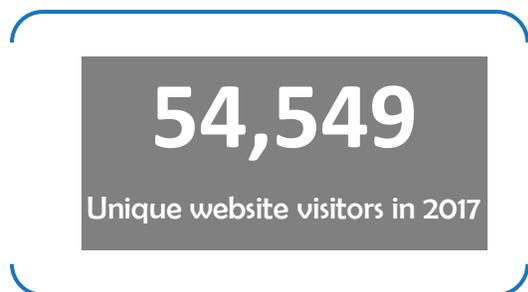
The Rent Control Agency publishes a newsletter, the *Rent Control News*, twice a year – in the spring and in the fall. A Spanish language version is available upon request. Mailed to tenants and owners, the newsletter addresses hot topics, changes in the rent control law and regulations, and state and city laws that affect tenants and owners of residential rental property in Santa Monica. It also informs tenants and landlords about their remedies for a variety of issues and shares information on other important topics and programs. Newsletters mailed to tenants include the Maximum Allowable Rent for each unit.

In 2017, newsletters contained articles on the City’s seismic safety retrofitting program, living with construction, and requirements for lawful buyout negotiations including the owner’s provision to the tenant of a pre-negotiation disclosure form and the requirement that buyout agreements be filed with the Rent Control Agency. Articles also covered the registration of added amenities, the 2017-2018 General Adjustment, and the requirement that owners provide all new tenants with the Rent Control Information Sheet at the time of rental.

Notices of upcoming seminars and inter-agency events were included in each newsletter. Copies of recent newsletters may be viewed on the Board’s website.

Electronic Communications

Electronic communications represent an increasing portion of the Agency’s public contacts. Staff responded to 859 e-mails received in the Rent Control Mailbox in 2017, and individual staff members responded to hundreds more directed to their personal e-mail addresses. Constituents interested in receiving periodic e-mails regarding Board meeting agendas, newsletters and announcements may sign-up on the Board’s website at www.smgov.net/rentcontrol.



A sharp increase in the number of visitors to the rent control website occurred in 2017 partly due to the introduction of online tenancy registration. Website hits increased 66 percent from 52,546 in 2016. Online registration makes registering new tenancies and rents easier for property owners and managers, and the increased number of page views exposes more visitors to important announcements posted on the site, assisting the Agency with its communication efforts.

Educational Programs

Staff members participate in a variety of events 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 biannual COAST event, while others are forums to share information and answer questions from the public.

Every year, the Agency presents seminars tailored specifically to owners and tenants. Seminars presented in 2017 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 Santa Monica Code Enforcement Division)
- Landlord/Tenant Forum (offered in collaboration with the Consumer Protection Division of the City Attorney's Office)

Upon request, smaller presentations are prepared for specific groups, such as realtor associations or building-specific tenant organizations. In 2017, staff addressed the Beverly Hills Realtors Association and Brad Robinson Enterprises, a property management group, at their annual meetings.

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) To ensure proper procedures are followed when future rents are restricted due to an eviction. This occurs when a tenant is evicted without fault (for example, so an owner can move onto the property), and 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 copies with the Agency 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 102 separate notices of eviction in 2017. The notices included 35 for breach of contract (lease terms), 24 for alleged nuisance, 14 for Ellis withdrawals, and 7 for illegal subtenants. Ten notices of eviction were received for owner move-ins. Additionally, although owners are not obligated to provide this type of notice, the figure includes 12 notices for non-payment of rent.



As a result of Santa Monica voters' passage of Measure RR In 2010, owners are required to give tenants warning letters before starting an eviction action for breach of contract, nuisance or denying reasonable access to a unit. The warning letter must give tenants a reasonable period of time to correct the identified problem before it rises to a cause for eviction. The law does not require owners to file warning letters with the Rent Control Agency. Nevertheless, 80 warning letters were received in 2017.

Owner-Occupied Exempt Properties: Annual Certification

The law has always provided that, under certain circumstances, an owner of a two- or three-unit property who lives on the property may receive an exemption from the rent control law. Calendar year 2016 was the first full year since the Board adopted an amendment to the law requiring owners who received an owner-occupied exemption to annually certify that the circumstances on which the exemption was granted continue to exist. That year, 63 exemptions were found to have lapsed.

During 2017, the Agency continued the monitoring project and mailed 497 certification letters to owners holding exemptions. These letters assist owners in meeting the recertification requirement as they include a declaration form the owner may complete and return to the Agency. Monitoring letters are mailed to the owner of each property that has been exempt for at least one year. In 2017, just nine exemptions were found to have lapsed through this monitoring process. Additional owner-occupied exemptions ended during the year as new owners registered their ownership and exemptions granted to prior owners lapsed by operation of law. At year end, initial notices of possible lapse of exemption had been sent to 28 properties that still had not responded. If owners do not recertify, these properties will receive notices of final lapse.

Inter-Agency Collaboration and Participation in Committees

Temporary Relocation Counseling

Santa Monica law requires that owners pay a tenant's living expenses in certain situations when the tenant is forced to vacate an apartment temporarily. Some examples of when an owner must pay temporary relocation costs are termite fumigation or "tenting" of a building, extensive repair or remodel work that results in a unit being identified by the Building Official as temporarily uninhabitable, and when the City orders tenants to temporarily leave because of code violations.

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

Although the Rent Control Agency is no longer the primary city office to assist tenants in obtaining temporary relocation benefits and to advise landlords of the temporary relocation requirements, staff continues to work

closely with the Planning & Community Development Department's Neighborhood Preservation Coordinator to ensure that tenants receive their benefits and that landlords comply with the law. Assistance typically involves educating tenants and landlords about their rights and responsibilities under the temporary relocation law and making referrals to the Neighborhood Preservation Coordinator.

Plan Check Application and Demolition Permit Review and Approval

The Rent Control Agency works closely with the City's Building and Safety Department by reviewing all plan check and demolition permit applications that are filed with the city and by attending plan check pre-submittal conferences. Rent Control staff members review applications to verify that the plan check and demolition permit requests do not violate the rent control law or propose illegal removal of rent controlled units. If plans are in conformance with the rent control law, staff will issue departmental approval. Final permits are issued by the Building and Safety Department. In 2017, staff reviewed 570 plan check applications and 119 demolition permit applications, and attended eight pre-submittal conferences.

Interdepartmental Groups

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

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

The Senior Task Force meets once a month and is overseen by the City's Human Services Division. Staff members from various city departments, as well as non-profits, including the Legal Aid Foundation of Los Angeles and Wise and Healthy Aging, meet to coordinate ways to help seniors in danger of losing their apartments due to a hoarding disability.

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 the Code Enforcement Division and communicates with the City Attorney's Office and Code Enforcement team regularly regarding relocation disputes, maintenance and enforcement issues, use of withdrawn properties and other issues. In 2017, the Rent Control Agency participated in workshops related to the city's Seismic Safety Retrofit Program and the Project Dox Upgrade, a software tool and process to make the city's plan check review more user-friendly and less cumbersome for staff and the public to use.

Apartment Listing Service

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

Owners may submit a listing by telephone or in person at the Rent Control office or by using an e-mail form on the Agency's website. The listing includes the unit's address, number of bedrooms and bathrooms, rental amount, amenities, contact person, phone number and brief comments. In 2017, the Agency received 113 listings, up from 89 listings in 2016.

Fee Waivers

The Rent Control Agency may approve waivers of rent control registration fees for units occupied by owners, units subsidized by HUD (Section 8 and HOME) or other affordable housing programs, or those 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 19 years ago is noteworthy. At the end of 1998, 791 tenants held senior fee waivers. As the following table shows, there were only 236 senior fee waivers as of December 31, 2017.

The following table shows the number of fee waivers of each type that were active in 2017, along with the change in the quantity from 2016.

Type of Fee Waiver	As of 12/31/16	As of 12/31/17	Difference
Low-income senior	240	236	-4
Low-income disabled	90	86	-4
Owner-occupied	2,159	2,118	-41
Single-family dwelling	1,539	1,551	+12
HUD subsidized (Section 8)	652	651	-1
HOME/Tax Credit Units	189	181	-8
Total	4,869	4,823	-46

Hearings Department

Mediation

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. Mediation is provided as a means 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 safely air their differences and reach a mutually satisfactory agreement. Mediation provides an opportunity to tailor solutions that meet each party's specific needs.

Success rate

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

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.

Hearings

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 a party disagrees with the outcome, the hearing officer's decision may be appealed to the Rent Control Board. Appeals are reviewed and Board action recommended 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. Contested lapses of such exemptions may also be referred for a hearing and recommendation to the Board.

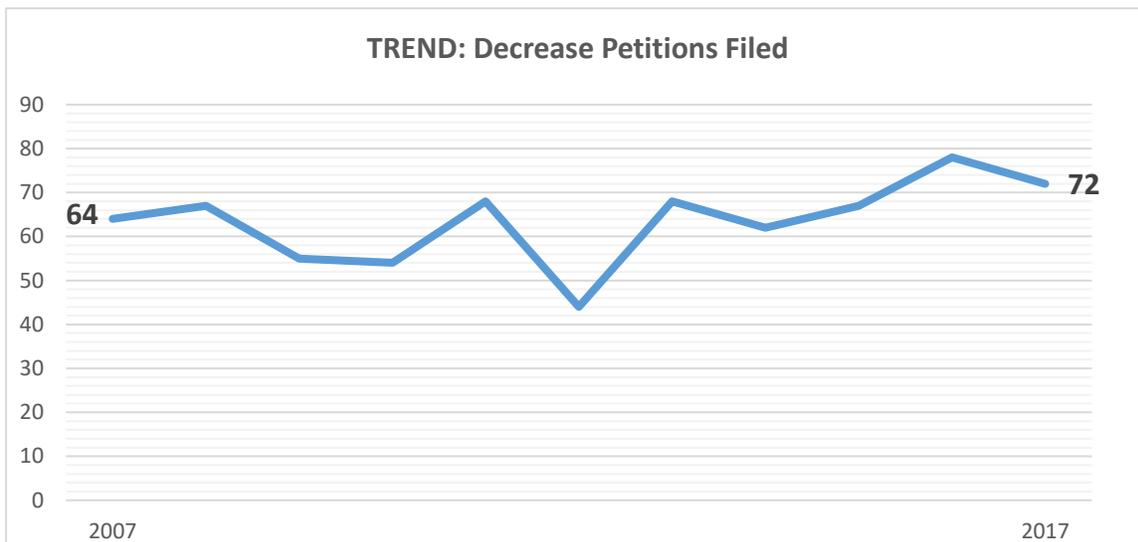
How it Works

At the hearing, the hearing officer takes evidence from the parties, including witness testimony and documentary evidence. If appropriate to the issues in the case, a hearings staff investigator will visit a property before the hearing to document the conditions and then present that evidence at the hearing. In most cases, the hearing is concluded in one day. Some cases are more complex and require multiple hearings. After the hearing process, the hearing officer reviews the evidence and issues a detailed written decision.

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. Seventy-two decrease petitions were filed in 2017. Before filing the petition, a tenant must 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 in mediation go to a hearing, where the hearing officer will consider all of the evidence and issue a written decision that could include the granting of a rent decrease if warranted.



Reinstatement of Decreases

If a rent decrease is granted, the decrease amount is only reinstated (added back into the rent) when the owner makes the required repairs or restores the 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. Thirty-eight compliance requests were received in 2017. 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 becomes final. Decrease amounts are reinstated for each properly corrected condition. Addenda may be issued on cases decided during the current year or on decisions issued in prior years.

Appeals of Decrease Petition Decisions

Ten appeals were filed on hearing officer decisions in 2017. Eight of the decisions had granted decreases for various conditions; two petitions were denied. Board decisions were issued on eight of the appeals. Two of the appeals filed (both by tenants) were still pending at the end of the year.

In the eight appeals, the Board fully affirmed the hearing officer decisions in seven cases – three filed by tenants, three filed by owners, and one filed by both the tenant and owner. The Board modified the remaining decision, appealed by the owner, reversing the decreases granted for two conditions. The Board also issued decisions affirming hearing officer decisions for two cases pending before the Board at the end of 2016; both appeals were filed by tenants.

49%

Decrease petitions mediated and resolved

65%

Decrease petitions filed in 2017 that were for market-rate tenancies (47 units)

New Decrease Petitions		
Decrease petitions filed in 2017		72
<i>withdrawn or dismissed prior to mediation or hearing</i>	0	
<i>referred to mediation</i>	53	
<i>referred to hearing directly or prior to mediation</i>	16	
<i>resolved prior to mediation</i>	3	
Mediation Activity		
Cases mediated during 2017		85
<i>current year cases</i>	53	
<i>carried over from prior year</i>	32	
Status at end of 2017		
<i>withdrawn / dismissed (tenants vacated, refiled petitions or non-responsive)</i>	8	
<i>resolved — case closed</i>	24	
<i>no resolution — referred to hearing</i>	22	
<i>partial resolution — referred to hearing</i>	3	
<i>pending</i>	27	
Hearing Activity		
Active cases during 2017		54
<i>referred to hearing directly or prior to mediation</i>	16	
<i>referred from mediation</i>	24	
<i>ongoing from prior year</i>	12	
Status at end of 2017		
<i>withdrawn or dismissed</i>	9	
<i>decision granting decrease</i>	23	
<i>decision denying decrease</i>	5	
<i>pending</i>	17	
Decrease Reinstatements		24
<i>decreases fully reinstated</i>	15	
<i>decreases partially reinstated</i>	4	
<i>no reinstatement as compliance requirements not met</i>	5	
Contested Addenda		5
<i>Final addenda issued</i>	4	
<i>Pending final addendum</i>	1	

Individual Rent Adjustments: Construction Decrease Petitions

The construction decrease regulations allow for rent decreases to address construction-related impacts on tenants residing in buildings undergoing substantial rehabilitation. The decrease amounts are based, in part, on the length of time a tenant experiences problems, the severity of the problems, and the specific impact on the petitioner. When the Agency becomes aware of substantial construction activities on a property, it issues a notice informing the property owner and the tenants that rent decreases may be authorized for construction-related impacts. The notice offers the Board's mediation services to work with the parties to explore solutions, including mitigating the impacts and temporary rent reductions. Tenants may file petitions before, during, or after the mediation process.

The Agency issued construction decrease notices to owners of nine properties in 2017. Tenants from three of the properties responded to the notices. For one property, petitions were filed for six units; two units withdrew their petitions prior to mediation; the remaining units participated in mediation discussions during 2017. One other property also participated in mediation discussions during 2017. For the two properties that mediated, no resolution was reached and the matters were referred to hearing. The third property was not mediated and the matter was referred to hearing.

Also during 2017, mediation discussions were continued from 2016 for one property. No petitions were filed on this property, and 38 units were involved in mediation. At the end of 2017, mediation was concluded for the property, with some units

having reached a resolution. No petitions had been filed for this property by the end of 2017.

During 2017, six properties were involved in the hearing process. Three of the properties had begun the hearing process in 2016. Hearing officer decisions were issued for three properties after a series of hearings were conducted. The hearing officer granted decreases in two of the cases; one for a property with one petition and the other for four of eight petitions filed on one property (four petitions were withdrawn or dismissed). One decision for a property denied decreases. In addition, the hearing process began but was terminated for one property as the owner was granted an exemption and, therefore, a decrease remedy was moot. For the remaining two properties, hearings were in process at the end of 2017.

No appeals were filed on the decisions issued in 2017.

Construction Decrease Petitions 2017	
Agency construction notices issued in 2017	9 properties
Petitions filed in 2017	9 (3 properties)
Mediation Activity	
Mediation services initiated in 2017	2 properties (5 petitions filed)
Mediations continued from 2016	1 property – 38 units (no petitions)
Pending mediation at end of 2017	1 property (no petitions) 1 property (petition filed)
Hearing Activity	
Active cases in Hearings during 2017	6 properties
Referred to Hearings in 2017	3 properties (8 petitions)
Ongoing in Hearings from prior years	3 properties (10 petitions)
Decisions issued	3 properties (7 petitions)
Hearing process terminated	1 property (1 petition) moot due to exemption
Pending hearing process	2 properties (6 petitions)

Excess Rent and Non-Registration Complaints

Rent control regulations allow a tenant who believes he or she is paying more than the maximum lawful rent to petition the Board for recoupment of monies paid that exceeded the maximum lawful rent. A tenant whose landlord has not registered the property or tenancy with the Rent Control Agency may also petition the Board to withhold rents until the landlord has registered the property or tenancy. The cases are initially sent to a mediator for resolution. In some instances, cases are administratively resolved based on a proposed resolution conveyed to parties in writing prior to the mediation. Cases not resolved by mediation are decided by a hearing officer following a hearing. Fifteen complaints were filed in 2017.

Appeals of Excess Rent Complaint Decisions

Appeals were filed by landlords on four of the ten decisions issued during 2017. The Board affirmed hearing officer decisions finding excess rent on two of the appeals. One hearing officer decision finding excess rent was reversed by the Board. One decision was pending at the end of 2017.

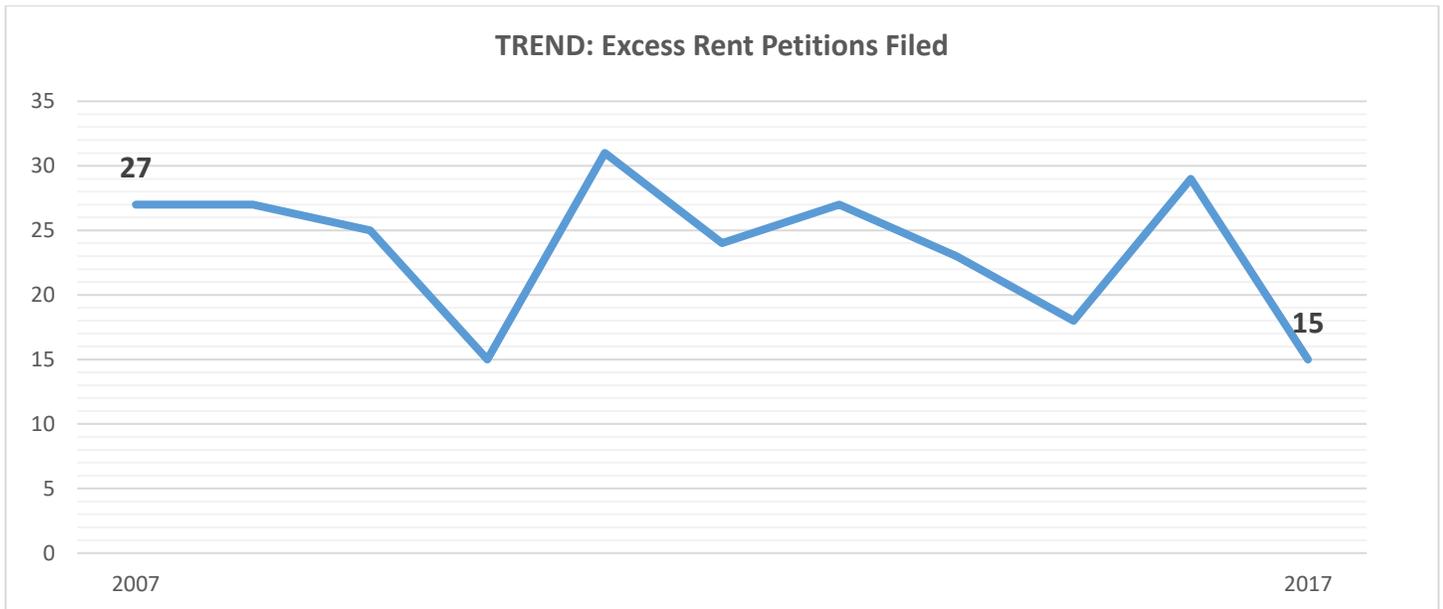
Newly Filed Excess Rent & Non-Registration Complaints		
Complaints filed in 2017		15
<i>withdrawn or dismissed prior to mediation or hearing</i>	1	
<i>referred to hearing directly or prior to mediation</i>	2	
<i>pending referral</i>	2	
Mediation Activity		
Cases mediated during 2017		16
<i>current year cases</i>	10	
<i>carried over from prior year</i>	6	
Status at the end of 2017		
<i>withdrawn or dismissed without mediation</i>	1	
<i>resolved — case closed</i>	7	
<i>resolved administratively</i>	0	
<i>no resolution — referred to hearing</i>	3	
<i>pending</i>	5	
Hearing Activity		
Active cases during 2017		11
<i>referred directly to hearings</i>	2	
<i>referred from mediation</i>	3	
<i>ongoing from prior year</i>	6	
Status at the end of 2017		
<i>decision substantiating complaints</i>	9	
<i>decision not substantiating complaints</i>	1	
<i>Withdrawn prior to hearing</i>	1	
<i>Pending</i>	0	

47%

Excess rent complaints filed in 2017 that were for market-rate tenancies (15 units)

70%

Excess rent complaints mediated and resolved



Individual Rent Adjustments: Increase Petitions

Property owners may petition the Rent Control Board for rent increases for completed or planned capital improvements, lack of a fair return, or increased operating expenses not covered by the general adjustments. During 2017, no petitions of this type were filed, although a number of owners consulted with staff seeking guidance about how to properly fill out increase petitions and what documentation and information was needed.

Individual Rent Adjustments: Tenant-Not-in-Occupancy Petitions

Rent Control Regulation 3304 allows for a one-time increase to market level if the tenant does not occupy the unit as his or her usual residence of return. If the petition and supporting documents do not support a *prima facie* case at the time of filing, the petition may be dismissed. 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. It is referred to a hearing if the tenant contests the petition.

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 rented in the past three years or the three-year median MAR for the city area.

During 2017, seven new petitions were filed and four petitions from 2016 were active during 2017. One petition was withdrawn shortly after filing and one petition was dismissed, as a *prima facie* case was not made. Two contested petitions were withdrawn during the hearing process. Hearing officer decisions were issued on four petitions. Three of those petitions were granted and the other was denied. Three contested petitions were pending at the end of 2017.

Tenant-Not-in Occupancy Activity		
Active Cases in 2017		11
New Cases filed in 2017	7	
<i>Pending from 2016</i>	4	
Status at end of 2017		
<i>Withdrawn or Dismissed</i>	4	
<i>Hearing Officer Decisions</i>	4	
<i>Pending</i>	3	

Appeals of Tenant-Not-in-Occupancy Decisions

One decision, granting the owner's petition and appealed by the tenant, was affirmed by the Board.

Petitions to Register Previously Unregistered Units

Petitions may be filed with the Rent Control Board when an owner seeks to register a unit that has never been 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 is habitable or capable of being made habitable and the unit was either used as a residential rental unit in April 1979, (or in the 12 months that preceded April 1979), or the unit was created by conversion after April 1979 and conforms to the city's zoning and development standards. During 2017, no petitions of this type were filed.

Base Rent, MAR, Amenities Determinations

Under certain circumstances, a party may petition for a hearing to establish correct apartment and building amenities, base rents, and Maximum Allowable Rents (MAR). During 2017, one base rent and amenities petition was filed. That petition was pending at the end of the year.

Owner-Occupied Exemption Applications

As explained earlier in this report, 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 determination on the exemption application or lapse of an exemption.

During 2017, four exemption applications were referred for evidentiary hearings. Hearings were held on all of the applications. Hearing officers recommended granting two of the exemptions and denying the other two. The Board adopted staff's recommendations in three of the cases. The Board did not adopt the hearing officer's recommendation to deny the remaining case and granted the exemption. In addition, one application in the hearing process at the end of 2016 was concluded in 2017. The recommendation was to deny the exemption, and that recommendation was adopted by the Board.

Legal Department

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.

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.

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.

Litigation

Lawsuits Filed in Prior Years but Resolved in 2017

SM85719TH1903-1913IDA, LLC v. SMRCB

Dismissed

In 2016, a landlord filed a complaint naming two residents of 1911 Idaho Street (Wendy Oakes and Josh Weber) and the Board. Its claim against the residents sought a judicial declaration that it is entitled to increase the rent on the current occupant of 1911 Idaho Street under the Costa-Hawkins Rental Housing Act section 1954.53(d)(2) because it asserts that occupant is a subtenant and that the original occupant no longer resides there. Its claim against the Board challenged the Board's authority to review the excess rent complaint that Ms. Oakes filed and sought to prevent the Board from hearing evidence or issuing a decision on that complaint.

The Board demurred (moved to dismiss) to the complaint on the ground that the plaintiff failed to state a valid claim against the Board. At the hearing on the demurrer, the court indicated it would grant the Board's motion but was concerned that the claim against the residents would remain in a difficult procedural posture. In response to the court's concern, plaintiff dismissed the case.

SMRCB v. 108 Allston Street Ltd. Part., et al.

Judgment for Defendant

In 2016, the Board filed a complaint for declaratory and injunctive relief against 108 Allston Street Limited Partnership, which currently owns 1314 14th Street. The complaint sought to enforce a deed restriction, under which a prior owner agreed that one unit of this new-construction building would be permanently affordable to low-income households, and that four other units would be subject to the rent control law. The then-owner agreed to these restrictions after the Board learned that he had illegally demolished five controlled units on the site on which he built the new 16-unit structure.

By its plain terms, the deed restriction applied to the original owner, who agreed to it. Contrary to usual practice, the deed restriction did not purport to bind the original owner's heirs, successors, and assigns, and did not on its face purport to run with the land. When the current owners were sued to enforce the agreement, they argued, in a motion for summary judgment, that they are not bound by it, as it binds only their predecessor owner. The trial court agreed and granted Allston Street's motion. The Board opted not to appeal, and the trial court's decision is now final.

Status of Lawsuits Filed Against the Board in 2017

1041 20th Street, LLC v. SMRCB

Pending

In 2016, the Board granted excess rent petitions filed by two tenants on a property owned by 1041 20th Street, LLC. The owner argued that the tenants' units were exempt from the rent control law because, several years ago, the Board granted a permit authorizing a prior owner to remove the units from the rental housing market. The Board rejected that argument and concluded that, because the unit is now on the rental market and satisfies no exemption criteria, it is subject to the rent control law. 1041 20th Street, LLC sued the Board seeking to reverse the two consolidated decisions on the ground that the prior removal permit created a permanent exemption from regulation and the tenants' units are not subject to the rent control law. Because the allegations of this complaint are similar to the lawsuit filed in 2016 by ASN Santa Monica, LLC, the two cases have been related and were pending at the end of 2017.

Status of Lawsuits Filed by the Board in 2017

Santa Monica Rent Control Board v. Vidugiris

Pending

The Board filed a lawsuit against Dianne J. Vidugiris, landlord of 1227 11th Street, for unpaid registration fees and accrued penalties.

Status of Lawsuits Filed in Prior Years

Action Apartment Association, Inc. v. SMRCB

Pending

Action Apartment Association sued the Board challenging an alleged Board policy prohibiting the pass-through of water charges to tenants in master-metered buildings. The Board has moved for summary judgment on the ground that it does not have a policy prohibiting the pass-through, per se, but the City Charter does limit the amount that rents can be increased. The Board does have authority to consider whether specific pass-throughs of water charges result in excess rent. Action's case is a facial challenge to the Board's authority and does not involve any specific instance of water charges being passed through or any findings of excess rent being made. A hearing on the Board's motion is anticipated to be held in 2018.

ASN Santa Monica, LLC v. SMRCB

Pending

In 2016, the Board granted an excess rent petition filed by a tenant of ASN Santa Monica, LLC. ASN argued that the tenant's unit was exempt from the rent control law because, several years ago, the Board granted a permit authorizing a prior owner to remove the tenant's unit from the rental housing market. The Board rejected that argument and concluded that, because the unit is now on the rental market and satisfies no exemption criteria, it is subject to the rent control law. ASN sued the Board seeking to reverse the decision on the ground that the prior removal permit created a permanent exemption from regulation and the tenant's unit is not subject to the rent control law.

Hirschfield v. Cohen (SMRCB, Intervenor)

Pending

Owner Richard Hirschfield sued tenant Tanya Cohen seeking a declaration that his property is exempt from the rent control law. Because the lawsuit challenges the Board's jurisdiction, the Board intervened in the lawsuit so that its own views on the subject may be heard, and its interests adequately represented. Tenant Tanya Cohen filed a special motion to strike the complaint contending that the complaint unlawfully targets her rights under the First Amendment of the U.S. Constitution to petition the government for the redress of grievances, because Hirschfield appeared to sue her in response to her previously filing an excess rent petition. After the motion was denied, she sought review by the Court of Appeal where the case is now pending.

Wormser v. SMRCB

Pending

In 2014, the Board denied owner Wormser's application for an owner-occupancy exemption. To qualify for the exemption, Board regulations require the property to have had three or fewer units on April 10, 1979. Since this property had four units at that time, the property did not qualify, and the application was denied. The owner sued the Board claiming that the property has only three units now and that it has qualified for the exemption in the past based on an earlier version of the regulation. The Board demurred (moved to dismiss) on the ground that Wormser's position was unsupported by the facts. The trial court agreed with the Board, and judgment was entered in the Board's favor. Wormser sought review by the Court of Appeal where the case is now pending.

Regulations & Resolutions Drafted

In 2017, the Legal Department prepared five resolutions and amendments to five regulations for the Board's consideration.

- A resolution supporting Assembly Bill 928, which would amend the Ellis Act to require a one-year notice period to terminate any tenancy for withdrawal. (Adopted 3/23/2017)
- A resolution supporting Assembly Bill 1506 (Bloom) which would repeal the Costa-Hawkins Rental Housing Act. (Adopted 3/23/2017)
- A resolution in support of improving and strengthening processes related to the City's means and methods plan requirement for rental properties undergoing significant construction. (Adopted 5/11/2017)
- A resolution announcing that the 2017 annual general adjustment for rent-controlled units is two percent, and imposing a limit on the general adjustment of \$40, effective September 1, 2017. (Adopted 6/8/2017)
- A resolution recommending that the City Council consider ways to provide, or to arrange for, low-cost financing for owners who require it to undertake city-mandated earthquake retrofitting. (Adopted 12/7/2017)
- Amendment to Regulation 3105, respecting voted-indebtedness (United School District and Community College District) surcharges. (Continued to 1/25/2018)
- Amendment to Regulation 4400, respecting construction-related rent decreases, to codify existing practices; conform with the City Charter; and clarify that negotiated agreements may be incorporated into mandatory means and methods plans. (Approved 8/10/2017)
- Amendment to subsection (b) of Regulation 11200 respecting an increase in the annual registration fee. (Approved 6/8/2017)
- Amendment to Regulation 13002, respecting registration of controlled units, by adding a new subdivision (g) requiring landlords to provide information about the rent control law as mandated by Charter Section 1803(g) and a new subdivision (h) specifying that landlords who fail to comply with registration requirements cannot impose annual general adjustments; and amendment to Regulation 3035, subdivision (b), by adding a new paragraph 8 specifying that landlords may not impose annual general adjustments until they have complied with the requirement to provide tenants information about the rent control law, as specified. (Approved 2/9/2017)

Buyout Disclosure and Agreements

Because of concern that Santa Monica’s heated real estate market was leading some landlords to coerce tenants in rent-controlled units into signing buyout agreements—agreements to move from a rent-controlled unit in exchange for payment, which would then allow the landlord to reset the unit’s rent to market rate—the City Council amended the City’s Tenant Harassment Ordinance to require landlords to inform tenants of certain rights. These rights include the right to consult a lawyer before deciding whether to enter into a buyout agreement and the right not to enter into one at all. The ordinance also sought to discourage abuse by having the amounts paid be made public through mandatory filing of the agreements with the Rent Control Board, which could then provide information to other tenants who have been approached to sign a buyout agreement. In response, the Rent Control Board amended its regulations to accept executed buyout agreements for filing and developed a form that includes the disclosure of rights to tenants who are being offered a buyout. Landlords are required to provide the form to tenants before making a buyout offer. To protect individual privacy concerns, the Board required its staff to maintain the buyout agreements in a file separate from other publicly accessible data, and to provide the data to the public in an aggregate manner, such as on a neighborhood basis instead of by specific property (to avoid revealing personal-identifying information) or on another aggregate basis upon specific request.

In 2017, the Board received 53 buyout agreements. The data from these agreements are provided below based on city area and unit size.

City Area	Units	Average \$
A	8	\$43,929
B	10	\$23,893
C	1	\$50,000
D	9	\$52,619
E	13	\$30,669
F	5	\$31,598
G	7	\$32,496
Total	53	\$35,813

Unit Size	# Filed	Average \$	Average MAR
0 Bedroom	1	\$1,433	\$1,433
1 Bedroom	28	\$30,151	\$1,335
2(+) Bedrooms	24	\$43,852	\$1,876
Total	53	\$35,813	

Exemptions

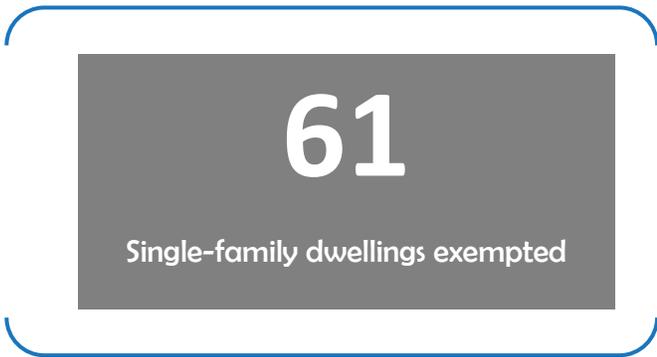
Permanent Exemptions

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 2017, there were 61 declarations submitted for single-family dwellings stating that the homes were not rented on July 1, 1984 and are eligible for permanent exemption. As long as the information in these declarations is accurate, the subject properties are exempt. There were 22 fewer declarations filed in 2017 as compared to 2016.

One single-family dwelling that didn't qualify for the automatic exemption was granted an exemption by the Board after the owner filed an exemption application based upon two years of owner occupancy.

The rent control law applies to all residential rental units in Santa Monica, except for those units specifically exempted based on certain criteria. Some exemptions are permanent, while others are "use exemptions," which stay in effect only as long as the criteria upon which the exemption was granted remain true.



The rent control law generally exempts units built after 1979. An exception to this general rule is when new units are built on a property where rent-controlled units were demolished after being Ellised. In 2017, applications were filed for three condominium units that had been newly constructed and rented more than five years after the original units were withdrawn under the Ellis Act and subsequently demolished. The Board granted permanent exemptions for the three new units.

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 the November of 2010 election.

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. Most applications for this type of exemption are prepared for the Board 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 if the exemption is granted. In some instances, applications are referred to the Hearings Department for evidentiary hearings to determine if the owner-applicants meet all the requirements to qualify for this exemption. In these cases, a hearing officer makes a recommendation for the Board’s consideration and decision.

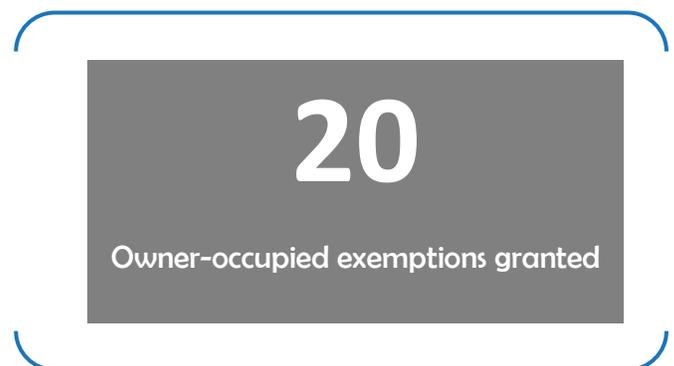
The Board received owner-occupancy exemption applications for 23 properties in 2017. The Board approved 13 applications and five applications were pending at the end of the year. Of the remaining applications, one was withdrawn, and four were referred for evidentiary hearings. Of the applications referred for hearings, the Board approved three applications and denied one. The Board also made decisions on five applications pending from 2016. Four of those applications were granted and one (which had been referred for a hearing) was denied.

Of the 20 properties granted owner-occupied exemptions in 2017, 10 had previously been exempted within the last five years, but the exemption had lapsed because a new owner purchased the property or the owner moved off. Owner-occupied exemptions lapse by operation of law when the owner moves off the property or when ownership is transferred. As is described in the section above on Exemption Monitoring, the Rent Control Agency monitors owner-occupancy exemptions and regularly researches changes in ownership of all residential Santa Monica properties. Most lapses are due to a change in ownership.

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.

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. The Board did not approve any removal permits in 2017.



Appendix

Board Meetings		
Board meetings convened and staffed		12
	<i>Regular meetings</i>	12
Public Outreach		
Contacts with people seeking information		12,960
	<i>Counter (16.8%)</i>	2,183
	<i>Phone (76.5%)</i>	9,918
	<i>E-mail (6.6%)</i>	859
Constituency-wide mailings produced and distributed		3
	<i>General Adjustment mailings (includes citywide MAR Report mailing to owners)</i>	1
	<i>Newsletters (includes report of current MAR for each unit)</i>	2
Community meetings/seminars		8
	<i>Seminars by Rent Control staff</i>	4
	<i>Beverly Hills Realtor Association</i>	1
	<i>Brad Robinson Real Estate Board Retreat</i>	1
	<i>Landlord/Tenant Forum w/City Attorney's Office</i>	1
	<i>Seismic Safety Retrofitting Community Meeting</i>	1
Rent Control Seminar Attendance		97
	<i>Owner seminar</i>	42
	<i>Tenant seminar</i>	22
	<i>General adjustment seminar</i>	14
	<i>Maintenance seminar</i>	19
Website Visits		87,356
Petitions/Complaints		
Petitions processed on intake		104
	<i>Decrease petitions filed</i>	72
	<i>Construction Decrease petitions filed</i>	9
	<i>Base Rent and Amenities Determination petition filed</i>	1

<i>Excess rent/Non-registration complaints filed</i>	15	
<i>Tenant-Not-in-Occupancy petitions filed</i>	7	
Hearings held		63
<i>For 24 individual decrease petitions and 2 sets of consolidated petitions</i>	37	
<i>For 3 properties – 6 construction decrease petitions</i>	6	
<i>For 3 contested decrease addenda</i>	4	
<i>For 7 excess rent/non-registration complaints</i>	7	
<i>For 4 exemption applications</i>	4	
<i>For 3 individual tenant-not-in-occupancy petitions and 1 set of 2 consolidated petitions</i>	5	
Written decisions issued on 54 petitions (some petitions consolidated)		49
Final Addenda on contested proposed addenda issued		4
Decrease Petition Proposed Addenda Issued		33
On-site investigations conducted		125
<i>Upon scheduling decrease and construction decrease petitions</i>	43	
<i>In response to compliance requests</i>	18	
<i>Exemption use investigations</i>	13	
<i>Ellis investigations</i>	25	
<i>Occupancy, unit use, residence verification, construction activities etc.</i>	19	
<i>Other (e.g., measuring, service of documents, etc.)</i>	7	
Ellis Withdrawals, Exemptions and Removals Activity		
Ellis withdrawals filed in 2017		15
Ellis withdrawals pending from 2016		15
<i>Withdrawals completed in 2017</i>	20	
<i>Pending at the end of 2017</i>	10	
Ellis returns (properties) to rental market		3
<i>Units returned to market</i>	31	
Exemption applications filed in 2017		23
<i>Applications withdrawn</i>	1	
<i>Pending at the end of 2017</i>	5	
<i>Granted through administrative process</i>	13	
<i>Referred to hearing</i>	4	
Exemption applications pending from 2016		5
<i>Granted</i>	4	
<i>Referred to hearing and denied</i>	1	
SFD declarations filed		61

SFD 2-year application		1
Owner-occupied verification letters mailed		497
Removal permit applications filed		0
Removal permit applications granted		0
Apartment Listing Service		
Number of listings received		113
Forms & Permits Processed		
Status forms to submit with development applications		104
Demolition permits		119
Building permits		570
Property registrations		544
Tenancy rent registration forms		4,348
Separate agreement registration forms (parking/storage/pets)		80
Tenant-filed rental unit registration forms		13
Registration fee payments processed in-house		3,313
Fee waivers		58
Clean Beaches Tax waivers		30
Appeals and Litigation		
Staff reports on appeal		17
<i>Decrease petitions</i>	9	
<i>Excess rent complaints</i>	7	
<i>Increase petitions</i>	0	
<i>Tenants-Not-in-Occupancy</i>	1	
<i>Construction Related</i>	0	
<i>Unregistered units</i>	0	
<i>Base Rent</i>	0	
Exemption staff reports prepared and reviewed		24
Supplemental staff reports prepared		0
Litigation cases		8
Administrative records prepared		5
Legal Advisory		
Miscellaneous staff reports written		8
Occupancy permits advisory		6
Responses to subpoenas & Public Records Act requests		64