

TO: The Honorable Mayor and City Council
FROM: Rent Control Administration
RE: First Annual Report On The Status Of Controlled Rental
Housing

On April 10, 1979, the Rent Control Charter Amendment, Article XVIII of the Santa Monica City Charter, was adopted by the voters. Section 1803(f)(8) requires the Rent Control Board to report annually to the City Council on the status of controlled rental housing. The Charter amendment was designed to regulate rentals so as to alleviate hardship experienced by citizens of Santa Monica stemming from low vacancy rates and speculative investment in rental housing. This report provides information on market conditions, rent levels and housing supply in the City. The final section addresses actions taken by the Rent Control Board to moderate the effects of demand and supply imbalances and to preserve the rental housing stock.

MARKET CONDITIONS

Housing market conditions in Santa Monica have been influenced by phenomena affecting the entire metropolitan area. Extremely high rates of household formation among the baby boom generation, in-migration, and the rising incidence of smaller sized households have made for increasing demand for housing units. Scarcity of land, credit and materials have meant that supply has not kept pace with demand. This imbalance, resulting in very low vacancy rates, has produced rapid increases in housing costs experienced in Santa Monica and elsewhere in California.

Vacancy Rates

The vacancy rate for both single family and multi-family housing in Santa Monica remains well below the four to six percent rate characteristic of a mobile housing market. The most recent

housing vacancy survey conducted by the Federal Home Loan Bank of San Francisco* indicates an overall vacancy rate of .9% in the City. Rates for single family and multi-family units range from .5% in zip code 90404 to 1.3% in zip code 90402. The previous Federal Home Loan Bank Survey**conducted from February through March, 1978, indicated an overall rate of 1.4% in Santa Monica. This survey found a 1.6% vacancy rate for single family units and 1.3% for multi-family units.

Idle meter data from Southern California Edison's Santa Monica district, which includes areas outside of Santa Monica City boundaries, also indicate a very low level of vacancies in the Santa Monica housing market. In March of this year, 1.5% of the meters in the Santa Monica district were idle. Idle meter rates do not provide exact information as to the number of units vacant and available for rent, but do indicate trends. The table below shows idle meter rates for single family and multi-family units over the past two years.

TABLE I: Idle Meter Rates In The Santa Monica Edison District*

Date	Multi-Family	Single-Family
3/80	1.5	1.1
12/79	1.5	1.1
9/79	1.3	1.0
6/79	1.3	.9
3/79	1.3	.9
12/78	1.2	.8
9/78	1.3	.8
6/78	1.3	.8
3/78	1.1	.8
12/77	1.0	.9

The table above indicates that vacancy rates have not changed significantly over the past two years and that imbalances in demand and supply persist. The Rent Control Charter Amendment is designed

to prevent speculation and to curb rent increases fueled by such tight market conditions.

RENT LEVELS

Rent Control registration data have been analyzed to determine median rent levels by unit type. The data indicate that rents for single or zero bedroom units rose by 22.9% between April 10, 1978 and April 10, 1979. Over this period, rents increased for one, two and three bedroom units by 8.3%, 7.7%, and 6.4%, respectively. The chart below shows rent levels and rates of increase by unit type.

TABLE II: Median Rent Levels and Rates of Increase by Unit Type

<u>Unit Type</u>	<u>Median Rent 4/10/78</u>	<u>Median Rent 4/10/79</u>	<u>Percent Change</u>
Single	\$175	\$215	22.9
1 Bedroom	240	260	8.3
2 Bedroom	325	250	7.7
3 Bedroom	390	415	6.4
4 Bedroom	375	400	6.7
5 Bedroom	385	425	10.4
5+Bedroom	672	750	11.6

* Federal Home Loan Bank of San Francisco, Los Angeles-Long Beach SMSA Housing Vacancy Survey, March 1980. This survey was conducted between March and June, 1979.

**Federal Home Loan Bank of San Francisco, Los Angeles-Long Beach Housing Vacancy Survey, December 1978.

***Real Estate Research Corporation, Real Estate and Construction Reports, First quarter, 1980.

Board Actions On Rents

Following the passage of the Rent Control Charter Amendment, rents were frozen at prevailing levels for a 120 day period. At the end of this period, rents were rolled back to the rates in effect on April 10, 1978. The Rent Control Board, on July 26, 1979 adopted a seven percent general adjustment in order to compensate for changes in the cost of operating rental housing. Additional increases, if warranted by increasing operating expenses, capital improvements, or other factors, can be obtained through the individual rent adjustment process. A second general adjustment is currently under consideration by the Board.

THE SUPPLY OF RENTAL HOUSING

The rental housing stock in Santa Monica includes approximately 7800 properties or more than 39,000 units. The table below, derived from registration data, shows the distribution of registered dwellings by unit type.

TABLE III: Distribution of Registered Units
by Unit Type

<u>Unit Type</u>	<u>Number</u>
Single	4,503
1 Bedroom	11,329
2 Bedroom	9,274
3 Bedroom	2,805
4 Bedroom	812
5 Bedroom	236
5+Bedroom	<u>63</u>
TOTAL	29,022

Since the adoption of the Charter Amendment, the number of units removed from the rental housing stock via demolition or conversion has declined considerably. Between April 1978 and April 1979, 285 demolition permits for residential structures were issued covering more than 1300 units. From May of 1979 to

to May of 1980, seventy-six demolition permits were issued covering 140 units. As a result of standards adopted by the Board regarding removals, exemptions, and vested rights, many units have been retained as rental housing.

ADMINISTRATION OF THE LAW

Administrative hearings held before hearing examiners are held to make determinations for individual rent adjustments, tenant petitions for decrease, and for complaints regarding violations of the law. The individual adjustment proceeding is designed to provide sufficient rental income in individual cases where operating expenses or other costs make the general adjustment inadequate. As of this date, approximately 400 petitions for rent adjustment have been filed at the Rent Control office. To date, approximately 380 hearings have been held to determine whether further adjustment is necessary and if so, the appropriate rate of increase.

Tenants can file a petition for rent decrease if the quality and/or quantity of housing services provided declines. This procedure is designed to assure adequate maintenance and continued provision of necessary housing services. Thus far, of the 216 petitions received at the Rent Control Board, hearing examiners have rendered 200 decisions. A compliance procedure following the hearing exists to reinstate maximum allowable rents when necessary services are reinstated.

The complaints procedure works so as to assure compliance with certain requirements of the Rent Control Charter Amendment. Complaints as to excess rents, non-registration, and/or illegal eviction are addressed in these hearings. Approximately 650 complaints have been filed, and decisions have been rendered by hearing examiners in 240 cases. Additional hearing examiners are being hired to increase the number of complaints proceedings and thus to reduce the number of outstanding petitions in this area.

Appeals on rent adjustment, decrease, and complaint rulings are heard before the Rent Control Board. In addition, the Board makes determinations as to vested rights, removals, and exemptions. Forty-two claims of vested rights have been filed with the Rent Control Administration, and forty of these have been decided by the Board or withdrawn by the applicant. Fifty four requests or removal permits have been made and forty cases have been decided by the Board or withdrawn. In addition, removal permits for 18 owner occupied properties having three units or less have been filed. Thirteen of these cases have been decided or withdrawn. Approximately 1600 exemptions from the rent regulation provisions of the Charter Amendment have received tentative or final approval by the Board.

BOARD POLICIES

The Rent Control Board has adopted quite a number of policies which specify standards for administration of the Charter Amendment. The primary regulations which deal with the preservation of the rental housing stock will be discussed here.

To assure that housing units are well maintained, the Board adopted Regulation 4041 which provides for rent increases or completed or proposed capital improvements. The regulation treats long lasting improvements such as roofing and plumbing, as well as relatively frequent replacement items such as drapery, carpeting and painting.

Regulation 5016, effective March 13, 1980, sets standards for replacement housing required for the granting of a specific type of removal permit. This regulation requires that new rental units constructed on the site be comparable to the units removed. It also requires that existing tenants be offered the right of first refusal when the units become available for occupancy.

The conditions for removal of owner occupied properties having three or less units are specified in Regulation 5017.

This regulation, which requires good faith owner occupancy is designed to prevent speculation in smaller properties by virtue of their exempt status. The regulation protects the exempt status of owners who are good faith occupiers.

SUMMARY

Vacancy rates in rental housing in Santa Monica remain exceedingly low. Pursuant to the Rent Control Charter Amendment, the Rent Control Board has adopted policies and procedures to protect Santa Monica residents from the ill effects of unwarranted rent increases and to preserve the rental housing stock. As well, policies have been adopted to encourage the maintenance of controlled units and to provide for increasing expenses of operating rental housing. The Board is currently considering the advisability of a second general adjustment in rents and is deliberating over proposed fair return regulations.

