SANTA MONICA RENT CONTROL BOARD ANNUAL REPORT

JULY 1998 THROUGH JUNE 1999

Adopted

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SANTA MONICA RENT CONTROL BOARD ANNUAL REPORT

JULY 1998 THROUGH JUNE 1999

SIGNIFICANT DEVELOPMENTS

The Rent Control Charter Amendment provides that the Rent Control Board shall report annually to the City Council on the status of controlled rental housing.

- The state's Costa-Hawkins Act took effect on January 1, 1996. Between 1996 and January 1, 1999, the law allowed rent increases of 15% upon voluntary vacancy of a unit. 10,755 unit vacancy registrations (R's) were filed, 1,045 of them in 1998/99. 2,201 of total filings were second increases for the same unit.
- The Costa-Hawkins Act mandated full implementation of vacancy decontrol/recontrol beginning with new rentals after January 1999. In the six month period covered in this report, 1,961 market increases were filed.
- The market vacancy increases authorized by state law substantially increased the loss of affordability of units. While 15% vacancy increase greatly diminished the affordability of units for very low income households, market increases have begun to have a similar effect on units that were affordable to low income households at 60% and 80% of median income.
- After several years of minimal Ellis activity, the number of properties withdrawn from the controlled housing stock began to escalate rapidly in May 1998. During the 1998/99 fiscal year, 30 properties with 131 units completed the withdrawal process. Five properties with a total of 25 units returned to rent control after having been withdrawn. One property with four units was pending re-rental. Withdrawn units, some of which were the most affordable in the city, are being replaced with market rate condominiums.

MARKET VACANCY INCREASES

Summary

On January 1, 1999 vacancy decontrol-recontrol began as owners were allowed to raise the rents on vacant units to market rate.

Between January 1 and June 30, 1999, 1,961 vacancy market increase forms were filed. Excluding multiple registrations on the same unit, 1,746 units have been impacted.[1] The impact of the increases on rents and tenants is explored below.

Vacancy increases on these 1,746 units resulted in the loss of 1,110 units affordable to low income households (80% of median income) including 716 units affordable to households at 60% of median income and 307 units affordable to very low income households (50% of median income). In other words, 63% of the vacancy increases resulted in units that previously were affordable at 80% of median income becoming affordable only to households whose income is 100% of median or higher.

Affordable units were lost at <u>every</u> affordability level and <u>every</u> bedroom size.

Market increases are the most recent variation on vacancy increases mandated by the Costa-Hawkins Act. Limited vacancy increases began impacting the affordability of rents beginning October 1, 1995.

During the three years and nine months (October 1, 1995 – June 30, 1999) that vacancy increases have been in effect:

- Units affordable to very low income households (50% of median income) decreased from 10,920 to 6,558, a decrease of more than 39%. More than half of the loss is the direct result of vacancy increases. In other words, 4,362 units which previously were affordable to very low income households are no longer affordable at that level.

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[1] 35 registrations were filed on a 38-unit property and 12 on a 28-unit property where some units are being operated as a hotel. These registrations are not representative of the controlled housing stock and are excluded from the discussion.

Of the 1,914 registrations filed for rental units, 1,781 (93%) have been processed, including 35 units on which two market registrations have been filed.

- Units that were affordable to households at 60% of median income decreased from 19,247 to 13,906, a decrease of more than 27%. Three-fourths of the loss is the direct result of vacancy increases.
- Fee waivers held by very low income seniors decreased from 895 to 660, a loss of more than 25%, between December 1994 and July 1999.
- Very low income fee waivers on Section 8 units decreased from 793 to 686, a loss of more than 13%, between December 1994 and July 1999.

"The Impact of Market Rate Vacancy Increases – Preliminary Report," was given to the Rent Control Board on August 12, 1999. It projects that if vacancy increases continue at the same rate through 1999, there will be a loss of 2,359 units that had been affordable at 80% of median on December 31, 1998. That is a citywide loss in one year alone of 10% of the units affordable to a household making 80% of median income or less.

The report has been expanded to examine the impact of vacancy increases from October 1, 1995 through June 30, 1999. The full report, can be found in Appendix B.

PUBLIC OUTREACH

This fiscal year the Board continued to expand its public outreach efforts. In December 1998, a postcard was mailed to all tenants to explain how the state-mandated changes in the rent control law would and would not affect them. The address label on each postcard included a report of the current maximum allowable rent (MAR) for that unit.

In June of 1999 the traditional summer mailing included unit-by-unit reports of the current maximum allowable rents, fee waivers in effect and entitlement to general adjustments. The tenants' summer mailing again reported the maximum allowable rent for the unit.

The Agency's newsletter, "Rent Control News," was mailed to tenants and owners in April 1999. The issue contained articles on required payments of interest on security deposits; eviction regulation amendments; and changes to regulations necessitated by state-mandated vacancy decontrol. Additional features were information on two new Rent Board commissioners, the Rent Control Web page, and methods to contact the Board. The issue also described the services provided by the Santa Monica Legal Aid office.

(www.santa-monica.org/rentcontrol). In November 1998 the Agency launched its expanded internet site. The Board's homepage provides meeting agendas and minutes, staff reports for public hearings, information sheets and newsletters. It also offers access to the Agency's maximum allowable rent (MAR) database and keyword searching of the Rent Control Charter Amendment and all regulations. The Agency's pages received almost 30,000 "hits" by web surfers between November 1998 and June 1999. The MAR database was accessed almost 7,800 times and staff responded to approximately 80 e-mails.

This year the City developed a "City Hall on Call" phone message system to provide 24-hour access to a variety of City-related topics. The Agency developed messages on topics including: general rent control information, maintenance and repairs, security deposits, information for new owners, controlled rents, evictions, tips for tenants, and Rent Control Board Meetings and Commissioners. Following the City's mailing of a brochure on the service, rent control's messages were some of the most frequently accessed.

As in previous years, Board staff also attended various community events and neighborhood meetings to provide information and answer questions.

TRACKING COMPLAINTS OF TENANT HARASSMENT

In 1997/98 the Agency began systematically tracking complaints of harassment. There are two primary reasons the department undertook this task: 1) the Rent Control agency was receiving many complaints, and there was a recognition that a tenant's first interaction with the City would most likely be with Rent Control; 2) the Rent Control Board has an interest in seeing that vacancy increases under the Costa-Hawkins Rental Housing Act are being obtained fairly.

The Public Information Department maintains a problem report log. This log tracks a complaint from the time it comes into the Agency until its ultimate disposition or outcome. The Agency will track a complaint that is either received in written format or is conveyed verbally. If it is conveyed verbally, a staff member then writes up a problem report.

In Fiscal Year 1998/99, the Agency received 98 complaints of harassment. As in the prior year, the predominant issues in these complaints related to lack of repairs and habitability, bad faith eviction, verbal threats, unauthorized entry, and rent payment.

The Rent Control staff regularly shares information about the complaints it receives with the City Attorney's office. At times, the staff meets directly with the Deputy City Attorney and the staff who prosecute under the tenant harassment ordinance. Occasionally, the Rent Control staff will meet to discuss problems with tenants and/or owners at meetings that occur outside normal working hours.

CHANGES IN THE HOUSING STOCK

In order to follow changes in the housing stock in different areas in the City, several years ago the Rent Board divided the City into seven areas, which parallel neighborhoods and census tracts. Removals, Ellis activity, TORCA statistics, development, and other data are identified and analyzed by area.

A map of the City areas and percentage of rental units in each can be found in Appendix A.

TRACKING RESIDENTIAL DEVELOPMENT

The Rent Control Board tracks residential development in the City using Planning and Building Department records and permits as well as Rent Control records[2].

The City has begun to see a rapidly increasing amount of development activity. The upsurge in development can be attributed to the greatly improved economy which makes the replacement of rental housing with condominiums very attractive to developers.

COMPLETED CONSTRUCTION

The completed construction detailed in this section relates to developments that were completed in 1998/99, but which had been withdrawn earlier. It includes only properties that previously contained at least one controlled residential unit. Five projects containing 34 units were completed, replacing 17 residential units:

<u>Condominiums</u>

- One property which had a non-rental exemption received a certificate of occupancy for four condominium units.

<u>Rentals</u>

- Two properties (13 units) that had been Ellised several years ago were developed with four units on one of the properties (two market rate units, one unit deed-restricted to moderate income tenants and one unit deed-restricted for low income tenants). The other property was developed commercially.

2 All information related to new construction comes from the City's PERMIT system.

- One property that had received an exemption for single family dwelling was developed with two deed restricted units (one at moderate income and one at low income levels).

- One property that had received a Category D removal permit for one unit was developed with 24 deed-restricted units (all at moderate income level).

Residential development was completed in three of the seven areas in the City:

City Area	Units completed in FY 98/99	Rental Units previously removed from these sites
C	24	1
E	4	8
F	6	8
Total	**34**	**17**

The rate of development activity escalated substantially in 1998/99, though it is not reflected in the number of projects actually completed. It is anticipated that many more projects will be completed in 1999/2000, based on building permits pending and issued by the City.

THE ELLIS ACT

"The Impact of the Ellis Act" report was given to the Rent Control Board on August 12, 1999. The full report can be found in Appendix C. Since that time two updates have issued, one through September 31, and one through December 31, 1999. The updates are available at the Rent Control office.

Summary

As of June 30, 1999, 236 properties remain withdrawn from the residential rental housing market by way of the Ellis Act. This represents the withdrawal of 1,123 units. Four properties with a total of 14 units that were pending withdrawal on June 30 have subsequently completed the process.[3]

Forty-two formerly withdrawn properties, comprised of 212 units, have returned to the rental housing market under rent control. One property (4 units) is pending return to the controlled rental market.

[3] Five properties with 26 total units that filed after July 1, 1999 have also completed withdrawal by the date of this report.

After a long period with little Ellis activity, the filing of withdrawals began to accelerate in May 1998. Staff has monitored the properties since that time. These properties are referred to in the report as "recent withdrawals."

During the period May 1998 through June 30, 1999, 30 properties with 131 units completed the withdrawal process.   Five properties with a total of 25 units were re-rented under rent control after having been withdrawn, and one other property with four units is pending re-rental.

Since June 30, 1999 there has been a substantial increase in Ellis activity. The details of the increased activity are provided in the report, "Update on Ellis Activity Through December 31, 1999," presented to the Board on January 27, 2000.

Withdrawn units, some of which were the most affordable in the city, are being replaced by market rate condominiums.

Among the 42 properties that filed for withdrawal since May 1998, 15 have taken some steps toward condominium development. Most have a Conditional Use Permit issued or pending.

TENANT OWNERSHIP RIGHTS CHARTER AMENDMENT (TORCA)

In 1984 Santa Monica voters approved the Tenant Ownership Rights Charter Amendment (TORCA) through which an apartment building could be converted to condominiums if a sufficient number of tenants approved and agreed to purchase their units. Not all converted units are lost from the rent control housing stock immediately. Current tenants may continue to occupy them. However, once a tenant moves and the unit is bought and owner-occupied, it is unlikely that it will again be available on the rental market.

The provisions of the TORCA law ended on June 30, 1996. Applications filed prior to the deadline are still processed, but the City accepts no new applications.

As of June 30, 1999, TORCA conversions had been approved for 330 properties containing 3,420 units. Of those, 1,802 units had been sold on 229 properties; 509 units on the same properties had not been sold. On 100 of the projects, none of the 968 units had been sold.

One property (Mountain View mobile home park - 1930 Stewart Street) containing 141 units was pending conversion at the end of the fiscal year.

REMOVAL PERMITS

To protect the controlled rental housing stock the Rent Control Board applies the provisions of the Charter to decide whether or not to grant removal permits. There are several types of removals, which the Board may grant:

- *Category B -- if the Board finds that the Maximum Allowable Rent does not provide a fair return and that the landlord cannot rent the unit at the rent necessary to provide the landlord with a fair return.*
- *Category C -- if the Board finds that the unit is uninhabitable and cannot be made habitable in an economically feasible manner.*
- *Category D -- if the permit is being sought so that the property can be developed with multifamily rental units, the demolished rent controlled units will be replaced with the same number of rent controlled units, and at least 15% of the controlled units to be built will be at rents affordable to low income people.*

In the period July 1, 1998 through June 30, 1999, the Board granted a Category B permit for one of the units on one property and one Category C permit for the removal of a property with 2 units.

EXEMPTIONS

The Rent Control Law applies to all residential rental units in Santa Monica except those the Charter exempts under a number of different criteria. There are two kinds of exemptions: 1) use exemptions, which the owner retains as long as the criteria for which the exemption is granted remain in effect; and 2) permanent exemptions.

Permanent Exemptions -- *Permanent exemptions are granted for single family dwellings not used as rentals (§1815) and for new construction (§1801).*

In this fiscal year, there were 38 declarations submitted for single family dwellings stating that the structures were not rented on July 1, 1984. Two other single family dwellings were exempted under §1815.

Use Exemptions -- *Use exemptions are granted in the following situations:*

- *Rental units on properties with two or three units, one of which is occupied by the owner;*
- *Residential units for which rent has never been collected since the beginning of rent control (non-rentals);*
- *Units used for housing as a necessary part of a non-profit social service program.*

The following use exemptions were granted:

Type of exemption	Number of units affected	Number of properties affected
owner-occupied	78	32
non-profit	1	1
Total	**79**	**33**

These exemptions do not all represent a loss of controlled rental units from the housing stock in 1998/99. Fifteen properties with a total of 38 units received owner-occupied exemptions for the first time. The balance of the owner-occupied properties had previous exemptions.

UNIT SUMMARY

Activity	Reduction in controlled units	Increase in controlled units	Net change in controlled units
Ellis activity	-131	+25	-106
Category B Removals	-1		-1
Category C Removals	-2		-2
New use exemptions	-38		-38
Total	**-172**	**+25**	**-147**

PROGRAM, POLICIES AND ADMINISTRATION

SIGNIFICANT LEGAL DECISIONS

During 1998/99, the California Supreme Court issued its decision in the case of *Santa Monica Beach, Ltd. v. SMRCB,* upholding the Santa Monica Rent Control Law against a claim that it violates the takings clause of the Fifth Amendment of the United States Constitution. The California Supreme Court held that a court's standard of review for generally applicable rent control laws is deferential, that the party challenging the law must show "that it constitutes an arbitrary regulation of property rights." The Court emphasized that, under the separation of powers, policy making is the province of the voters or the legislature, not the courts.

The Supreme Court also concluded that, even if the stricter "heightened scrutiny" standard were the appropriate level of judicial review, as argued by Santa Monica Beach, the Rent Control Law passed muster. Santa Monica Beach argued that it could plead an unconstitutional taking of its property by the Santa Monica Rent Control Law simply by citing demographic changes in the city during the 1980s, which, it claimed, showed that the law failed to meet its objectives of aiding low-income tenants. SMB thus argued that, in takings cases, courts must review rent control laws using heightened scrutiny, that courts must carefully review rent control laws to see if they live up to legislative expectations. However, the Court rejected that contention, concluding that Santa Monica Beach's reading of the Rent Control Law's purpose was too restrictive, that the law's stated purpose is to help *all* Santa Monica tenants, not just low-income tenants, by controlling rents to a reasonable level and limiting evictions.

REGULATIONS

In 1998/99, the Board adopted, amended, or repealed 31 regulations. The majority of these modifications update Chapters 3, 4, and 13 to implement vacancy decontrol-recontrol, which was fully instituted January 1, 1999. The modifications also provide procedures for registering rents after vacancies and resolving disputes regarding rents and amenities for post-January 1, 1999 tenancies.

Amendments to Chapter 14 provide for payment of interest on security deposits to tenants whose landlords have held their deposits at least one year.

Other revisions concern a variety of matters, including: requiring a filing fee for applications for owner-occupied exemptions (reg. 12053(a)(1)) and for filing vacancy registration forms for units in owner-occupied exempt properties (reg. 3301(g)(4)); the 1999/00 general adjustment (reg. 3021); provision for new MARs for incentive units in the Incentive Housing Program upon expiration of a incentive housing contract (reg. 17210); and, finally, amending regulation 9007 to make clear that only material and substantial violations of a rental agreement, which have not been waived by a landlord, constitute grounds for eviction of tenants under the Rent Control Law.

INCENTIVE HOUSING PROGRAM

In 1984, as part of a Charter Amendment, Santa Monica voters passed a provision [§1805(i)] which authorized the Board to "enact regulations to provide for increases of rents on units voluntarily vacated where the landlord has dedicated a percentage of units to be rented 'at affordable rates to low-income tenants." In 1989 the Board passed Chapter 17, "Regulations for Inclusionary Housing Pilot Program."

During the nine years the program has been in effect, the Rent Control Board has approved 42 contracts. Five of the contracts were subsequently withdrawn. Thirty-seven properties with 224 units remain active. As of June 30, 1999 there are 111 inclusionary sets in place.

There are 113 dedicated units. Eighty-three of these are rented to households qualifying as "very low income" (47% have HUD subsidies); the remaining 30 units are rented to households qualifying as "low income."

ANNUAL GENERAL ADJUSTMENT

The annual General Adjustment is a determination made yearly by the Board which allows all landlords to raise rents by a specified amount to keep pace with the increase in operating expenses.

For the 1998/99 Annual General Adjustment, the Board used the "pie method" to analyze the increases in operating costs by the various components of the rent dollar. The Board also took into consideration the findings of a consultant hired by the Board to assess the impact of increases in the costs of insurance.

The Consumer Price Index, on which a large part of the calculations are based, was at a historically low level. In addition, the City's Water Department, eliminated a water surcharge that had been in effect for nearly two years, further reducing the owner's operating expenses. As a result, the Board adopted a general adjustment in maximum rent levels of 1.0 percent or $4, whichever was greater. The $4 was set to provide a minimum increase to apartments with the lowest rents. Since these units have many of the same expenses, such as trash collection increases, as the higher rent units, the $4 assured owners of the minimum necessary to cover their actual costs.

For the first time, based largely on another portion of the consultant's report, the Board set a maximum rent increase, or ceiling. For 98/99, the maximum was $9. The Board determined that no more than $9 was necessary to allow owners of at least 85% of all rent controlled properties to recover increased operating expenses.

PETITIONS/HEARINGS

Increase Petitions -- *Property owners may petition the Rent Control Board for rent increases above the yearly general adjustment due to completed or planned capital improvements, lack of a fair return or increased operating expenses not covered by the general adjustments.*

In FY 1998/99, the Hearings Department received 11 increase petitions.

Hearing examiners issued decisions in 11 cases (including four filed the prior year). Eight increases (73%) were granted and three cases were denied. One petition was withdrawn and two were dismissed. At end of the fiscal year, four petitions were pending.

Professional Expenses Addenda -- *Professional expenses addenda are issued by hearing examiners in response to requests from owners and tenants in relation to the owner's pursuit of Constitutional rights with regard to the Rent Control Law. The professional expenses category was added in 1994/95 in response to the State law which required it. State law no longer requires the procedure, and the regulation was repealed effective January 1, 1999. However, petitioners who filed cases while the regulation was in effect could still request an addendum for such fees.*

In 1998/99, six professional expenses addenda were issued. All six addenda, which had been requested by landlords, were approved.

Hardship Addenda -- *Low income tenants may apply for hardship addenda when increases granted exceed 12% of the MAR or $50, whichever is greater. The addenda schedules out the increase over a period of time, not exceeding 60 months.*

Three hardship addenda were issued for two tenant applicants. Both of the applicants qualified as low income.

Decrease Petitions -- *Tenants whose rental units need repairs or maintenance, or whose housing services have been reduced, may petition to have their monthly rent decreased. The tenant's first step is to request 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 the owner makes required repairs or restores services for which a decrease was granted, the decreased amount is reinstated to the rent. When a decrease petition is filed, a settlement conference is scheduled to resolve the issues without a hearing, if possible.*

Received for Mediation			**114**
Successful	*Fully Resolved*	*36*	
Resolutions:	*Partially Resolved Mediation on-going*	*11*	
Withdrawn or Dismissed		*3*	
Pending at end of year		*4*	
		54	
Partial resolution-referred to hearing		*18*	
No resolution-referred to hearing		*32*	
Declined mediation-referred to hearing		*10*	
		60	
From prior fiscal year:			
Successful	*Fully Resolved*	*11*	
Resolutions:	*Partially Resolved Mediation on-going*	*2*	
		13	

Success rate based on 110 cases (114 plus 13 from prior year, less pending, withdrawn and declined):

Overall success rate -- 71%
Fully successful -- 43%; partially successful -- 28%

Received from Mediation for Hearing		**85**
Decreases granted	*51*	
Decreases denied	*2*	
Dismissed	*1*	
Withdrawn	*16*	
Pending	*15*	

Additionally, 12 petitions were issued that had been pending from prior fiscal. Decisions were issued in 11 of those cases, and the remaining 9 petitions were withdrawn or dismissed. Decreases were granted in 10 of those petitions.

Reinstatement of Decreases -- *Reinstatement of decreases occurs upon receipt of a Request for Proposed Addendum and verification that the conditions were corrected.*

In FY 98/99 the decreases in eight of the 51 approved petitions were fully reinstated and partially reinstated in another eight. For the cases decided in 1998/99 which had been filed in prior years, decreases were fully reinstated in three cases and partially reinstated in another three.

Reinstatements also occurred for 24 decisions issued in prior years. Decreases were fully reinstated for 11 decisions and partially reinstated for the remaining 13.

Administrative Petitions -- *Administrative petitions may be filed when an individual decrease petition cites a common area problem such as a leaky roof, dangerous stairs, loss of laundry room, etc. Administrative petitions are filed on behalf of all tenants not covered by the individual decrease petition. If a decrease is warranted for the common area problem, all affected units may then be authorized to take such a decrease.*

In FY 98/99 one administrative common area decrease petition was filed in conjunction with an individual decrease petition. This petition was still pending at the end of the fiscal year. Decisions were issued in two cases from prior fiscal years. Decreases affecting 26 units were authorized; those decreases were fully reinstated by the end of the fiscal year.

Base Rent Petitions -- *Any owner, former owner, tenant or former tenant of a property, or any Board Commissioner or the Board's Administrator may petition for a hearing to establish a correct rent or apartment/building amenities.*

In 1998/99 nine base rent petitions were received by the Hearings Department – seven related to base amenities and two relating to base rent.

The Hearings Department issued ten base rent decisions; one was withdrawn. Three of the petitions were filed in prior years. Of the 9 petitions that concerned base amenity issues, eight were granted and one was denied. The petition concerning base rent issues was denied. One base amenities petition was pending at the end of the year.

Excess Rent Complaints -- *Board regulations provide for a settlement phase prior to a hearing in excess rent complaints. The purpose of the settlement phase is to provide an expeditious mechanism for tenants and owners to meet and resolve their differences informally, with the assistance of a skilled intermediary. Unresolved cases are decided by a hearing.*

During the fiscal year, 85 complaints alleging excess rent were submitted and 4 complaints were submitted for non-registration. Complaints are submitted but not filed for a variety of reasons including: the tenant has not shown a valid claim of excess rent; the property is not under the jurisdiction of the Rent Control Law, i.e., it has an owner-occupied exemption; or the tenant withdraws the complaint prior to filing in favor of going to court. Of the 85 complaints submitted, 12 were withdrawn, 10 were rejected and there is one for which the status is pending.

Of the 66 complaints accepted for filing, 12 were resolved prior to formal mediation when owners paid tenants the amount of overcharge claimed by the tenant. The remaining 54 complaints received in 1998/99 were forwarded to the Hearings Department for mediation, though only 36 were forwarded prior to June 30, 1999.

At the Hearings Department, 15 cases were resolved through the settlement/mediation process; and 2 were withdrawn prior to hearing. At the close of the fiscal year, 6 cases were in the settlement/mediation process.

Eleven cases were sent to be resolved through hearing. Two cases went directly to hearing when the participants declined mediation.

Nine decisions were issued on complaints for excess rent. Excess rent violations were substantiated and rent withholding was authorized in six decisions. The complaints were not substantiated in the other cases.

Two additional decisions were issued on the non-registration complaints. One complaint was substantiated and rent withholding was authorized. The other complaint was not substantiated.

In two cases, hearings had been held and were pending decisions at the end of the year.

Vacancy Increase Petitions -- *In vacancy increase cases, the unit did not appear eligible for an increase. Parties who disputed the facts filed petitions for an evidentiary hearing .*

Ten petitions were received. Three were pending at the end of the year.

Eleven decisions were issued, including four which had been filed during the prior fiscal year. The decisions found that three were qualifying vacancies; eight were denied as not qualifying.

Non-Petition Mediations – *The Agency seeks to resolve landlord-tenant disputes other than those brought by petition. The case may arise through direct contact with an owner or tenant, or by referral from another staff member or City Department.*

The mediator handled nine non-petition cases during the year. Six were resolved through mediation. In two cases mediation was offered but not utilized by the parties, and one case was not appropriate for mediation.

Two cases arose from direct contact of the owner with the mediator, and four from direct contact with the tenant. Two cases were referred from within the Agency and one was the result of referral from another City department.

FEE WAIVERS

The Rent Control Board provides waivers of Rent Control registration fees to units: occupied by their owners, subsidized by HUD (Section 8), or occupied by low-income tenants who are over 62 or disabled. There are also fee waivers in mobile home parks for units where tenants have signed long-term leases.

Type of Fee Waiver	As of FY 1998/99	Change from Prior Year
low-income senior	660	-59
low-income disabled	146	-7
owner-occupied	2,774	+68
single family dwelling permanent	422	+422
HUD subsidized (Section 8)	686	-45
administrative	292	+14
mobile home	50	+7
seismic safety	20	+16
Total fee waivers	**4,628**	**+416**

THE WORK OF THE RENT CONTROL BOARD BY DEPARTMENT

ADMINISTRATION AND PUBLIC INFORMATION DEPARTMENTS

♦ Rent Board meetings convened and staffed		29
regular meetings	*21*	
special meetings	*8*	
♦ Mass mailings produced and distributed		3
General Adjustment mailing	*1*	
Newsletter	*1*	
City-wide MAR report mailing	*1*	
♦ Q-Petition addenda issued		10
♦ Clearance forms to submit development applications		170
♦ Demolition Permits processed		120
♦ Building Permits processed		173
♦ Number of people helped seeking information		24,524
number at counter (17%)	*4,132*	
number by phone (83%)	*20,312*	
number by e-mail	*80*	
♦ MAR reports generated		111
♦ Petitions processed on in-take		215
♦ Property Registrations processed		369
♦ Registration fee payments processed		4,247
♦ Fee waivers processed		666
♦ Small Claims litigation		
fees collected	$18,029	
collection actions taken	32	
settlements entered	16	
registration fee suits filed	12	
♦ S-Petitions (soft story) processed		6
♦ Rent Control web pages viewed		29,959
♦ Web page MAR's viewed		7,730

HEARINGS DEPARTMENT

♦ Hearings held		139
on rent increase	*20*	
on decreases	*71*	
on base rents and amenities	*14*	
on earthquake petitions	*7*	
on complaints	*11*	
on vacancy increases	*13*	
on exemptions	*3*	
♦ Written decisions issued		117
♦ Addenda issued		72
♦ On-site investigations conducted		251
upon scheduling decrease petition	*94*	
in response to compliance requests	*89*	
regarding unit identification conflicts	*7*	
Ellis investigations	*33*	
research and measuring	*9*	
other, i.e., occupancy, unit use, etc.	*19*	
♦ MARs updated due to decisions/addenda		4,012
♦ Drop-off letters generated		538
♦ Site file pages copied to fiche by contractor		61,940
♦ Interpreter services provided		12
Japanese/Cantonese (8); Farsi/Arabic (4)		

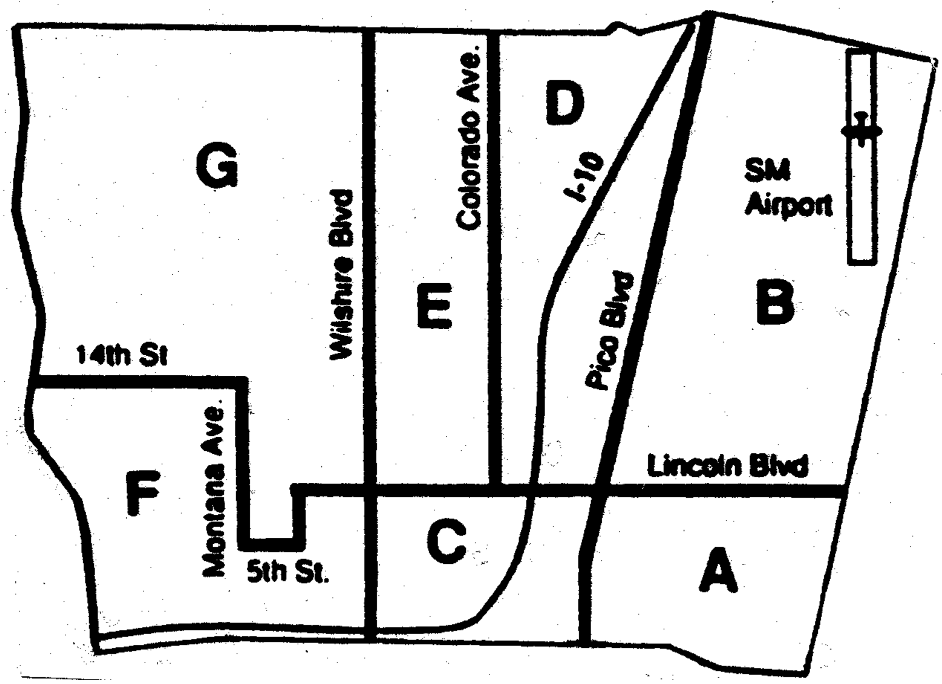
LEGAL DEPARTMENT

♦ Staff reports on appeal prepared		58
base rent cases	*6*	
decrease cases	*23*	
increase cases	*13*	
earthquake increase cases	*8*	
excess rent complaints	*2*	
vacancy increase	*6*	
♦ Ellis property withdrawals processed		24
♦ Miscellaneous staff reports		4
♦ New or amended regulations prepared		31
♦ Litigation		29
♦ Officer of the Day requests responded to		625
♦ Exemption cases written or reviewed		33
owner-occupied	*32*	
non-profit	*1*	
♦ Administrative Records prepared		9

APPENDIX A

A map of the City areas and percentage of rental units in each are shown below:

Area A	17%
Area B	12%
Area C	5%
Area D	10%
Area E	18%
Area F	17%
Area G	21%



APPENDIX B

The Impact of Vacancy Increases

September 30, 1995-
June 30, 1999

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IMPACT OF VACANCY INCREASES

SUMMARY

On January 1, 1999 vacancy decontrol-recontrol began as owners were allowed to raise the rents on vacant units to market rate.

Between January 1 and June 30, 1999, 1,961 vacancy market increase forms were filed. Excluding multiple registrations on the same unit, 1,746 units have been impacted.[4] The impact of the increases on rents and tenants is explored below.

Vacancy increases on these 1,746 units resulted in the loss of 1,110 units affordable to low income households (80% of median income) including 716 units affordable to households at 60% of median income and 307 units affordable to very low income households (50% of median income). In other words, 63% of the vacancy increases resulted in units that previously were affordable at 80% of median income becoming affordable only to households whose income is 100% of median or higher.

Affordable units were lost at <u>every</u> affordability level and <u>every</u> bedroom size.

Market increases are the most recent variation on vacancy increases mandated by the Costa-Hawkins Act. Limited vacancy increases began impacting the affordability of rents beginning October 1, 1995.

During the three years and nine months (October 1, 1995 – June 30, 1999) that vacancy increases have been in effect:

- Units affordable to very low income households (50% of median income) decreased from 10,920 to 6,558, a decrease of more than 39%. More than half of the loss is the direct result of vacancy increases. In other words, 4,362 units which previously were affordable to very low income households are no longer affordable at that level.

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[4] 35 registrations were filed on a 38-unit property and 12 on a 28-unit property where some units are being operated as a hotel. These registrations are not representative of the controlled housing stock and are excluded from the discussion.

Of the 1,914 registrations filed for rental units, 1,781 (93%) have been processed, including 35 units on which two market registrations have been filed.

- Units that were affordable to households at 60% of median income decreased from 19,247 to 13,906, a decrease of more than 27%. Three-fourths of the loss is the direct result of vacancy at 60% of median income are no longer affordable at that level.
- Fee waivers held by very low income seniors decreased from 895 to 660, a loss of more than 25%, between December 1994 and July 1999.
- Very low income fee waivers on Section 8 units decreased from 793 to 686, a loss of more than 13%, between December 1994 and July 1999.

This report projects that if vacancy increases continue at the same rate through 1999, there will be a loss of 2,359 units that had been affordable at 80% of median on December 31, 1998. That is a citywide loss in one year alone of 10% of the units affordable to a household making 80% of median income or less.

MARKET RENT INCREASES – JANUARY 1 - JUNE 30, 1999

This section of the report analyzes the 1,746 units that received vacancy increases between January 1 and June 30, 1999. It compares these units to units of the city as a whole, and details the impact of increases on rents and affordability.

The chart below summarizes median rent information:

Vacancy Increases 1/1 - 6/30/99 (1,746 units)					Citywide[5]
No. of Bed-rooms	Pre-Increase Median MAR's	Post-Increase Median MAR's	Dollar Amount Change	% Change	12/31/98 Median MAR's
0	$556	$775	$219	39%	$504
1	641	995	354	55	586
2	782	1,385	603	77	750
3 or +	1,009	1,800	791	78	930

2 There were 28,296 City-wide units in the 12/31/98 report.

0-Bedroom Units:

For the 257 0-bedroom units receiving a market increase, the median pre-increase MAR was $556 – 10% higher than for the city as a whole. The median of the increased rents is $775. The change between the pre-increase and post-increase medians is $219, an increase of 39%.

1-Bedroom Units:

For 947 1-bedroom market rent units, the median pre-increase MAR was $641, 9% higher than the city as a whole. The median of the increased rents is $995. The change between the pre-increase and post-increase medians is $354, an increase of 55%.

2-Bedroom Units:

The median pre-increase MAR for the 478 2-bedroom market rent units was $782, 4% higher than the city as a whole. The median of the increased rents is $1,385. The change between the pre-increase and post-increase medians is $603, an increase of 77%.

3 or more- Bedroom Units:

The median pre-increase MAR for the 64 market rent units with 3 or more bedrooms was $1,009, 8% higher than the city as a whole. The median of the increased rents is $1,800. The change between the pre-increase and post-increase medians is $791, an increase of 78%.

*****

Pre-increase MAR's of units with vacancy increases were significantly higher than median rents citywide by bedroom category. The likely reason is that a larger proportion of these units had received prior Costa-Hawkins increases.

Units With One or Two Prior 15% Vacancy Increases

No. of Bedrooms	Units Citywide: % Units with One Vacancy Increase	Units Citywide: % Units with Two Vacancy Increases	Units with Market Increases: % Units with One Vacancy Increase	Units with Market Increases: % Units with Two Vacancy Increases
0	25.7	14.5	31	22
1	21.7	9.7	28	21
2	18.5	5.4	22	15
3 or more	10.9	3.4	20	9
City-wide	**19.9**	**8.1**	**26**	**19**

Citywide, 20% of units had one 15% vacancy increase; 8% had two 15% increases. This contrasts significantly with units with market increases – of those, 26% had one 15% vacancy increase, and 19% had two prior increases.

Smaller units were more likely to have had a prior 15% increase. Among both selections, citywide and market increase units, the percentage of prior increases went up as the number of bedrooms went down.

Though 3+-bedroom market rent units had rates similar to the city as a whole – 20% and 9% compared to 20% and 8%; the rate was twice that of 3+ bedroom units citywide.

On the other hand, 0-bedroom market rent units had rates of prior increases of 31% and 22%, significantly higher than the city as a whole, and also higher than the citywide 0-bedroom rates of 25.7% and 14.5.

This characteristic may be significant for two reasons:

1) It explains why the average pre-increase MAR's of the market rate units are higher than citywide average MAR's. Further, it explains why the comparative difference in pre-increase MAR's is greatest for the smaller units.
2) It may explain why 0- and 1-bedroom units are a higher percentage of the market rate units than of units citywide. Units with a vacancy after September 1995 were more likely to have additional vacancies.

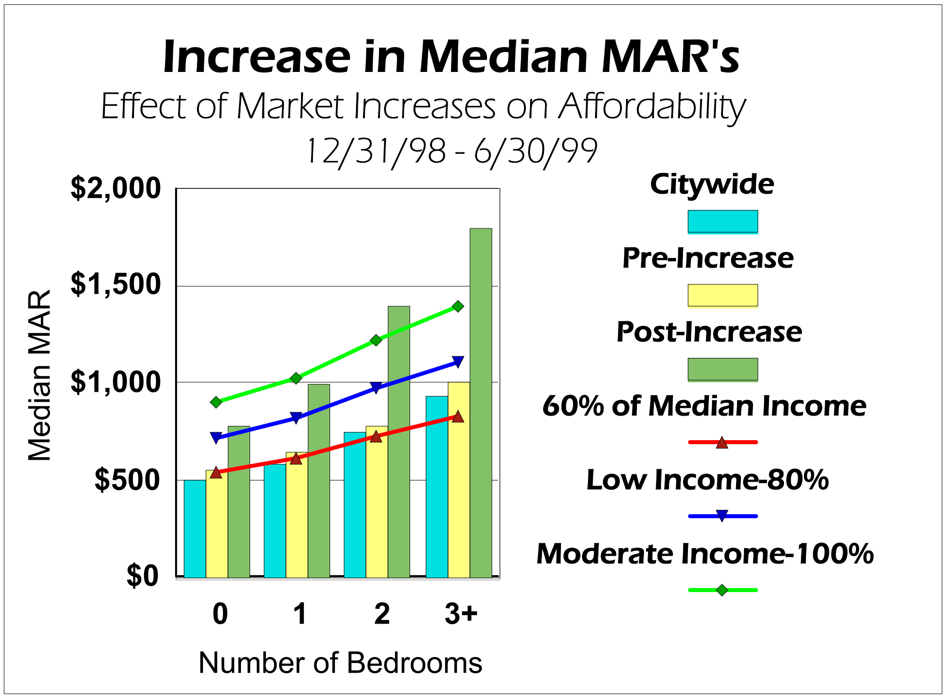
Loss of Affordability – 1/1/99-6/30/99

Affordable units were lost at every affordability level and every bedroom size as a result of market rent increases since January 1.

For the 1,746 units with market increases, prior to the increase, the median MAR's at all bedroom sizes were affordable to a household whose income is 80% of the adjusted County median. *None* of the post-increase medians were affordable at 80% of median income.

After the increase, the median MAR's of 0- and 1-bedroom units were affordable only at 100% of median and above. Even more significantly, the median rents of units with 2 or more bedrooms were no longer affordable even at 100% of median income. In fact, the median rent of 3-bedroom units is $400 above the amount affordable at 100% of median income.

This information is shown in graph form below :



The bars depict median MAR's by number of bedrooms for controlled units citywide, market increase units prior to the increase, and market rent units after the increase. The lines/symbols show the rent affordable for 60% of median income, 80% (low income) and 100% (moderate) of median income levels.

Translating Affordability into Income

Using HUD affordability calculations, which include a factor for bedroom size and assumes 30% of gross income can be used for rent, the following changes in minimum incomes are required for the median rents listed to be affordable.

The charts below indicate the *minimum* total household income needed to pay for the median rents without being rent burdened, both before and after the market rate increases.

Income Needed to Afford MAR's (30% Affordability Standard)
Units Citywide (28,296 units)

No. of Bedrooms	12/31/98 Median MAR's	Income Needed to Afford MAR
0	$504	$28,800
1	586	29,300
2	750	31,579
3 or more	930	34,286

Income Needed to Afford MAR's (30% Affordability Standard)					
Units with Vacancy Increases 1/1 – 6/30/99 (1,746 units)					
No. of Bedrooms	Pre-Increase Median MAR's	Income Needed to Afford MAR	Post-Increase Median MAR's	Income Needed to Afford MAR	Difference
0	$556	$31,771	$775	$44,286	$12,515
1	641	32,050	995	49,750	17,700
2	782	32,926	1,385	58,316	25,811
3 or more	1,009	37,198	1,800	66,359	29,161

As the chart above shows, depending on size of a unit, the household income needed to "afford" the median market rent is $12,500 - $29,000 higher than the income needed to afford the pre-increase median rent of the same size unit.

Further, a household that could afford the median citywide MAR (top chart) would need an additional $15,500-$32,073 to afford the median market rent of a unit of the same size.

Loss of Affordable Units By Income Level

50% of Median (very low income). 307 of 312 units (98.5%) affordable at 50% of median income before the increase received increases making them no longer affordable to very low income households at 50% of median income.

60% of Median. 716 of 753 units (95%) that had been affordable at 60% of median income (including those affordable to households with income at 50%) prior to the increase received increases making them no longer affordable at 60% of median income.

80% of Median (low income). 1,100 of the 1,401 units (79%) that were affordable at 80% of income prior to the increase received increases that made them no longer affordable at 80% of median income.

100% of Median (moderate). Affordability was even lost at the moderate 100% income level. 789 units are no longer affordable even at that level. [6]

Only 52 of the 478 post-increase 2-bedroom units were affordable at 100%. Only four of the 64 post-increase 3-bedroom units were affordable at 100%.

[6] Interestingly, 5 units that were unaffordable at 100% are now affordable at that level -- 3 1-bedrooms units, a 2-bedroom and a 3-bedroom. The rent reductions range from $100 to $542, though it is not possible to know if the prior tenants were actually paying the MAR. The $542 decrease is on a property undergoing major renovation; it is possible that the lower rent resulted from the disruption from the construction.

The chart below details the loss by bedroom-size of the 789 units that had been affordable at 100% of median and the return of the five units that are now affordable at 100%.

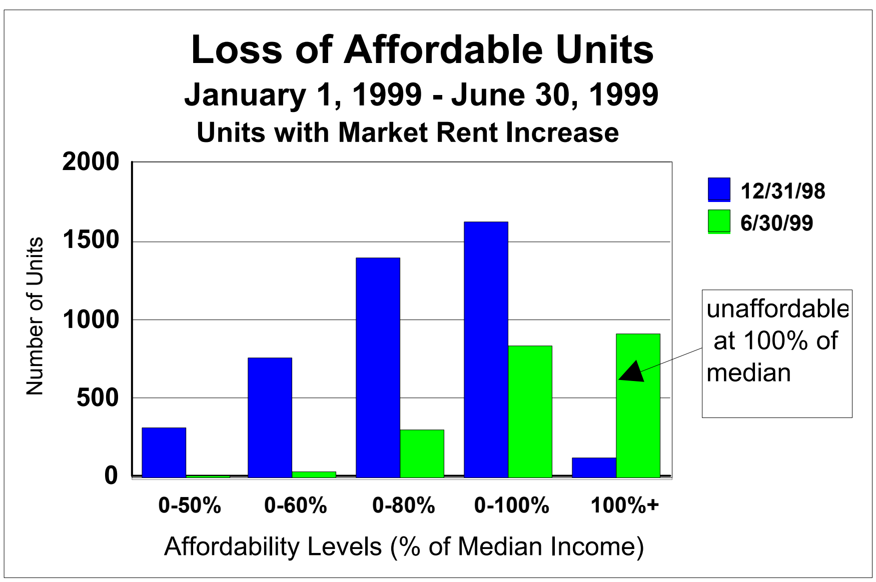
Units Once Affordable at 100% of Median Lost as a Result of Market Rents

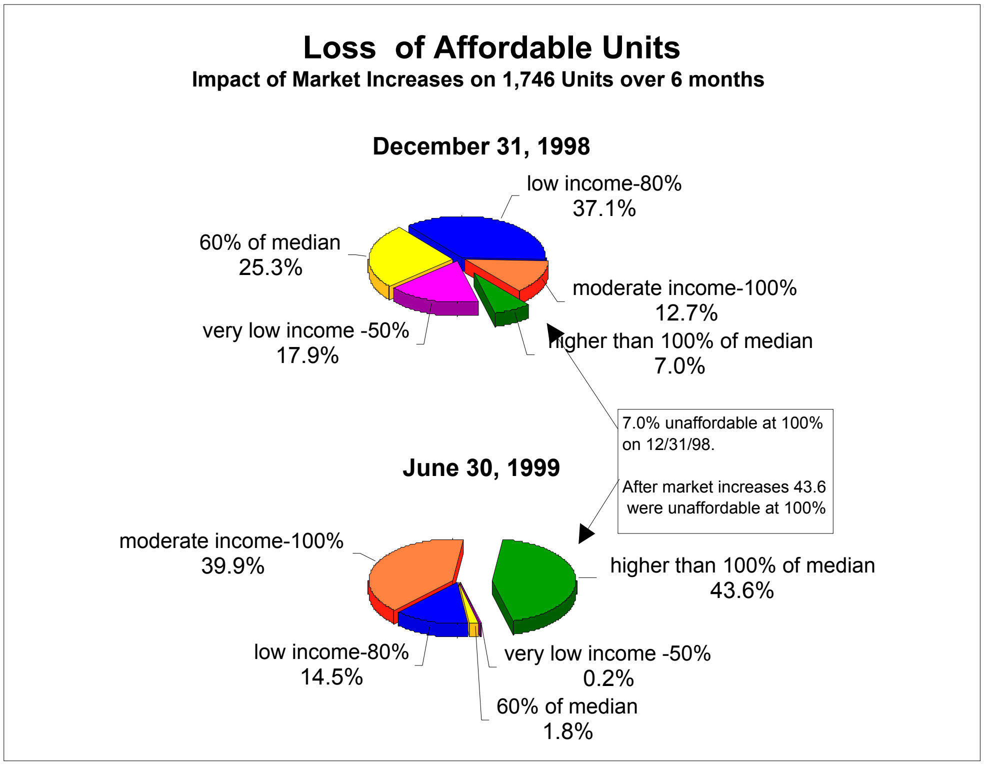
No. of Bedrooms	# Units with Vacancy Increase	# Units Affordable at 100% of Med. Pre-Increase	# Units Affordable at 100% of Med. Post-Increase	# Units No Longer Affordable at 100%
0	257	239	160	79
1	947	899	527	372
2	478	435	138	297
3 or more	64	50	15	36
Total	1,746	1,623	839	784

The table above shows that 1,623 of the 1,746 units with market increases (93%) were affordable at 100% of median income on December 31, 1998. After the increase, only 839 are affordable at 100%, a loss of 48% of the affordable units.

Summarizing, the 1,746 market increases resulted in the loss of 1,100 low income (80%) affordable units. In other words, 63% of the vacancy increases resulted in units that previously were affordable at 80% of median income becoming affordable only to households whose income is higher than 100% of median.

The following graphs depict the effect of market increases on units affordable at the various percentages of median. As the chart shows, the lower the affordability level, the greater the loss of affordable units.





LOSS OF AFFORDABILITY – VACANCY INCREASES SINCE OCTOBER 1, 1995

Market increases are only the most recent in a series of increases for many of the units in the city.

In 1992, approximately 60% of the units, those with the lowest rents, were eligible for a one-time Threshold Rent increase upon voluntary vacancy. In January 1994, the Board responded to the Northridge earthquake by providing increases for earthquake-related repairs.

In October 1995, as mandated by the Costa-Hawkins Act, owners were permitted up to two 15% increases upon voluntary vacancies.

Prior reports have examined the effects of the Threshold and earthquake increases. Though they affected thousands of units, they had little impact on diminishing the number of affordable units.

It was not until owners began to implement the 15% increases that affordability began to be affected in a major way.

IMPACT ON VERY LOW INCOME HOUSEHOLDS -- 50% OF MEDIAN INCOME

The first units to be impacted by vacancy increases were those that had been affordable to very low income households at the 50% of median affordability level. The chart and graph below show how the number of units affordable to very low income households (50% of median) have declined since the implementation of Costa-Hawkins for all controlled units and for those with vacancy increases.

Changes in Affordability for Very Low Income Households -- 50% of Median Income (all controlled units)

Units in Report -- 28,165

No. of Bedrooms	Affordable 9/30/95	Affordable 6/30/99	Units Lost	Amt. of Change
0	1,252	703	549	-43.%
1	5,985	3,326	2,659	-44.4%
2	3,144	2,121	1,023	-32.5%
3 or more	539	408	131	-24.3%
Total	10,920 (38.8% of all units)	6,558 (23.3% of all units)	4,362	-39.4% of very low income units lost

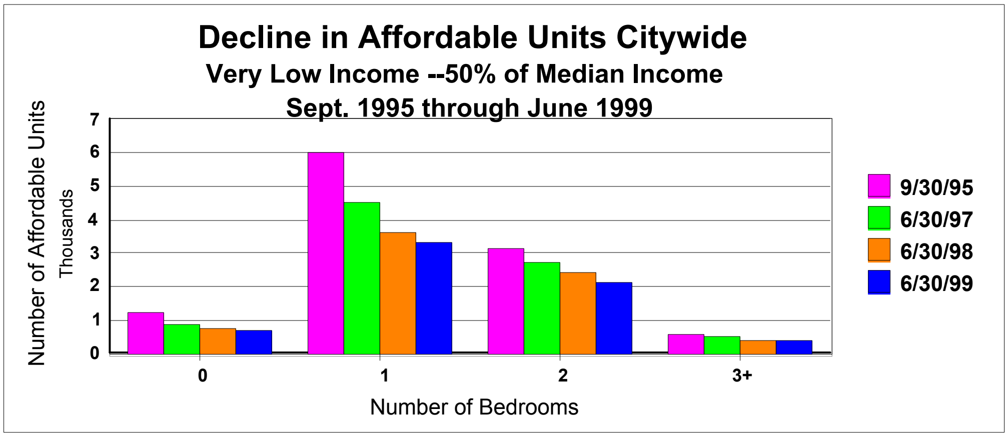
The major factor in the loss of units affordable to very low income households was one or more vacancy increases. Though some loss is attributed to the intervening annual general adjustments, the table below details the major loss of affordable units resulting directly from vacancy increases.

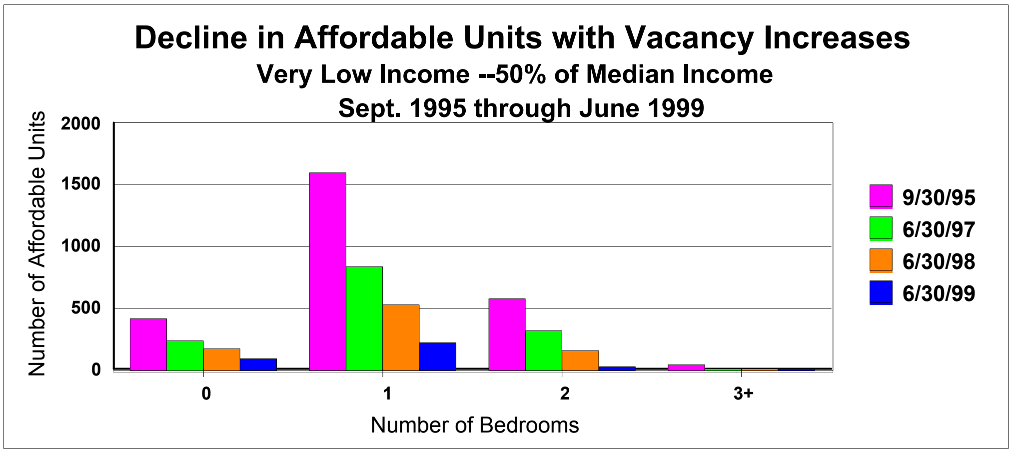
Very Low Income affordable units (at 50% of median income) decreased from 2,634 to 332, a loss of 87%.

Changes in Affordability for Very Low Income Households -- 50% of Median Income (at least one vacancy increase)

Units in Report – 8,066

No. of Bedrooms	Affordable 9/30/95	Affordable 6/30/99	Units Lost	Amt. of Change
0	415	88	327	-78.8%
1	1,604	212	1,392	-86.8%
2	574	32	542	-94.4%
3 or more	41	0	41	-100.0%
Total	2,634 (32.7% of all units)	332 (4.1% of all units)	2,302	-87.4% of very low income units lost





Impact on Households at 60% of Median Income

The impact of was also seen for low income households at 60% of median income. Though the percentage of units lost is smaller, the *number* of units lost increased from 2,302 at 50% of median to 3,991 at 60% of median.

Changes in Affordability for 60% of Median Income Households (all controlled units)

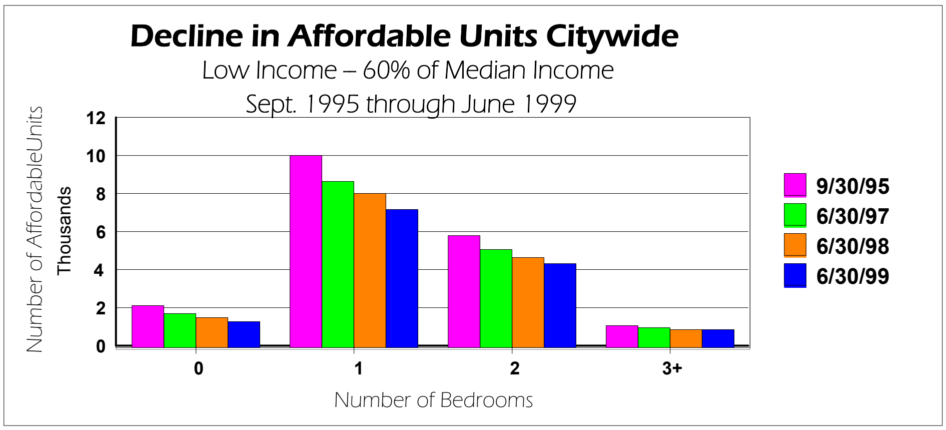
Units in Report – 28,165

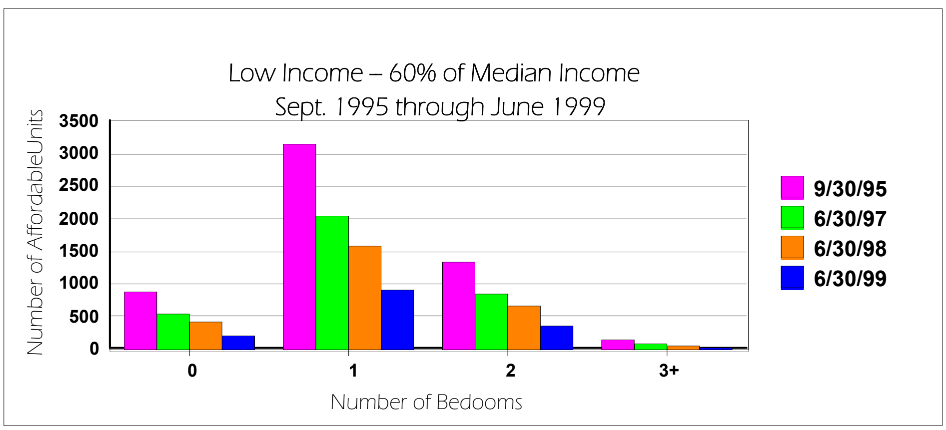
No. of Bedrooms	Affordable 9/30/95	Affordable 6/30/99	Units Lost	Amt. of Change
0	2,117	1,363	754	-35.6%
1	10,089	7,258	2,831	-28.1%
2	5,889	4,408	1,481	-25.1%
3 or more	1,152	877	275	-23.9%
Total	19,247 (68.3% of all units)	13,906 (49.4% of all units)	5,341	-27.7% of 60% of median income units lost

Changes in Affordability for 60% of Median Income Households (at least one vacancy increase)

Units in Report – 8,066

No. of Bedrooms	Affordable 9/30/95	Affordable 6/30/99	Units Lost	Amt. of Change
0	862	209	653	-75.8%
1	3,152	917	2,235	-70.9%
2	1,336	357	979	-73.3%
3 or more	131	7	124	-94.7%
Total	5,481 (68.0% of all units)	1,490 (18.5% of all units)	3,991	72.8% of 60% of median income units lost





Again, the major factor in the loss of units affordable to very low income households was a vacancy increase. Though some loss resulted from the intervening annual general adjustments, the table above details the major loss of affordable units resulting directly from vacancy increases.

Impact of Other Factors on Affordability

Some loss of affordability is attributable to the intervening annual general adjustments on September 1996, 1997 and 1998. Because HUD affordability levels did not change those years, and the general adjustment increased rents by 1.6% or $9, whichever was higher in 1996; 2% or $15, whichever was higher in 1997; and 1% in 1998 with floor and ceiling of $4 and $9 respectively, some attrition did occur.

The charts below show changes in affordability of all units with no vacancy increase after September 30, 1995. Loss of affordability for these units was due to causes other than vacancy increases.

Changes in Affordability for Very Low Income Households -- 50% of Median Income (no vacancy increase)

Units in Report – 20,099

No. of Bedrooms	Affordable 9/30/95	Affordable 6/30/99	Units Lost	Amt. of Change
0	837	615	222	-26.5%
1	4,381	3,114	1,267	-28.9%
2	2,570	2,089	481	-18.7%
3 or more	488	408	80	-16.%
Total	8,286 (41.2%of all units)	6,226 (31.0% of all units)	2,060	-24.9% of very low income units lost

Changes in Affordability for Households at 60% of Median Income (no vacancy increase)

Units in Report – 20,099

No. of Bedrooms	Affordable 9/30/95	Affordable 6/30/99	Units Lost	Amt. of Change
0	1,255	1,154	101	-8.0%
1	6,937	6,341	596	-8.6%
2	4,553	4,051	502	-11.0%
3 or more	1,021	870	151	-14.8%
Total	13,766 (68.5% of all units)	12,416 (61.8% of all units)	1,350	-9.8% of very low (60%) income units lost

The direct cause of loss of affordability for these units was probably the annual general adjustment. While some of the loss of affordability can be traced directly to general adjustments alone, for other units, it was a combination of Threshold Rent or other increases compounded by the annual general adjustment.

Number of Bedrooms	9/30/95 Median MAR's	6/30/99 G.A. only	6/30/99[7] Actual	Difference
0	$445	474	494	4%
1	527	557	585	5%
2	676	709	754	6%
3	850	890	946	6%

Median MAR's shifted upward between 4-6% more than they would have without vacancy decontrol. This difference ranges from $20 for 0-bedroom units to $56 for 3-bedroom units.

50% AFFORDABILITY LEVEL -- 25% OF UNITS BECAME UNAFFORDABLE DUE TO GENERAL ADJUSTMENTS, WHILE 87% OF UNITS WITH VACANCY INCREASES LOST AFFORDABILITY.

While vacancy decontrol has been in effect, 25% of units *with no* vacancy increase (2,060) lost affordability due to general adjustments. 87% of units *with* a vacancy increase (2,202) lost affordability. It is likely that 25% of the units with vacancies would have become unaffordable at 50% from general adjustments alone. The loss of the remaining 1,652 units (2,202 - 550) is attributed to vacancy increases.

60% AFFORDABILITY LEVEL -- 10% OF UNITS BECAME UNAFFORDABLE DUE TO GENERAL ADJUSTMENTS, WHILE 73% OF UNITS WITH VACANCY INCREASES LOST AFFORDABILITY.

While the Costa-Hawkins Act has been in effect, 10% of units with no vacancy increase (1,350) lost affordability due to general adjustments. At the same time, 73% of units with one or more vacancy increase lost affordability – 3,991 units. It is likely that 10% of the units with vacancies would have become unaffordable at 60% in any case from general adjustments alone. The loss of the remaining 3,592 units (3,991 - 399) can be attributed to vacancy increases.

Loss of Low Income Fee Waivers

On December 31, 1994, 895 tenants held very low income senior fee waivers and 159 tenants held very low income disabled fee waivers. By the end of limited vacancy increases on December 31, 1998, the numbers had dropped to 719 senior and 155 disabled fee waivers. After six months of market increases, on June 30, 1999, 660 tenants held very low income senior fee waivers and 146 tenants held very low income disabled fee waivers.

Prior to vacancy decontrol, the number low income fee waivers was fairly stable. In the ebb and flow of tenants, as many low income people moved in as moved out, often in the same unit. During the period of 15% increases, the numbers of tenants with low income fee waivers began to decline. Some new tenants qualified, most did not.

[7] Excludes units with market increase

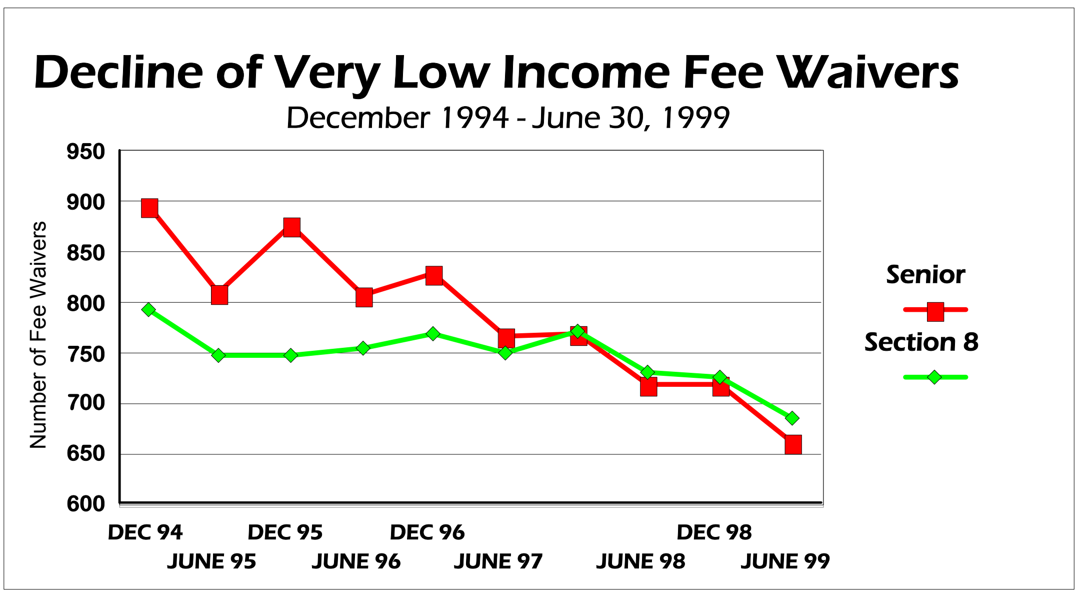
Since the implementation of market increases, the number of low income fee waivers has dropped dramatically. Almost no new tenants have obtained fee waivers.

The reason is obvious. Very low income tenants cannot afford the rents established after vacancies.

Similarly, the number of Section 8 fee waivers has also decreased substantially. There were 793 on December 31, 1994; 726 on December 31, 1998; 686 on June 30, 1999.

The loss of Section 8 fee waivers is likely the result of a combination of State vacancy decontrol legislation and Federal legislation allowing landlords to terminate Section 8 contracts. Prior to vacancy decontrol, many landlords signed Section 8 contracts because it allowed them to collect somewhat higher rents. However, Section 8 rents cannot, in most cases, compete with market rents, and landlords have "opted-out" of the program. This often left very low income households little choice but to find other housing.

The graph below depicts the dramatically accelerating decline in very low income fee waivers:

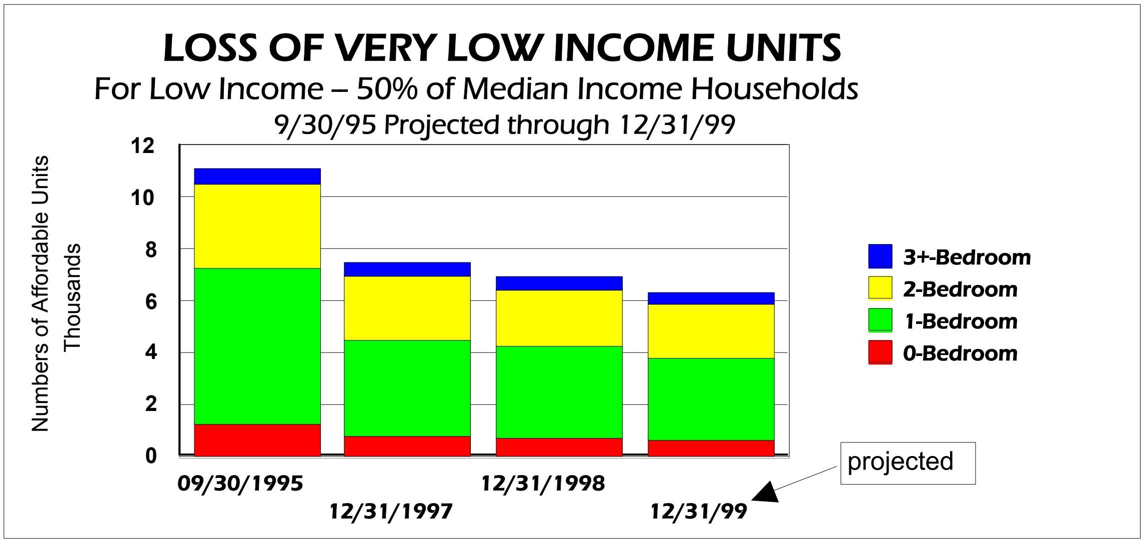


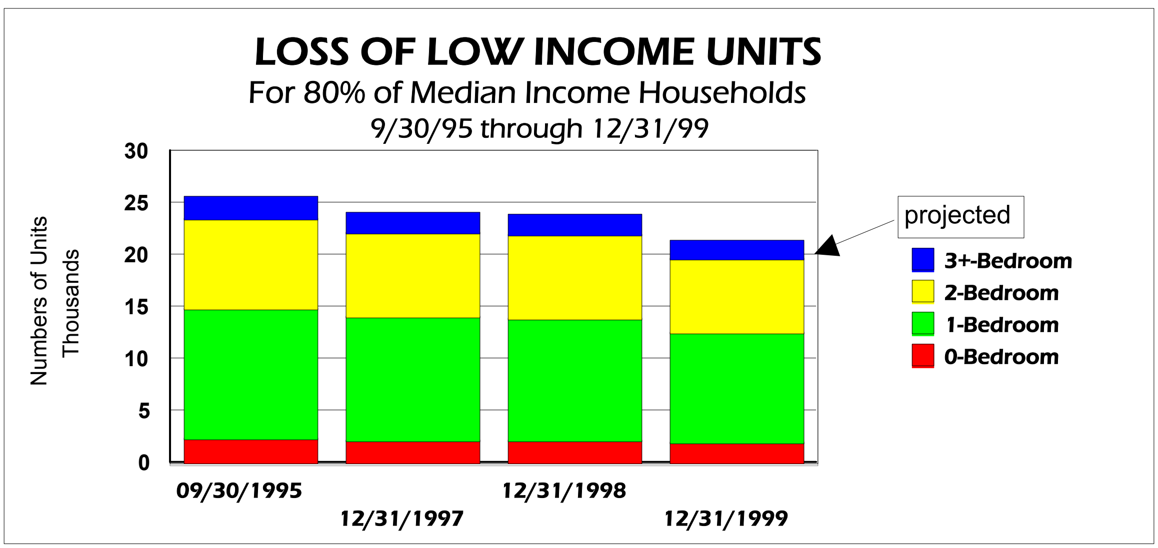
Projection of Future Loss of Affordable Units

If filing of vacancy registrations continues at the same rate – a rate that remains the same as it was during limited vacancy increases -- 3,600 units will receive at least one market increase during the year.

Projections of future loss of affordability can be made based on assumptions of affordability at the time of the increase, and affordability following the increase.

The graph below depicts the loss of affordability at the 50% level through 1998, and projects the further loss that may be experienced by December 1999.





The impact of limited vacancy increases was felt most of the 50% affordability. Units with a 15% were probably still affordable at the 80%.

As nearly half of the units with market increases already had lost 50% affordability with a limited vacancy increase, the impact of market increases is seen more at the 80% and 100% levels, which were not as impacted by 15% increases.

Size of Unit

The percentage of controlled units varies by the number of bedrooms in the unit. Singles and 1-bedrooms are 55.6% of the citywide units. However, 68.9% of X-petitions were for units of this size.

At this point it is not possible to determine the reason for the variation. Possibly there is higher turnover among the smaller units. On the other hand, larger units may not be rented as quickly if owners have expectations of collecting higher rents than tenants will pay. Contrary to the experience with areas of the city, the difference has grown slightly larger over the period of the three reports.

No. of Bedrooms	% of Rental Units	3/31/99 % of X-petitions	6/30/99 % of X-petitions
0	9.0%	12.5%	14.7%
1	46.5	56.0	54.2
2	34.5	27.9	27.4
3 or more	10.0	3.5	3.7

CONCLUSION

When the State Legislature mandated vacancy decontrol to all cities with rent control, predictions were made as to the potential impact on rents and affordability. Unfortunately, the direst predictions appear to have been the closest.

The loss of affordable units is occurring at a rapidly escalating rate.

The loss of affordable rent controlled units in Santa Monica increases the demand for affordable housing in this city and the surrounding area. Low income households will no longer be able to relocate into affordable housing within the city, nor will housing be available to new low income populations. The stable and diverse community that Santa Monica has prided itself on will change.

The lack of affordable low income housing may have many potential indirect effects. If workers cannot find housing locally, they may relocate to more affordable, but more distant communities. This could represent either a loss in the work force or an added burden on the commuter transportation system.

Finally, for the lowest income households, the diminishing supply of low income housing may result in more over-crowding and homelessness.

More rapid production of permanently affordable housing is essential.

APPENDIX C

IMPACT OF THE ELLIS ACT

When the Ellis Act became law in July 1986, it allowed landlords to go out of the rental business, evict tenants, and withdraw units from the housing market.   The following is a report on Ellis activity in 1998/99 that was presented to the Board on November 4, 1999.

SUMMARY

This report updates the status of Ellis withdrawals through June 30, 1999 and reviews the activity on properties withdrawn under the Ellis Act, including re-rental and redevelopment.

As of June 30, 1999, 236 properties remain withdrawn from the residential rental housing market by way of the Ellis Act. This represents the withdrawal of 1,123 units. Four properties with a total of 14 units that were pending withdrawal on June 30 have subsequently completed the process.[8]

Forty-two formerly withdrawn properties, comprised of 212 units, have returned to the rental housing market under rent control. One property (4 units) is pending re-rental and will return to the controlled rental market no later than October 31, 1999.

After a long period with little Ellis activity, the filing of withdrawals began to accelerate in May 1998. Staff has monitored the properties withdrawn and pending withdrawal since that time. These properties are referred to in the report as "recent withdrawals."

During the period May 1998 and June 30, 1999, 30 properties with 131 units completed the withdrawal process.   Five properties with a total of 25 units were re-rented under rent control after having been withdrawn, and one other property with four units is pending re-rental.

Since June 30, 1999 twelve additional properties containing 63 units have filed for withdrawal. Five properties completed the process; the other withdrawals are pending.

[8] Five properties with 26 total units that filed after July 1, 1999 have also completed withdrawal by the date of this report.

Taken together, since May 1998, 42 properties with 194 units have been withdrawn or are pending withdrawal. One of the withdrawn properties is pending re-rental.

Withdrawn units, some of which were the most affordable in the city, are being replaced by market rate condominiums.

Among the 42 properties that filed for withdrawal since May 1998, 15 have taken some steps toward condominium development. Most have a Conditional Use Permit issued or pending.

CHANGES IN WITHDRAWAL ACTIVITY OVER TIME

The greatest amount of Ellis activity occurred in the first few years of the law's existence. By June 30, 1991, 183 properties comprised of 873 units were withdrawn. The most Ellis activity occurred in 1989/90 when 82 properties with 340 units were withdrawn. Eighteen of those properties with 83 units later re-rented again under rent control.

Withdrawals in the early period included 24 properties with 178 units located in downtown Santa Monica (Area C). Most of these properties were in commercial areas and contained SRO's (single room occupancy) units.

In July 1991 the number of withdrawals began to decrease. By July 1993 they had dropped dramatically, remaining low until May 1998. This coincided with a downturn in the economy, and was probably influenced by unfavorable economic conditions.

The number of withdrawals increased significantly again in 1998 when 19 properties filed for withdrawal in just 8 months, between May and December. It is likely that favorable economic conditions had a great impact on the upturn in filings.

During fiscal year 98/99 30 properties with 131 units completed the withdrawal process. Four additional properties with a total of 14 units filed the Intent to Withdraw and are expected to complete the withdrawal within 60 days. Five properties with a total of 25 units were re-rented under rent control after having been withdrawn, and one other property with four units is pending re-rental.

The graph below shows the pattern of withdrawals and re-rentals by units over the years the Ellis Act has been in effect. Note that in 1992/93 and 1993/94, more units returned to rent control than were withdrawn.[9]

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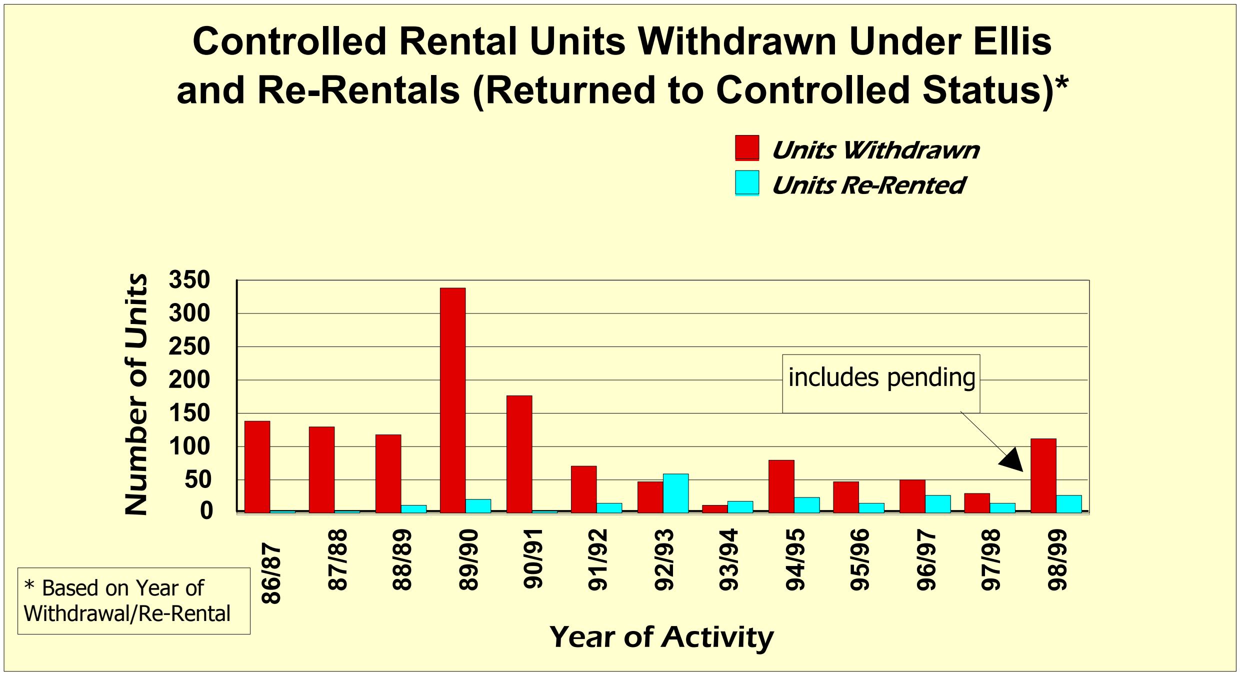
[9] Included in the chart are the four properties that were pending withdrawal on June 30 and have subsequently completed the process.



The chart below shows the number and percentage of units that remain withdrawn by Area[10] of the city[11]. By way of comparison, the first left-hand column shows the percentage breakdown of controlled units citywide.

Area	% of Rental Units in City	Withdrawn Units Number (1,137)	Withdrawn Units Percent	Re-Rented Units Number	Re-Rented Units Percent (212)
A	17%	154	14%	24	11%
B	12	58	5	18	9
C	5	224	20	5	2
D	10	21	2	4	2
E	18	307	27	67	32
F	17	94	8	40	19
G	21	279	25	54	25

As shown by the charts, withdrawals represent a much lower percentage than units in areas B, D and F, while withdrawals are proportionately much higher in areas C, E and G. Of the 41 properties that filed for withdrawal since May 1998, eight are in area E and 17 in area G.

10 Generally speaking the seven Areas conform to the following descriptions; A-- Ocean Park; B -- Sunset Park; C -- downtown; D -- Pico Neighborhood; E --between Wilshire and Colorado, east of Lincoln; F -- North of Wilshire, west of Lincoln; G -- North of Wilshire, east of Lincoln.

11 Included in the chart are the four properties that were pending withdrawal on June 30 and have subsequently completed the process.

In May 1998 Ellis filings dramatically increased. Between May 1, 1998 and June 30, 1999, withdrawals were filed for 30 properties consisting of 123 units. One of the properties with 4 units is pending re-rental. The months with the highest number of filings were May 1998 (6) and August 1998 (5). These properties are:

Filing Date	Address	Area	Units	Evictions	Development Activity
5/5/98	811 18th Street	G	4	4	re-occupancy permit[12]
5/14/98	2126 3rd Street	A	7	6	remodel/combine units to SFD
5/15/98	2712 2nd Street	A	1	0	demo permit pending
5/18/98	1724 Washington Ave.	G	4	3	substantial remodel pending
5/26/98	911 7th Street	G	2	0	bldg. permit issued - 5 unit condo
5/28/98	2726 Montana Ave.	G	4	1	permits issued - 5 unit condo
6/29/98	1252 Euclid Street	E	4	4	permits issued - 5 unit condo
7/6/98	911 California Ave.	G	4	3	remodel -- pending re-rental
7/8/98	1315 Lincoln Blvd.	E	4	0	demolished/commercial use
7/30/98	838 19th Street	G	5	4	CUP pending - 5 unit condo
8/11/98	2226 Wilshire Blvd.	E	1	1	all commercial
8/18/98	1719 Ocean Front Walk	C	13	12	CUP pending - 5 unit condo
8/20/98	1411 Cloverfield Blvd.	E	3	0	permit issued add 2 3-story units
8/21/98	844 3rd Street	F	4	3	bldg. permit issued - 5 unit condo
8/21/98	933 15th Street	G	5	4	bldg. permit issued - 5 unit condo
10/2/98	823 5th Street	G	10	10	
10/15/98	2021 Montana Ave.	G	5	5	bldg. permit pending - 6 unit condo
12/21/98	420 Palisades Ave.	F	4	4	bldg. permit issued/remodel
12/21/98	1111 10th St.	G	5	5	CUP pending - 5 unit condo
1/11/99	327 22nd St.	G	1	0	permits issued/remain SFD
1/25/99	234 15th St.	G	1	0	permits issued/remain SFD
3/31/99	417 Strand St.	A	4	3	
4/7/99	1811 16th St.	D	4	0	permits pending - 4 unit condo
4/13/99	1544 12th St.	E	2	0	CUP pending - 12 unit condo
4/13/99	1538 17th St.	E	3	0	
4/27/99	1330 10th St.	E	5	5	bldg. permit issued/remodel
5/5/99	1107 Princeton St.	G	4	3	CUP approved 5 unit condo
6/2/99	938 Lincoln Blvd.	G	1	0	CUP/demo pending - 9 unit condo
6/23/99	2412 4th St.	A	6	5	convert to SF/re-oc pending
6/30/99	954 14th St.	G	3	3	CUP/demo pending - 5 unit condo

[12] After a property has been withdrawn, the owner may obtain a Re-Occupancy permit for the property to be occupied by the owner and/or family members as long as the family members have no ownership interest and pay no rent.

Postscript -- Twelve additional properties[13] have filed for withdrawal since June 30:

Filing Date	Address	Area	Units	Evictions	Development Activity
7/1/99	1028 Pearl St.	B	4	2	
7/7/99	1022 10th St.	G	6	5	CUP; permits pending - 5 unit condo
7/29/99	2522 21st St.	B	4	3	
8/5/99	211 Alta Ave.	F	13	2	
8/19/99	1625 Franklin St.	D	5	3	
8/23/99	2036 6th St.	A	4	2	
8/30/99	853 14th St.	G	3	2	
9/23/99	1434 Princeton St.	E	6	6	
10/13/99	1028 4th St.	F	6	6	
10/15/99	1355 Palisades Beach Rd.	C	4	4	
10/20/99	2029 6th St.	A	1	1	
10/21/99	1361 Palisades Beach Rd.	C	7	7	

These 42 properties have characteristics that distinguish them from earlier withdrawn properties. Among the ways these properties differ is that a higher percentage of properties in this group changed ownership shortly before the withdrawal. The development activities for these properties are also different.

CHANGE OF OWNERSHIP

Of the 42 properties recently withdrawn or pending withdrawal, 20 (48%) had been purchased by new owners within one year prior to the filing. The owners of five additional properties withdrew the properties less than two years after purchase (that is, a total of 60% in two years).

This compares with 40% of the earlier withdrawn properties that had changed ownership within one year prior to withdrawal, and 50% that had changed ownership within the prior two years.

RE-RENTAL

Forty-two properties with 212 units have elected to re-enter the controlled housing stock, at least temporarily.

Six of the re-rentals later went through the TORCA (Tenant Ownership Rights Charter Amendment) procedure to convert the property to condominiums. Only properties that were withdrawn before 1989 and returned to rent control before 1993 converted to condominiums through TORCA.

[13] Documents were submitted in late September for five additional properties containing a total of 16 units. However, as the documents were not in order, the filing was not accepted. Owners may perfect the documents and re-submit them for filing.

Post-Ellis activity falls into a number of categories: Re-development, conversion to commercial use, single family dwellings.

According to City records, forty of the properties withdrawn under Ellis have received Certificates of Occupancy for new housing developments. All of the properties involved had been withdrawn prior to 1993, at least six years ago. Most of the properties had received the Certificate of Occupancy by 1997; only one property received the C of O after 1997.

RESIDENTIAL RE-DEVELOPMENT OF RECENTLY WITHDRAWN PROPERTIES

- MULTI-FAMILY DEVELOPMENT

Among the 42 properties that filed for withdrawal since May 1998, 15 have taken some steps toward condominium development. Most have a Conditional Use Permit issued or pending.

None of the condominium developments include rental units designated to be deed-restricted to occupancy by low income or moderate income households.

Three properties have permits for remodeling, but there is no indication whether the remodeled property is intended for rental or owner occupancy. Another property is replacing 3 units with two 3-story units, but does not indicate the future use of the replacement units.

The owners of one 4-unit property are residing on the property with a re-occupancy permit. One property in a commercial zone has been demolished and is being used for commercial purposes.

- SINGLE FAMILY DWELLINGS

Among the 42 recent filings, five properties were single family dwellings. Two intend to remodel and remain single family, one has a demolition permit pending, and one property has a Conditional Use Permit pending for a 9-unit condominium. One 7-unit and one 6-unit property are intending to become single family dwellings.

One residential unit that was part of a commercial property was withdrawn. It has been converted to commercial use.

LOSS OF AFFORDABILITY

Many of the properties that have been withdrawn contained some of the most affordable rental units in the City. This was particularly the case in the earliest days of implementation of the Ellis Act.

The most recent withdrawals show that the trend continues. Of the 181 units with MAR's, more than one-half were affordable to very low income households (50% of median income), three-quarters were affordable to very low income (60% of median income), and more than 90% were affordable to low income households (80% of median income). Only five 2-bedroom units and three 3 or more bedroom units were not affordable even to moderate income households (100% of median).

Of the recently withdrawn properties being re-developed for residential purposes, 88 units will have been removed. They are to be replaced by 86 condominium units and 5 single family dwellings with no controls on the rent levels.

CONCLUSION

Affordable rental units withdrawn under the Ellis Act are being replaced by market rate condominiums units, not affordable to low or moderate income households.