
SANTA MONICA
RENT CONTROL BOARD
SEMI-ANNUAL REPORT

JULY 2006 THROUGH DECEMBER 2006

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INTRODUCTION

All of the past Annual Reports have covered fiscal years, which extend from July to June. However, the annual Market Vacancy Reports and Ellis Reports are based on calendar years. This difference in coverage has been confusing for Board, Staff and members of the public. Therefore, this "Semi-Annual" Report covers the period from the beginning of the fiscal year, July 1, 2006, to the end of the calendar year, December 31, 2006. Future Annual Reports will cover calendar years, so as to correspond to the reporting periods for the Market Vacancy and Ellis reports.

MARKET VACANCY INCREASES

In March 2007, the Rent Control Board reviewed "The Impact of Market Rate Vacancy Increases – Eight Year Report". The report covers eight years of full vacancy decontrol-recontrol (January 1999 – December 2006).

The report detailed that since vacancy decontrol-re-control began in January 1999, owners have increased the rents to market rate on 14,013 units or 51% of the controlled rental units. Although this represents a significant portion of the controlled rental units, the number of units rented at market rate for the first time has continued to decrease each year. In 2006, only 552 new units were rented for the first time, the lowest number yet for a one-year period.

The impact of the increases on rents is summarized below.

- ◆ Upon re-rental, median MARs have increased from \$667 to \$1031 (55%) for 0-bedroom units, from \$762 to \$1,384 (82%) for 1-bedrooms, from \$975 to \$1,822 (87%) for 2-bedrooms and from \$1,226 to \$2,354 (92%) for 3 or more bedroom units.
- ◆ Once a unit is rented at market rate, the tenant has less incentive to stay in place and, therefore, the unit may receive subsequent vacancies and re-rentals in a relatively short period of time. At the end of the eighth year, 56% of the units rented at market rate had been re-rented at least once since the first market rate rental. Almost 13% of the units had been rented at market rate four or more times.

- ◆ Depending on the number of bedrooms in a unit, the household income needed to “afford” the median market rent at 30% of gross income ranges from \$58,914 to \$86,783. This is \$20,800 - \$41,500 higher than the income needed to afford the median rent of the same size unit if it had not been rented at market rate.

Effects on Rent Levels and Income Needed to Afford MARs (30% Affordability Standard)					
Units with Vacancy Increases 1/1/99 – 12/31/06 (14,013 units)					
<u>No. of Bedrooms</u>	<u>Adjusted 1998¹ Median MARs</u>	<u>Income needed to Afford MAR</u>	<u>Post- Increase Median MARs</u>	<u>Income Needed to Afford MAR</u>	<u>Income Difference</u>
0	\$667	\$38,114	\$1,031	\$58,914	\$20,800
1	762	38,100	1,384	69,200	31,100
2	975	41,053	1,822	76,716	35,663
3 or more	1,226	45,198	2,354	86,783	41,585

- ◆ Vacancy increases on 14,013 units have resulted in the loss of 9,046 units that had rent levels formerly affordable to low-income households (80% of median income) including 5,793 units with rent levels formerly affordable to very low-income households (50 and 60% of median income).

PUBLIC OUTREACH

Between July and December 2006, the Board published one issue of “Rent Control News,” a newsletter which is mailed to all Santa Monica tenants and owners. The November 2006 issue featured an article on mediation conducted by Rent Control staff members, as well as by Dispute Resolution Services. Additional articles detailed the restoration of the state law requiring 60 days’ notice for no-fault evictions, an announcement of an upcoming Rent Control seminar for new owners, and information on the annual opportunity to apply to be on Community Corporation’s affordable housing marketing list.

During the latter half of the year, the Agency’s website, www.smgov.net/rentcontrol, received 69,126 web surfers who initiated 219,869 web page “hits.” The maximum allowable rent (MAR) database, with rents for each controlled unit in Santa Monica, was accessed 16,906 times. Additionally, staff responded to 298 e-mails via the website.

Outreach efforts during this time period included staff presentations at two meetings of apartment owners’ associations and participation in the annual Beverly Hills Realtors Association meeting. Staff presented information at the City-sponsored Disability Awareness Month event in October. Staff held two workshops for new owners and began preparing a series of workshops for tenants to be held beginning May 2007.

¹ December 1998 median MARs with 1999-2005 general adjustments added.

CHANGES IN THE HOUSING STOCK

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

A map of the City areas and percentage of rental units in each area 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 records².

COMPLETED CONSTRUCTION

The construction detailed in this section relates to multi-family residential developments that were completed in July-December 2006.

One new development containing a total of 4 condominiums was completed, replacing 4 previously rent-controlled residential units which were withdrawn from the rental market in 1990. The developer paid in-lieu fees to the City to meet the City's affordable housing requirements.

THE ELLIS ACT

The Ellis Act ("the Act") was enacted in 1985 to prohibit a locality from requiring a residential landlord to remain in the residential rental business. The Act's intent is to allow residential landlords to stop being residential landlords.

The Act establishes certain procedures landlords must follow to withdraw units from the rental market. They include service of 120-day notices of termination of tenancy on tenants. The Act also sets forth procedures for the return of withdrawn units to the rental market.

During the period July 1, 2006 through December 31, 2006, owners of 12 properties with 54 units filed Notices of Intent to go out of the rental housing business. During this time period, 15 properties with 69 units completed the withdrawal process. There were no re-rentals during this time period.

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

Since the Ellis Act became law in 1985, 465 Ellis withdrawals were completed affecting 2,213 units. Although 99 formerly withdrawn properties with 480 units returned to the rental housing market under rent control, 366 properties with 1,731 units remained withdrawn from the rental housing market as of December 30, 2006. It is noted that three properties returned to the rental market with a different number of units than were withdrawn.

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 two types of removals which the Board may grant:

- *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, and at least 15% of the controlled units to be built will be deed restricted at rents affordable to low income people.*

In the period July 1, 2006 through December 31, 2006, the Board received five Category C removal permit applications for uninhabitable properties, or uninhabitable units on otherwise habitable properties. All of the applications were granted, resulting in the removal of six units.

No Category D removal permits were granted.

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 the last six months of 2006, there were 22 declarations submitted for single-family dwellings stating that the structures were not rented on July 1, 1984.

Use Exemptions -- *Use exemptions were granted this year in the following situations:*

- *Rental units on properties with two or three units, one of which is occupied by the owner;*

The following use exemptions were granted:

<u>Type of exemption</u>	<u>Number of properties</u>	<u>Number of units</u>
owner-occupied	8	19

These exemptions do not all represent a loss of controlled rental units from the housing stock in the latter half of 2006. Only one property with three units received an owner-occupied exemption for the first time. The balance of the owner-occupied

properties had previous exemptions. In addition to the eight exemption applications that were granted, five applications were denied, and four were not accepted for filing.

SUMMARY OF CHANGES IN THE RENTAL MARKET

July 2006 - December 2006

<u>Activity</u>	<u>Reduction in controlled units</u>	<u>Increase in controlled units</u>	<u>Net change in controlled units</u>
	7/06 – 12/06	7/06 – 12/06	7/06 – 12/06
Ellis activity	-69	+0	-69
Category C Removals	-6	0	-6
Category D Removals	0	0	0
New use exemptions	-3	0	-3
Total	-78	+0	-78

The above chart shows the number of units lost from the controlled rental housing market between July 2006 and December 2006.

RELOCATION

Board staff continues to assist the City Attorney's office in mediating relocation benefits owed under the City's relocation laws to tenants being displaced from their units. As increases in withdrawals of units from the rental market have occurred over the last year, inquiries and issues concerning relocation benefits have also increased. Board staff and the City Attorney's office, along with the City's Planning and Building and Safety Departments, have been working together to better advise property owners of their obligations to provide relocation assistance.

PROGRAM, POLICIES AND ADMINISTRATION

REGULATIONS

Owners who live at their property which contains three or fewer units are eligible to receive an exemption from the Rent Control Law. The exemption is not automatic, but requires an application and approval by the Rent Control Board. There have been some recent regulation changes to the requirements for obtaining this exemption.

Regulation 12053 (c) (3) now requires that an owner must live continuously at a three unit or less property for 120 days before applying for an exemption from the law. Previously, an owner only needed to live at the property for thirty (30) days before applying for exemption.

In addition, under the recent amendments to the regulations, if an application is withdrawn by the owner or denied by the Rent Control Board, an owner must wait 120 days after the withdrawal or denial to re-file for owner-occupied exemption.

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.

The Board approved a 2006-07 general adjustment of 4% with a maximum increase of \$54. The Board also approved a \$7 per month utility adjustment for master metered properties where the landlord pays either for all gas or gas and electrical service in individual units on the property.

PETITIONS

Petitions, complaints and applications are filed to resolve issues involving Rent Increases, Rent Decreases, Excess Rent, Owner-Occupied Exemptions, Tenants Not in Occupancy, Base Rent/Amenities determinations and Units Previously Not Registered Under Rent Control.

Excess Rent complaints are reviewed by staff, and, if they are accepted for filing, the owner is given a chance to resolve the complaint. Those complaints which are not initially resolved are referred to the Hearings Department for mediation and/or hearing. Owner occupied exemption applications that are not resolved administratively are referred to the Hearings Department.

The Hearings Department provides mediation services as part of the Decrease and Excess Rent processes, as well as for some matters not brought by petition. Hearings are held for all

other types of petitions and for decrease and excess rent cases not resolved through mediation.

Pre-Mediation

Excess Rent Complaints -- *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, e.g. it has an owner-occupied exemption; or the tenant withdraws the complaint prior to filing in favor of going to court.*

During July to December, 2006, 13 complaints alleging excess rent were submitted.

Of the 13 complaints submitted, three were withdrawn.

Of the 10 complaints accepted for filing, four were resolved prior to formal mediation by owners paying tenants the amount of overcharge claimed by the tenant. Four complaints were forwarded to the Hearings Department for mediation.

Mediations

Rent decrease and excess rent cases are usually referred to the Rent Control Board's mediator before they are set for a hearing. The mediator has been very successful in settling a large percentage of these cases, either in whole or in part. This has resulted in the need for hearings in far fewer cases and in simplification of the issues that do ultimately require a hearing. There are also a number of landlord-tenant disputes other than those brought by petition which are referred to the mediator through direct contact with landlord or tenant or referral from another staff member or City department.

Excess Rent Mediations

Five excess rent petitions were referred for mediation, one of which was from an earlier time period. Two cases were resolved through the mediation process. Two petitions were sent to hearings, as the issues were not resolved, and one was still pending at the end of the calendar year.

Decrease Mediations

Of the 32 decrease petitions forwarded for mediation, eight were still pending at the end of the calendar year, two declined mediation, and one was withdrawn. Mediation was fully or partially successful in 62% of the remaining 21 cases.

Non-Petition Mediations

The mediator handled 7 non-petition cases during the second half of 2006. Six of these cases arose between July and December 2006, and one was still unresolved at the end of June 2006. One of the cases was resolved through mediation. Three cases were pending at the end of the calendar year. One case was closed due to failure of the parties to participate in mediation, and two were referred to other agencies because no remedy was available under the Rent Control Law.

Six of the cases were referred to the mediation facilitator from within the Agency following owner or tenant contact. Three of the cases came from tenants, two from owners, and one from an owner and tenant. One case arose from direct contact with a member of the public to the mediator. The mediations included such issues as scheduling and allowing needed repairs, the amount of rent to be charged when changes, such as adding or removing space from a unit, occur, issues surrounding tenant relocation, and issues regarding changing the location of parking.

Cases Set for 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.*

One petition pending at the beginning of July 2006 was withdrawn.

***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 must first 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/mediation conference is scheduled to resolve the issues without a hearing, if possible.*

<u>Decrease Cases referred for hearing</u>	<u>18</u>
Decreases granted	9
Decreases denied	0
Dismissed	0
Withdrawn	3
Pending at end of year	6

In addition, seven (7) decisions were issued on petitions that were pending from the prior reporting period, and all seven granted decreases.

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

During this period rent decreases granted prior to July 2006 were reinstated fully in five cases. They were partially reinstated in 28 cases, 19 of which were for a consolidated case involving 19 separate petitioners.

Excess Rent Complaints -- Board regulations provide for a tenant who believes he or she is paying more than the maximum allowable rent or whose landlord has not registered the property with the Rent Control Board to petition the Board for recoupment of extra monies paid or to withhold rents until the landlord has registered the property. The cases are initially sent to the mediator for resolution. Unresolved cases are decided by a hearing.

From July 2006 to December 2006 three excess rent complaints were scheduled for hearing. All of the complaints were referred by the mediator. Excess rent was substantiated in two of the cases, and the remaining case was pending at the end of the calendar year.

In addition, three decisions were issued on complaints received by the Hearings Department in the prior fiscal year. Excess rent was substantiated in two cases. The other complaint was not substantiated.

Exemptions -- Although many owner-occupied exemption cases are decided without a hearing, there are occasions when a hearing is necessary. In these cases, questions of fact need to be decided in an evidentiary hearing. In many of these cases the exemption is contested by one or more tenants. Hearings may also be required in cases where a lapsed exemption is contested. The recommended decision is used by the Board to make a final determination on the exemption application.

In the latter half of 2006, four new applications for owner-occupied exemption were referred for hearing. One recommendation was for the Board to grant the exemption, and one recommended denial. One was withdrawn, and one case was referred to the Board without a hearing.

Bootleg "J" Petitions -- Bootleg petitions are filed for units which have not previously been registered with the Rent Control Board. In order for a unit to be qualified to register, the petitioner must show the unit was used as a residential rental unit in April, 1979 and is either habitable or capable of being made habitable.

Two cases filed in the prior fiscal year had decisions issued in this time period. Decisions in both cases determined the subject units could be registered.

Tenants not in Occupancy -- In March 2003, the Board adopted Regulation 3304. This regulation allows for a one-time increase to market level for units the tenant does not occupy as his/her usual residence of return. The Regulation was amended in January 2004, allowing the Board, rather than the petitioners in those cases to set the new rents for tenants not in occupancy.

When a tenant not in occupancy case ("N" case) is accepted for filing, the petition is either handled administratively (dismissed, withdrawn or, if uncontested, an administrative decision is issued by the Hearings Department) or a hearing is held.

From July to December 2006 the Agency handled 4 of these petitions. Two of the petitions required hearings, and two were dismissed. The two cases that required hearings were still pending at the end of December. Two decisions were issued in this period for petitions pending from the prior reporting period.

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 HOME program), or occupied by low-income tenants who are over 62 or disabled. There are also fee waivers for condominiums and single-family-dwellings on which rent restrictions have been lifted pursuant to the Costa-Hawkins' Act, for tenants participating in the City of Santa Monica TARP program, and in mobile home parks for units where tenants have signed long-term leases.

<u>Type of Fee Waiver</u>	<u>As of 12/31/06</u>	<u>Change from 05-06 Annual Report</u>
low-income senior	375	+4
low-income disabled	126	+3
owner-occupied	2,514	-5
single family dwelling	1135	+49
HUD subsidized (Section 8)	807	-12
HOME program	80	0
administrative	347	-2
mobile home	9	0
TARP	<u>1</u>	<u>-0</u>
Total fee waivers	5,394	+37

THE WORK OF THE RENT CONTROL BOARD BY DEPARTMENT

ADMINISTRATION AND PUBLIC INFORMATION DEPARTMENTS

◆ Rent Board meetings convened and staffed		7
◆ Number of people helped seeking information		9,987
<i>number at counter (16%)</i>	<i>1,607</i>	
<i>number by phone (81%)</i>	<i>8,082</i>	
<i>number by e-mail (3%)</i>	<i>298</i>	
◆ Rent Control web pages viewed		219,896
◆ Web page MAR's viewed		16,906
◆ Mass mailings produced and distributed		1
<i>Newsletter</i>	<i>1</i>	
◆ Clearance forms to submit development applications		117
◆ Demolition Permits processed		57
◆ Building Permits processed		81
◆ Property Registrations processed		206
◆ Vacancy Registration Forms Processed		2,051
◆ Registration fee payments processed		3,552
◆ Fee waivers processed		93
◆ MAR reports generated		1
◆ Petitions processed on in-take		52
◆ Excess Rent Prima Facie Determinations		7
◆ Small Claims litigation fees collected		\$11,121
<i>collection actions taken</i>	<i>11</i>	
<i>settlements entered</i>	<i>2</i>	
<i>registration fee suits filed</i>	<i>0</i>	

HEARINGS DEPARTMENT

◆ Hearings held		31
<i>on tenant not in occupancy petitions</i>	5	
<i>on rent increases</i>	0	
<i>on decreases</i>	19	
<i>on base rents and amenities</i>	0	
<i>on complaints</i>	4	
<i>on exemptions</i>	2	
<i>on bootleg units</i>	1	
◆ Written decisions issued		27
◆ Addenda issued		39
◆ On-site investigations conducted		133
<i>upon scheduling decrease petitions</i>	22	
<i>in response to compliance requests</i>	28	
<i>exemption use investigations</i>	3	
<i>fee waiver use investigations</i>	0	
<i>Removal investigations</i>	1	
<i>regarding unit identification conflicts</i>	0	
<i>Ellis investigations</i>	29	
<i>Occupancy, unit use, residence verification, etc.</i>	36	
<i>Other, i.e., measuring, service of documents, etc.</i>	14	
<i>N-petition on-sites</i>	0	
◆ Drop-off letters generated		27
◆ Interpreter services provided		5
<i>Spanish</i>	5	
◆ Tenant Not in Occupancy Prima Facie Cases Reviewed		4
◆ Tenant Not in Occupancy dismissal letters written		2
◆ Exemption staff reports reviewed		13
◆ Excess Rent Prima Facie Cases Reviewed		7

LEGAL DEPARTMENT

◆ Staff reports on appeal prepared		13
<i>decrease cases</i>	<i>6</i>	
<i>increase cases</i>	<i>1</i>	
<i>tenant not in occupancy cases</i>	<i>2</i>	
<i>Staff reports on exemptions/lapses following Hearing Officer Recommendation</i>	<i>4</i>	
◆ Ellis withdrawals		13
<i>withdrawals processed</i>	<i>13</i>	
<i>returns to rental market processed</i>	<i>0</i>	
◆ Miscellaneous staff reports written		7
◆ New or amended regulations prepared		2
◆ Board meetings staffed		7
◆ Litigation cases		5
◆ Officer of the Day requests responded to		30
◆ Infoco Meetings Advisory		5
◆ Administrative records prepared		0
◆ Removal Permits		5
<i>Category C</i>	<i>5</i>	
<i>Category D</i>	<i>0</i>	
◆ Agreements Written		1
◆ Occupancy Permits Advisory		2
◆ Responses to subpoenas and Public Record Act requests served on Agency		3
◆ Consultations with Planning and City Attorney staffs		47

APPENDIX A

A map of the City areas and percentage of rental units in each as of 12/31/06 are shown below:

- Area A 17%
- Area B 12%
- Area C 4%
- Area D 10%
- Area E 19%
- Area F 16%
- Area G 22%

