The Impact of Market Rate Vacancy Increases – Two-Year Report

January 1, 1999 - December 31, 2000

Santa Monica Rent Control Board
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IMPACT OF MARKET RATE VACANCY INCREASES

SUMMARY

On January 1, 1999 vacancy decontrol-recontrol began and owners were allowed to raise the rents on vacant units to market rate. The law has now been in effect for two years.

During the first year (January 1 - December 31, 1999), owners filed 3,796 vacancy market increase forms with the Rent Control Agency. Excluding multiple registrations on the same unit, 3,192 units were impacted. During the second year (January 1 – December 31, 2000), 3,684 market increase forms were filed, impacting an additional 2,487 units for the first time. The remainder of the forms filed either involved a subsequent market rate increase for a unit already impacted, or were filed on units not eligible for an increase. The impact of the increases on rents is explored in this report and is summarized below.

- Vacancy-related increase forms were filed at approximately the same rate in both the first and second year. In both years, the heaviest filing period was July – September.
- Excluding multiple increases on the same unit, 5,679 units have received market increases.
- Upon re-rental, median MARs have increased from $568 to $824 (45%) for 0-bedroom units, from $645 to $1,095 (69%) for 1-bedrooms, from $818 to $1,528 (87%) for 2-bedrooms and from $1,061 to $1,900 (79%) for 3+ 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 increases in a relatively short period of time. At the end of the second year, 1,144 units had two reported increases, 168 units had three reported increases, 27 units had four reported increases and 9 units had five or more reported increases.
- Depending on the number of bedrooms in a unit, the household income needed to "afford" the median market rent is $14,600 - $31,000 higher than the income needed to afford the pre-increase median rent of the same size unit.
- Vacancy increases on 5,679 units have resulted in the loss of 3,635 units that had rent levels formerly affordable to low-income households (80% of

median income) including 2,269 units with rent levels formerly affordable to very low-income households (50 and 60% of median income).[1]

- Before the increases, 78% of these units were affordable to low-income households. After the increases, just 14% remained affordable at the low-income level.
- Before the increases, 19% of these units were only affordable to households with a moderate income or above (100% of median and above). After the increases, 86% of the units were only affordable to households at the moderate-income level or above.

[1] See page 7, Affordability Standards, for the maximum income at each level.

Rates of Filing – Units Impacted

Between January 1 and December 31, 1999, 3,796 vacancy market increase forms were filed. Between January 1, 2000 and December 31, 2000, 3,684 vacancy market increase forms were filed. First quarter filings (January – March 2000) averaged 244 per month. In the second quarter (April – June 2000), filings rose slightly to 306 per month. Following a June mailing in which owners received reports of current rent levels on file with the Agency, an average of 438 forms were filed per month during the third quarter (July – September 2000). During the final quarter (October – December 2000), filings dropped to an average of 235 per month. The same approximate pattern of filings was observed in 1999 with the largest number of forms filed in July and August both years.

During 1999, 3,192 units were impacted by market rate increases. By December 31, 2000, a total of 5,679 units had experienced at least one market-rate increase. Thus, 2,487 units received market increases for the first time in 2000.[2]

This report analyzes the 5,679 units that received market increases in 1999 and 2000. During the first two years of vacancy decontrol, some units received multiple vacancy increases: 1,144 units had two vacancy increases, 168 units had 3 increases, 27 units had four increases and 9 units had five or more increases.

This report compares units that have received vacancy increases to units of the city as a whole, and details the impact of increases on rent levels and affordability.

[2] In total, 7,207 of the 7,480 vacancy increases filed resulted in rent increases. At the end of December 2000, 107 forms were still being processed and 346 forms did not result in rent increases for various reasons including: the unit was ineligible, a duplicate form was filed or the form was rejected or withdrawn.

Impact on Median MARs

The chart below summarizes median rent information for the 5,679 units that received initial market rate increases between January 1, 1999 and December 31, 2000.

Vacancy Increases 1/1/99 – 12/31/00 (5,679 units)					
No. of Bed-rooms	Pre-Increase Median MARs	Post-Increase Median MARs	Dollar Amount Change	% Change	1/1/99-12/31/99 Median MARs
0	$568	$824	$256	45%	$800
1	645	1,095	450	69	995
2	818	1,528	710	87	1,400
3 or +	1,061	1,900	839	79	1,800

Since January 1, 2000, 2,487 units have been impacted by market rate increases. This is in addition to 3,192 units that received market rate increases between January 1, 1999 and December 31, 1999. After the second year of market rate increases the median MARs for each bedroom size noted on the chart above have increased.

The chart details rents based on the number of bedrooms in the units. The second column is the median rent in effect before a market rate increase was implemented on the unit. The next three columns reflect the median rent after the market rate increases, the dollar amount of the change from the pre-increase rent and the percentage change. The column at the far right shows what the market rate median rents were one year ago. The increase in median market rents in the past year for 0-bedroom units has only been $24 from $800 in 1999 to $824 as of December 31, 2000. The median market rent for one-bedrooms has increased $100 from $995 to $1,095, and the median rent for two-bedroom units has gone from $1,400 to $1,528. The median rent for units with three-bedrooms or more has gone from $1,800 last year to $1,900 this year.

0-Bedroom Units:

Seven hundred and ninety-one (791) 0-bedroom units have received market rate increases since January 1, 1999. Four hundred and ninety units received market increases in calendar year 1999, and an additional 301 0-bedroom units received market rate increases in 2000. Considered together these 791 units went from a median rent of $568 before market increases to a median rent of $824, an increase of $256 or 45%.

1-Bedroom Units:

Two thousand nine hundred and forty nine (2,949) one-bedroom units have received market rate increases in the last two years. 1,684 units received market increases in 1999, and an additional 1,265 one-bedroom units received market rate increases in 2000. In the last year the median or midpoint of the rents for the market rate units has increased to $1,095. This is an increase over the median rent before market increases of $450 or 69%.

2-Bedroom Units:

During the last two years 1,688 two-bedroom units have received market increases, 891 units in 1999 and 797 in 2000. The current median rent for two-bedroom units after a market increase is $1,528, an increase of $710 over the pre-market rent of $818. This represents an 87% increase over the controlled rent before the market increases.

3 or More- Bedroom Units:

There were 251 three or more-bedroom units that received market rate increases in 1999 and 2000. 127 units received market increases in 1999, and 124 units received market increases in 2000. The current median rent of all three plus-bedroom units that have received market increases is $1,900. This is an increase of $839 over the pre-increase median rent of $1,061, an increase of 79% over the prior rent levels.

Multiple Increases per Unit

In addition to the 2,487 units that were impacted by market rate vacancy increases in the last year, there have been 1,144 units that received two or more vacancy increases. In 1999, there were 214 second vacancy increases filed. In 2000 there were an additional 930 second vacancy increases filed. As affordability to low-income people is generally lost with the first market rate increase (affordability is lost in more than 80% of the cases), the filing of a second or third market rate increase on the same unit usually does not result in the loss of an affordable unit.

Because of the increasing number of second vacancies, the number of new units that have been affected by vacancy increases has declined slightly. However, as noted in the later section on "Loss of Affordable Units by Income Level", it continues to be true that in excess of 80% of the initial market rate increases result in the loss of affordability of the rental unit.

Affordability Standards

HUD affordability standards assume 30% of a household's gross income may be used for rent before the household becomes "rent burdened". For the year 2000, the HUD median income for a "Four-Person Household" in Los Angeles County is $52,100. The maximum income levels for a four-person household at 50%, 60%, 80%, 100% and 120% of median income are shown on the table below:

Very Low 50%	**Very Low 60%**	**Low 80%**	**Moderate 100%**	**High 120%**
$26,050	$31,260	$41,680	$52,100	$62,520

Translating Affordability into Income

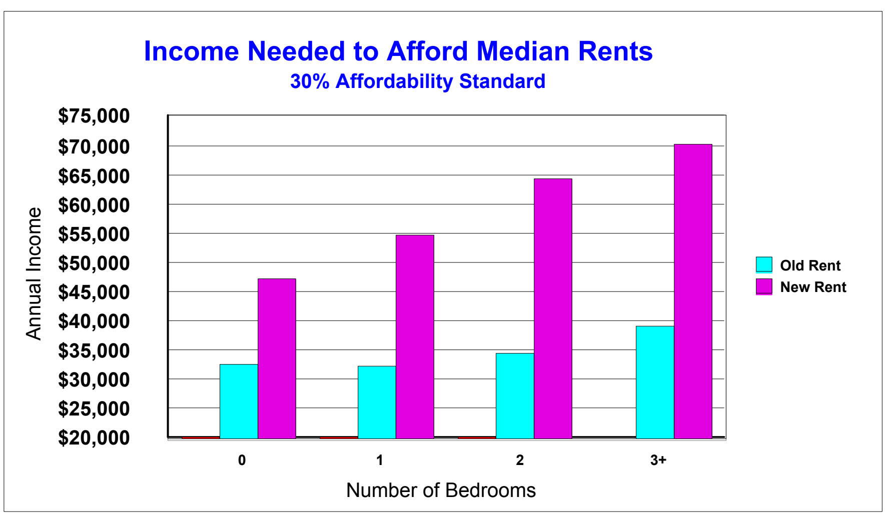
Using HUD affordability calculations that include adjustments for number of bedrooms, staff calculated the minimum income required to afford the median rents.

The chart below indicates 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 MARs (30% Affordability Standard)
Units with Vacancy Increases 1/1/99 – 12/31/00 (5,679 units)

No. of Bedrooms	Pre-Increase Median MARs	Income needed to Afford MAR	Post-Increase Median MARs	Income Needed to Afford MAR	Difference
0	$568	$32,457	$824	$47,086	$14,629
1	645	32,250	1,095	54,750	22,500
2	818	34,442	1,528	64,337	29,895
3 or more	1,061	39,115	1,900	70,046	30,931

As the chart above shows, depending on size of a unit, the household income needed to "afford" the median market rent is $14,600 - $31,000 higher than the income needed to afford the pre-increase median rent of that same size unit.

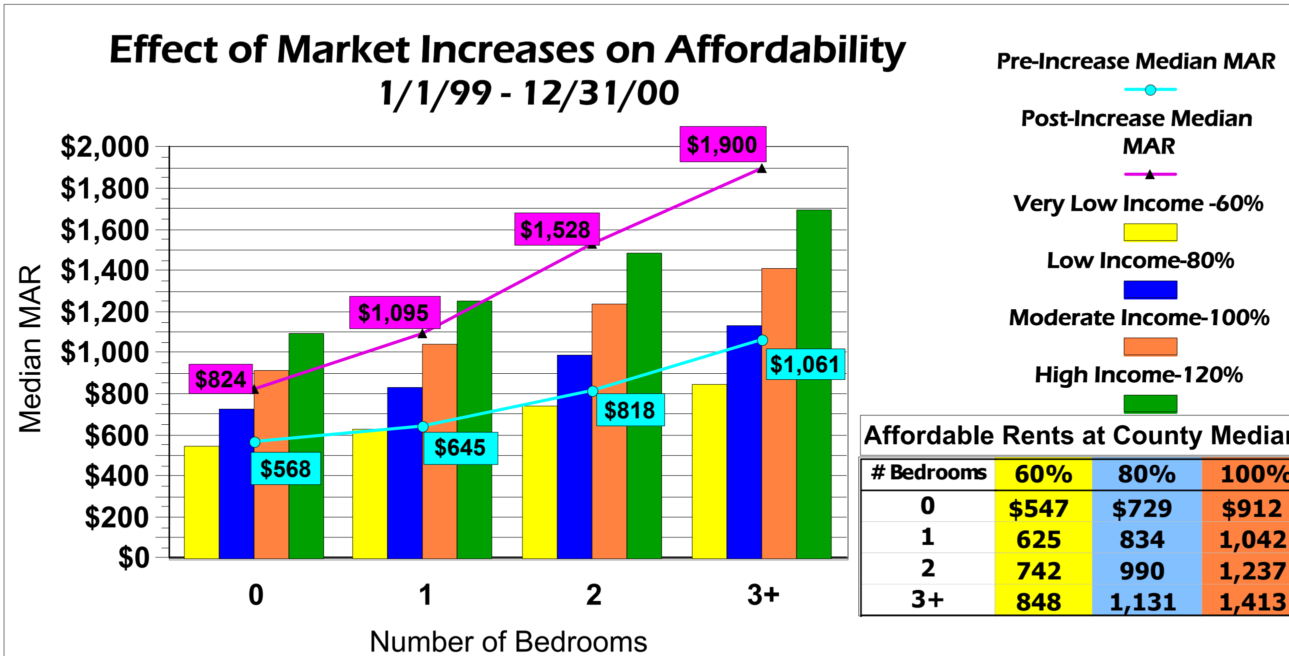


Loss of Affordability – 1/1/99 - 12/31/00

Affordable units were lost at every affordability level and every bedroom size as a result of market rent increases since January 1, 1999. For the 5,679 units with market increases, prior to the increase the median MARs 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 MARs of 0-bedroom units were affordable only at 100% of median and above. Even more significantly, the median rents for 1, 2 and 3 bedroom units were no longer affordable even at 100% of median income. (The median MAR for a 3-bedroom unit is $487 above the amount affordable at 100% of median income.) In addition, the median MARs of 2 and 3-bedroom units are no longer affordable even to households at 120% of the median income. (The median MAR for a 3-bedroom unit is $204 above the amount affordable at 120% of median income.)

This information is shown in graph form below. The bars represent the rents affordable to households with incomes at 60%, 80%, 100% and 120% of the adjusted county median. The chart shows the corresponding rents affordable for each of the four households. The light blue line shows the pre-increase median MARs and the purple line shows the post-increase median MARs for the various bedroom sizes. In order for a unit to be affordable, the top of the bar representing that income category must be above the line representing the median MARs. The table shows that the post increase median rents are higher than the affordable rents for almost every income category and bedroom size.



Affordable Rents at County Median Income

# Bedrooms	60%	80%	100%	120%
0	$547	$729	$912	$1,094
1	625	834	1,042	1,250
2	742	990	1,237	1,485
3+	848	1,131	1,413	1,696

Loss of Affordable Units by Income Level

The 5,679 units impacted by market rate increases had a mixture of rents affordable to individuals and families at all income levels before the increases were implemented. Forty-two percent (42%) of these units, or 2,392 of the units, were affordable to families with very low incomes, i.e., families with incomes at 60% of median or less. Seventy-eight percent (78%) of the units, or 4,426 of the 5,679 units, were affordable to low-income people, i.e., individuals with incomes at 80% of the median income or less.

After the market rate increases, the 42% of the units with rents affordable to individuals with 50% and 60% of median income had shrunk to 2%, or 123 units. This represents a loss of 2,269 units that had been affordable to very low-income households that are no longer affordable to those households.

Following the market rate increases, of the 78% of the units that had been affordable to low-income families (i.e. 80% of median income), just 14% remained affordable at this income level. This represents a reduction from 4,426 affordable units to just 791, a net loss of 3,635 units affordable to low-income households.

Before the market rate increases, 91% of the units (5,192) were affordable to households at moderate (100% of median) income levels. After the increases, only 42% of the units remained affordable at the 100% income level. This represents a decrease from 5,192 units affordable at this level to 2,304 units now affordable only to families with moderate-income levels or higher (a loss of 2,888 units).

Before the market rate increases, just 8% of the units (487) had rents affordable only to families with incomes at 120% or more of median income. After the market rate increases, 60% of the units (3,375) are now in this category and are only affordable to families at 120% of median income or greater. This represents an increase of 2,888 units in this category.

In summary:

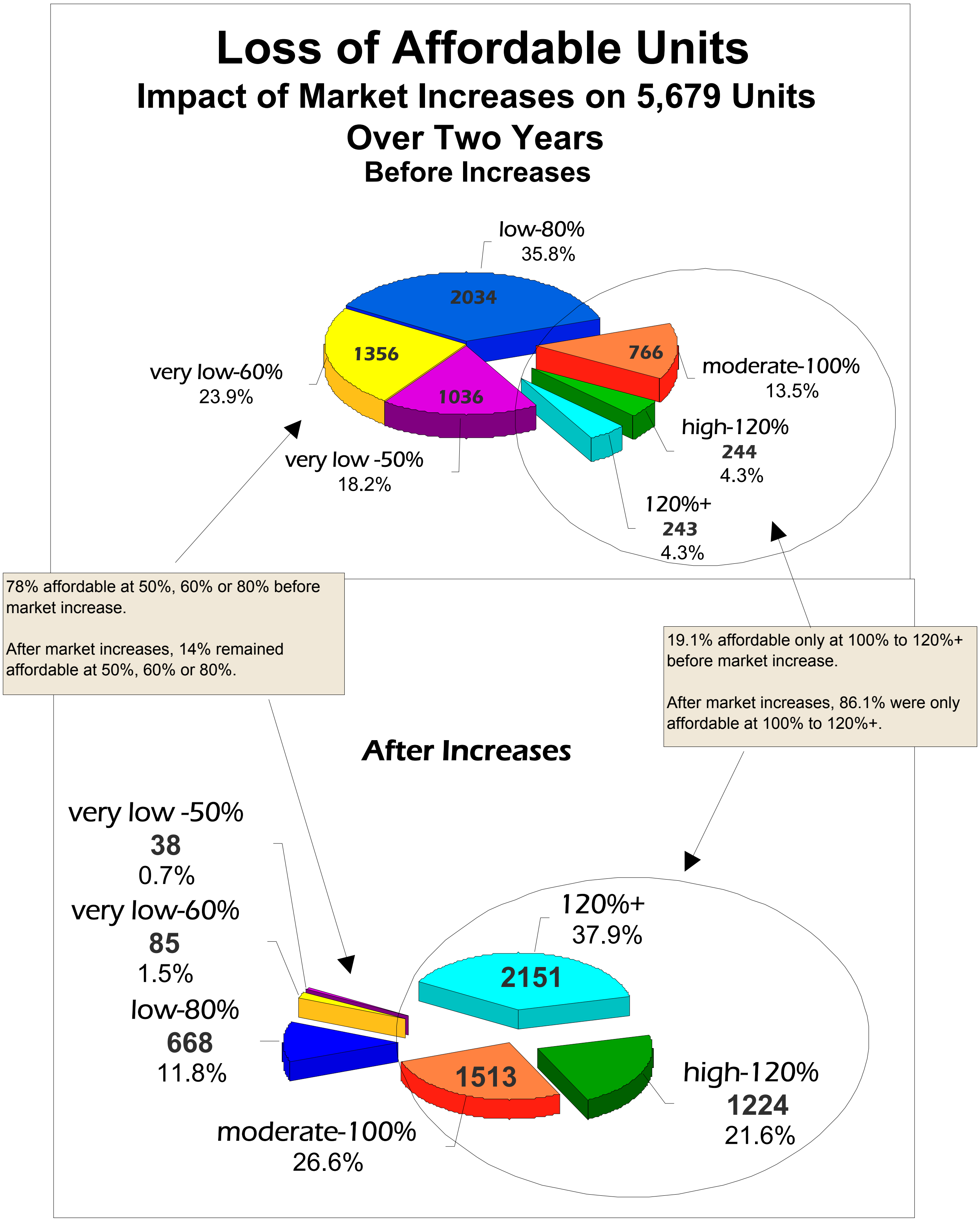
- Before the increases, 42% of the units had median rent levels affordable to **very-low income** households. After the increases, only 2% of the units remained affordable to these households. This represents a loss of affordability of 2,269 units.
- Before the increases, 78% of the units had median rent levels affordable to **low-income** households. After the increases, only 14% of the units remained affordable at this income level.

- Before the increases, households with **moderate-income** levels could afford 91% of the units. After the increases, only 42% remained affordable to these households.
- Before the increases, almost 9% of the units were affordable only to families with **incomes at 120% of median or more**. After the increases, 86% of the units are affordable only to people making 120% or more of median income.

The following charts detail the dramatic shift in affordability levels for the units that have received market rate rent increases.

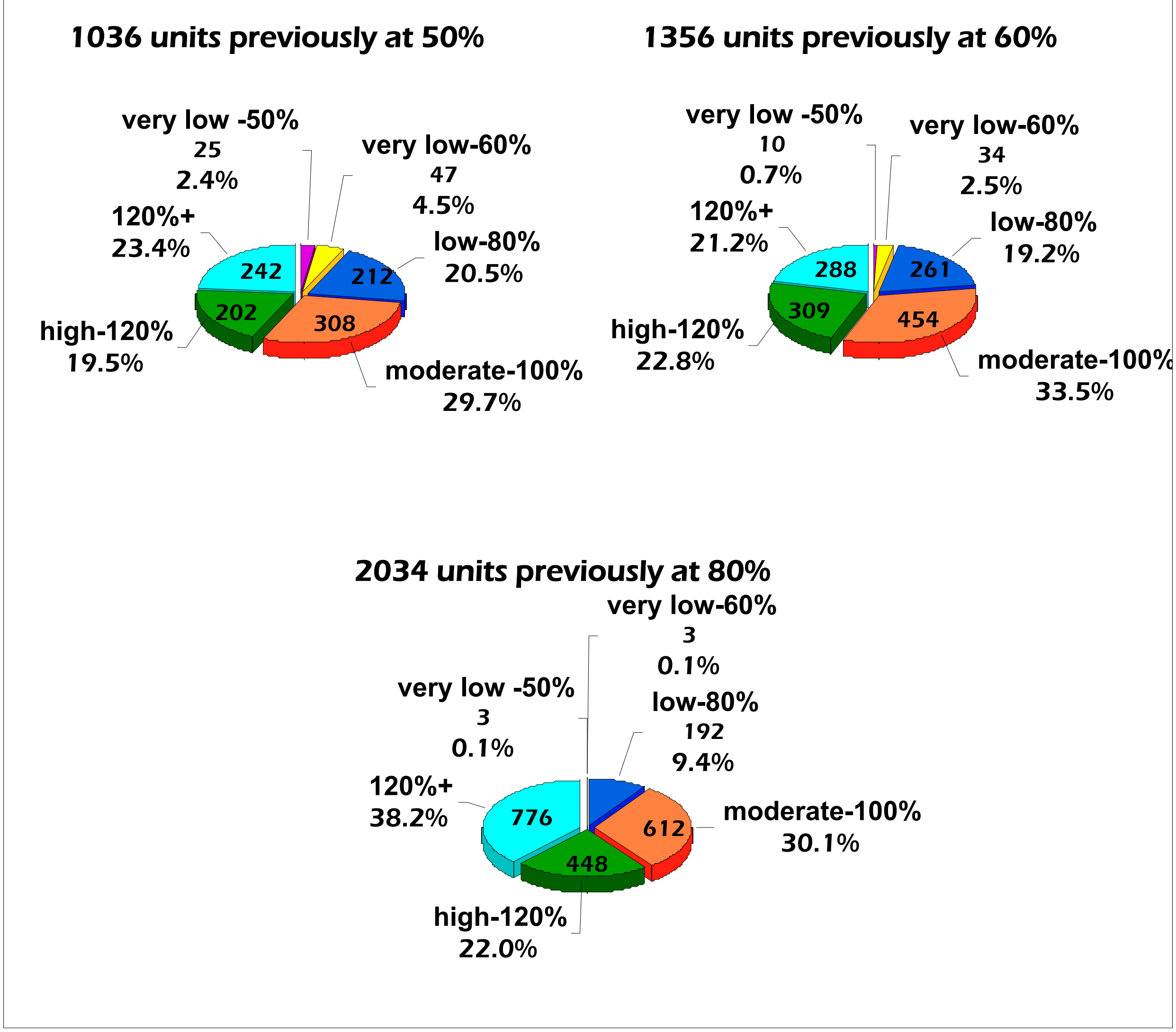
Distribution of 5,679 Units Before and After Increases

Affordability Category	Number of Units Before Increases	Number of Units After Increases	Difference
Very Low – 50%	1,036	38	-998
Very Low – 60%	1,356	85	-1,271
Low – 80%	2,034	668	-1,366
Moderate – 100%	766	1,513	+747
High – 120%	244	1,224	+980
120% +	243	2,151	+1,908


Loss of Affordable Units
Impact of Market Increases on 5,679 Units
Over Two Years
Before Increases
low-80%
35.8%
2034
very low-60%
23.9%
1356
1036
very low -50%
18.2%
766
moderate-100%
13.5%
high-120%
244
4.3%
120%+
243
4.3%
78% affordable at 50%, 60% or 80% before market increase.
After market increases, 14% remained affordable at 50%, 60% or 80%.
19.1% affordable only at 100% to 120%+ before market increase.
After market increases, 86.1% were only affordable at 100% to 120%+.
After Increases
very low -50%
38
0.7%
very low-60%
85
1.5%
low-80%
668
11.8%
120%+
37.9%
2151
1513
moderate-100%
26.6%
high-120%
1224
21.6%

The pie charts on this page expand the 50%, 60% and 80% slices of the pies on page 11 to show the post-increase rent-level distributions of the previously affordable units. After the increases, just 123 units remain affordable at 50% and 60% of median.

Distribution of Units After Increases
4,426 Units Previously Affordable at 50%, 60% and 80%



CONCLUSION

After two full years of vacancy decontrol/recontrol, 3,635 units that had been affordable to low income households (80% of median income), are no longer affordable to them. Included in this number are 2,269 units no longer affordable to very low-income households (50% and 60% of median income).

As a result of vacancy decontrol, a dramatic shift has occurred in the affordability levels of the 5,679 units impacted by vacancy increases. Before the increases, 78% of the units had rent levels affordable to low-income households. After the increases, just 14% remain affordable at the low-income level. Additionally, before the increases, just 19% of the units were only affordable to households with moderate-income levels or higher. Today, 86% of the units with market-rate increases are only affordable to these households.

The following points show the effect of vacancy-related increases on all controlled units in the city. During the five years that vacancy increases have been in effect (including the three year phase-in period where rents were eligible to be increased 15% two times upon voluntary vacancy):

- ♦ Units with rents affordable to very low-income households (50% of median income) decreased from 11,093 to 5,438, a decrease of 51% (5,655 units).
- ♦ Units with rents affordable to very low-income households (60% of median income) decreased from 19,247 to 11,724, a decrease of 39% (7,523 units). This includes 5,655 units formerly affordable at 50% of median.
- ♦ Units with rents affordable to low-income households (80% of median income) decreased from 25,676 to 20,282, a decrease of 21% (5,394 units).
- ♦ Fee waivers held by very low-income seniors decreased from 895 to 620, a loss of more than 30%, between January 1995 and December 2000. Fifty-two waivers were lost during 1999 and 47 were lost during 2000. This represents a total loss of 275 units once rented to very low-income seniors.

The first year report projected that between January and December 2000 there would be a loss of 1,800 additional units that had been affordable at 80% of median on December 31, 1998. In actual experience, 1,635 units lost affordability at 80% of median during 2000. The lower number is in part attributable to the fact that in most cases units lose their affordability at the 80% level after the first market rate increase. Since the number of units which received second or third market increases increased substantially this year, those units had already lost their affordability at the 80% level during 1999.