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

January 1, 1999 - December 31, 2001

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 three years.

During the first year (1999), owners filed 3,796 vacancy market increase forms with the Rent Control Agency. These forms resulted in increases on 3,192 units (some units received more than one increase). During the second year (2000), 3,684 market increase forms were filed, impacting an additional 2,487 units for the first time. In the third year (2001), 3,669 market increase forms were filed, impacting an additional 1,828 units for the first time.

By the end of the third year, 7,507 units had been rented at market rates. This represents 27% of the controlled rental units for which the Agency has registered rents. (Units with exemptions at the unit level are excluded from the total.) The Agency's records indicate that 19,927 units have not received market rate increases.

The impact of the increases on rents is explored in this report and is summarized below.

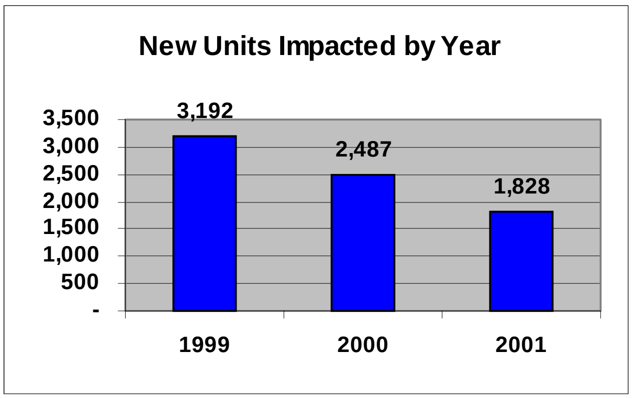
- 7,507 units have received market increases. The number of new units affected has decreased each year (3,192 in 1999, 2,487 in 2000 and 1,828 in 2001).
- Upon re-rental, median MARs have increased from $572 to $861 (51%) for 0-bedroom units, from $647 to $1,167 (80%) for 1-bedroom units, from $828 to $1,600 (93%) for 2-bedroom units and from $1,060 to $2,068 (95%) for 3+ bedroom units.
- Depending on the number of bedrooms in a unit, the household income needed to "afford" the median market rent at 30% of gross income is from $16,500 - $37,000 higher than the income needed to afford the pre-increase median rent of the same size unit.
- Vacancy increases on 7,507 units have resulted in the loss of 5,152 units that had rent levels formerly affordable to low-income households (80% of median income) including 3,382 units with rent levels formerly affordable to very low-income households (50 and 60% of median income).[1]

[1] See page 9 Affordability Standards, for the maximum income at each level.

- Before the increases, 81% of these units were affordable to low-income households. After the increases, just 12% 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, 88% of the units were only affordable to households at the moderate-income level or above.
- Market rate vacancies are distributed throughout the city, roughly paralleling the distribution of all controlled rental 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 third year, 1,681 units had two reported increases, 398 units had three reported increases, 84 units had four reported increases and 27 units had five or more reported increases.
- Vacancy-related increase forms were filed at approximately the same rate in each of the three years. In all years, the heaviest filing period was July – September.

Rates of Filing – Units Impacted

In the first three years of vacancy decontrol, 7,507 units experienced at least one market-rate increase. The number of new units impacted has declined each year. During calendar year 1999, 3,192 units were impacted by market rate increases. In 2000, 2,487 units received market increases for the first time. In 2001, 1,828 units received market increases for the first time. The table below shows the number of new units impacted in each of the first three years of vacancy decontrol.



Possible explanations for the reduction in new units impacted each year could be: tenants renting at market rates have less economic incentive to stay in a unit which results in faster turnover and second and third market rate rentals on a unit; some units rented in 1999 had been withheld from the market in anticipation of vacancy decontrol; and/or former owner-used or owner-occupied units were offered for rent.

While the number of units impacted for the first time has declined each year, ***Vacancy Increase Registration Forms*** have been filed at approximately the same rate each year: 3,796 in 1999; 3,684 in 2000; and 3,669 in 2001. During the first six months of 2001, approximately 270 forms were filed per month. Following the Agency's annual June mailing in which owners received reports of current rent levels on file with the Agency, an average of 464 forms were filed per month during the third quarter (July – September 2001). During the final quarter, filings dropped to an average of 200 per month. The same approximate pattern of filings was observed in 1999 and 2000 with the largest number of forms filed in July and August every year.

This report analyzes the 7,507 units that received market increases in the first three years of vacancy decontrol. It 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.

Multiple Increases per Unit

In addition to the 1,828 units that were impacted by market rate vacancy increases for the first time in 2001, there are now 2,190 units that received two or more vacancy increases: 1,681 units with 2 increases; 398 units with 3 increases; 84 units with 4 increases; and 27 units with 5 or more increases. Overall, 71% of the affected units (5,317) had a single vacancy increase, 22% had 2 increases, 5.3% had 3 increases and 1.7% had 4 or more increases.

Units with multiple turnovers (4 or more) are primarily in buildings that are dissimilar from the rental housing stock as a whole. For the most part, they have occurred in large buildings (more than 50 units), buildings near the beach, and buildings that advertise as "corporate housing".

As is noted in the section on "Loss of Affordable Units by Income Level", affordability to low-income people is generally lost with the first market rate increase (affordability is lost in more than 80% of the cases). Therefore, the filing of a subsequent market rate increase on the same unit usually does not result in the loss of an affordable unit.

Impact on Median MARs

The chart below summarizes median rent information for the 7,507 units that received initial market rate increases between January 1, 1999 and December 31, 2001.

Vacancy Increases 1/1/99 – 12/31/01 (7,507 units)

Number of Bedrooms	**Pre-Increase**[2] Median MARs	**Post-Increase** Median MARs	Dollar Amount Change	% Change
0	$572	$861	$289	51%
1	647	1,167	520	80
2	828	1,600	772	93
3 or +	1,060	2,068	1,008	95

Since January 1, 2001, 1,828 units have been impacted by market rate increases for the first time. This is in addition to 5,679 units that received market rate increases between January 1, 1999 and December 31, 2000. The post-increase medians above reflect the cumulative effect of three years of rentals at market rate.

The chart details rents based on the number of bedrooms in the units. The second column is the median rent in effect as of December 1998 before any market rate increases were implemented. The next three columns reflect the median rent after the market rate

[2] These rents do not include intervening general adjustments, if any.

increases, the dollar amount of the change from the pre-increase rent and the percentage change.

0-Bedroom Units:

One thousand and twelve (1,012) 0-bedroom units received market rate increases since January 1, 1999. Four hundred and ninety units received market increases in calendar year 1999, 301 0-bedroom units received market rate increases in 2000, and an additional 221 received market rate increases in 2001. Considered together these 1,012 units went from a median rent of $572 before market increases to a median rent of $861, an increase of $289 or 51%.

1-Bedroom Units:

Three thousand eight hundred and seventy one (3,871) one-bedroom units received market rate increases in the last three years. 1,684 units received market increases in 1999, 1,265 one-bedroom units received market rate increases in 2000, and an additional 922 units received increases in 2001. In the last year, the median or midpoint of the rents for the market rate units has increased to $1,167. This is an increase over the median rent before market increases of $520 or 80%.

2-Bedroom Units:

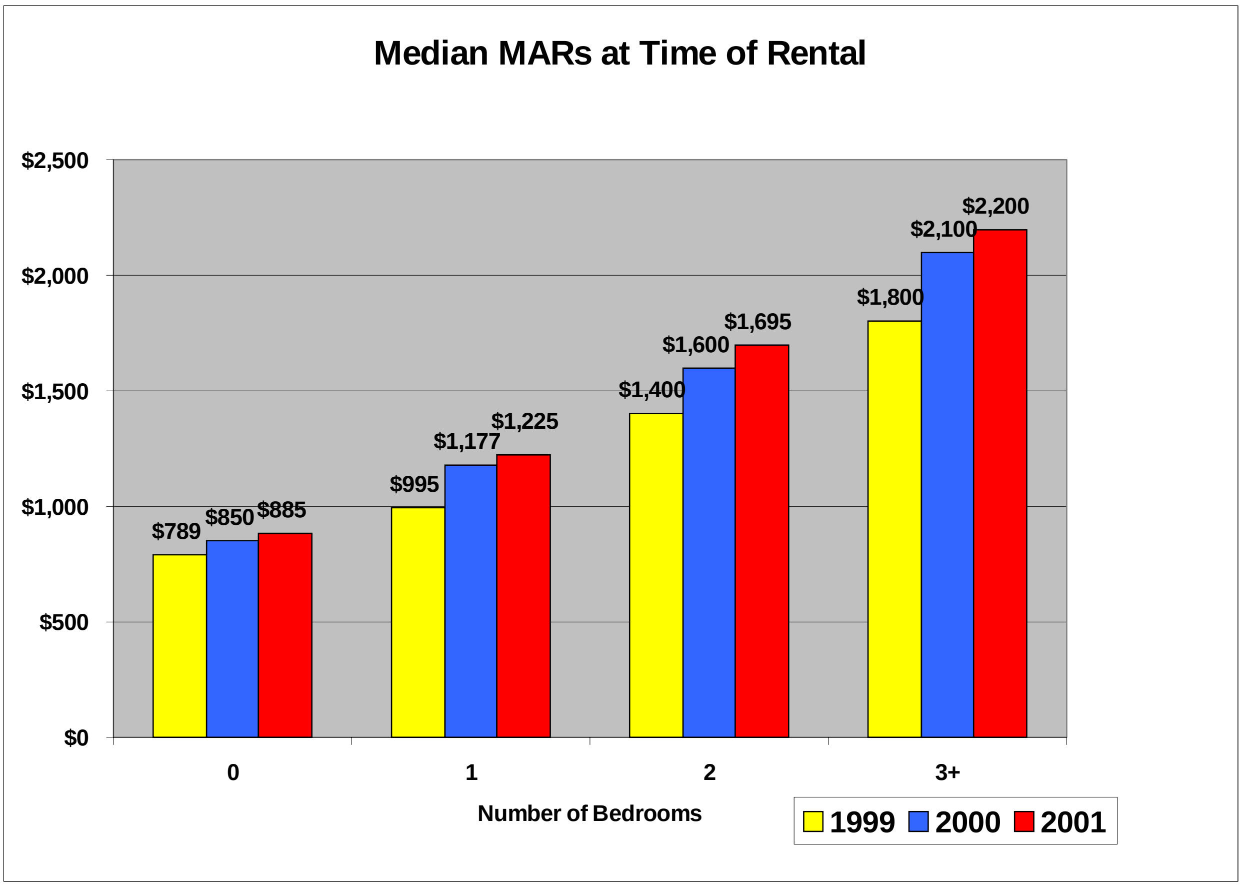
During the last three years 2,284 two-bedroom units received market increases, 891 units in 1999, 797 in 2000, and 596 in 2001. The current median rent for two-bedroom units after a market increase is $1,600, an increase of $772 over the pre-market rent of $828. This represents a 93% increase over the controlled rent before the market increases.

3 or More- Bedroom Units:

There were 340 three or more-bedroom units that received market rate increases since 1999. 127 units received market increases in 1999, 124 units in 2000, and 89 in 2001. The current median rent of all three plus-bedroom units that have received market increases is $2,068. This is an increase of $1,008 over the pre-increase median rent of $1,060, an increase of 95% over the prior rent levels.

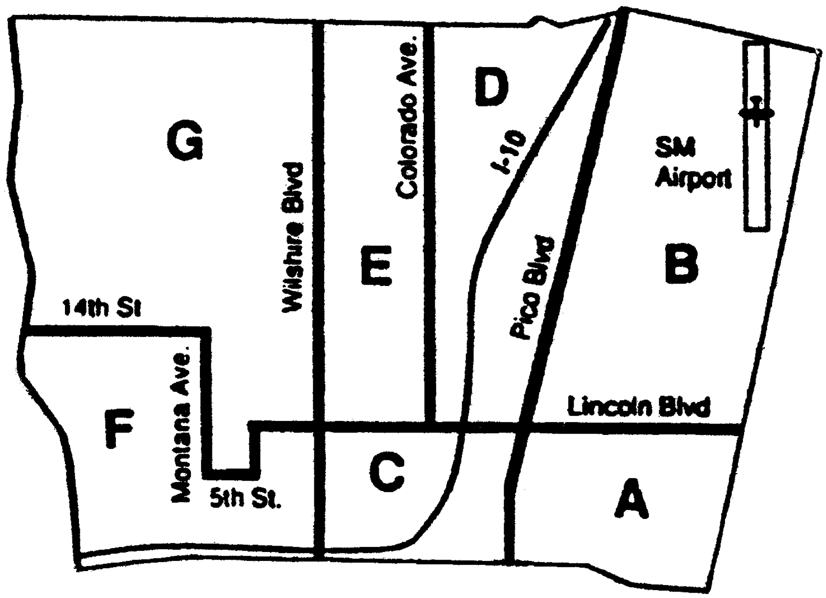
Median MARs at Time of Rental

While the median rents at time of rental increased each year since vacancy decontrol started, the overall increase by bedroom size was smaller between 2000 and 2001 than the increases between 1999 and 2000. The graph below shows the median rent levels by number of bedrooms at the time they were established each year. These rents do not include general adjustments that would have been allowed for units rented in 1999 and before September 2000.



Median MARs by City Area

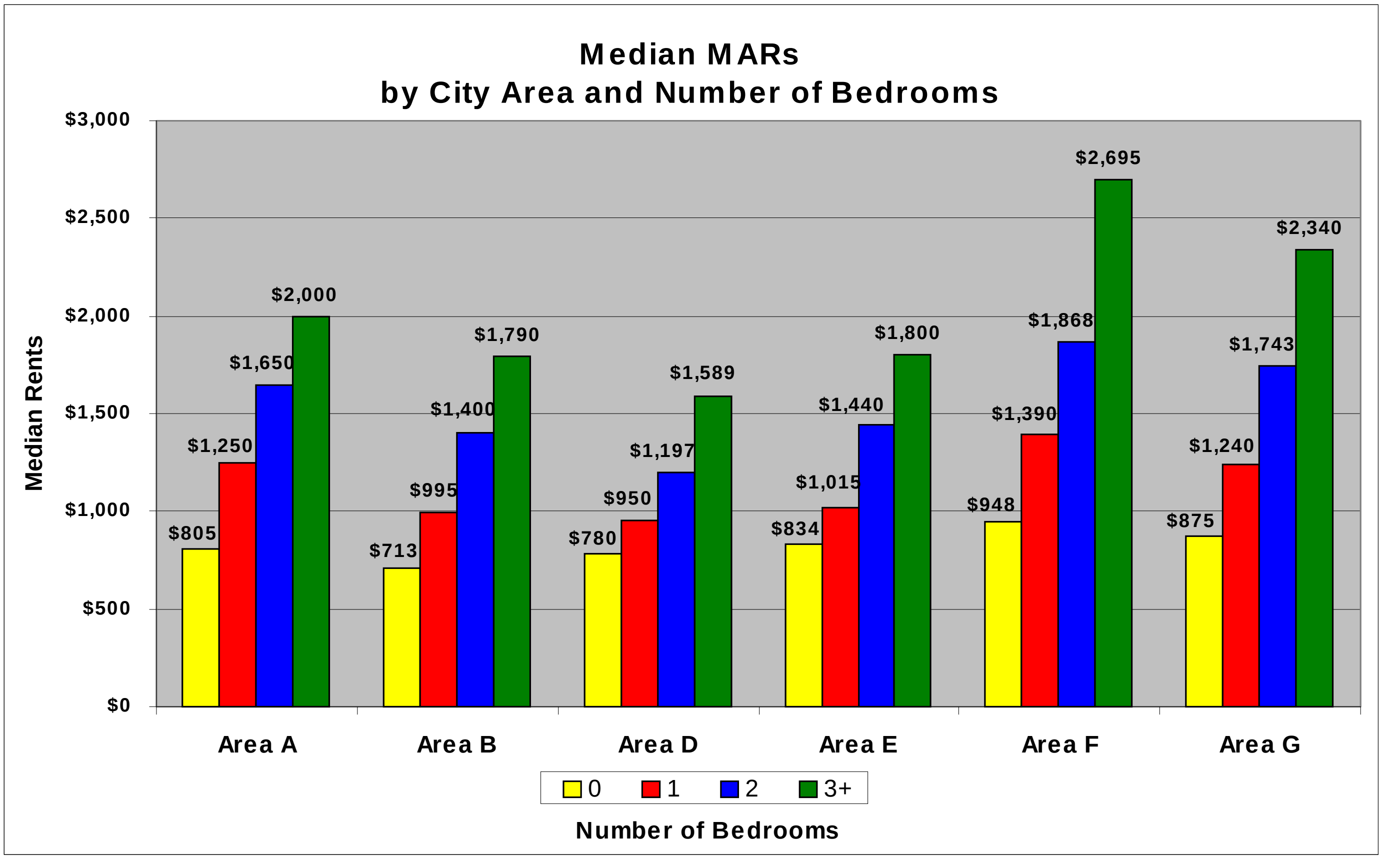
To track changes in the housing stock in different areas of the city, the Rent Board divided the city into seven areas which parallel neighborhoods and census tracts. The map below shows the city areas identified as A-G.



As the table below shows, the distribution of units rented at market rate closely parallels the distribution of rental units throughout the city overall.

City Area	A	B	C	D	E	F	G
Percentage of Units	17	12	3	10	19	17	22
Percentage of Market Rentals	17	12	5	8	19	16	22

The graph on the following page details the market rate median rents by number of bedrooms for areas A, B, D, E, F and G. Area C is omitted because the majority of market rate rentals in this area were in two very large buildings (120 units and 288 units) located on Ocean Avenue. Area C has such a small number of controlled rental units (just over 900) that these two buildings account for more than 40% of all controlled units in this area. Because of the small size of this area and the distorting impact of these two buildings, rents for this area are not included. These buildings, both in their size and character, are not representative of most buildings throughout the city and the market rent levels registered have been significantly different than those in the other areas.



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 2001, the HUD median income for a "Four-Person Household" in Los Angeles County is $54,500 (up from $52,100 in 2000). 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%	Moderate 120%
$27,250	$32,700	$43,600	$54,500	$65,400

Translating Affordability into Income

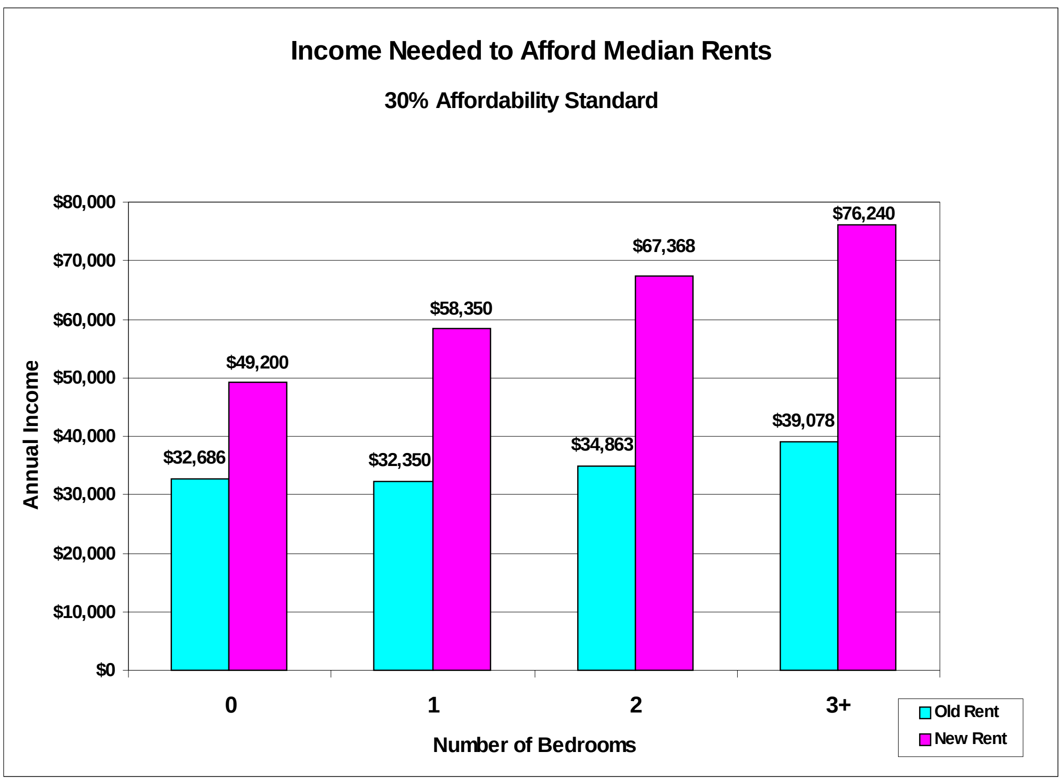
Using HUD affordability calculations that include adjustments for number of bedrooms[3], staff calculated the minimum income required to afford the median rents.

The chart below shows the *minimum* total household income needed to pay for the median rents without the household 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 – 12/31/01 (7,507 units)

No. of Bedrooms	Pre-Increase Median MARs	Income needed to Afford MAR	Post-Increase Median MARs	Income Needed to Afford MAR	Income Difference
0	$572	$32,686	$861	$49,200	$16,514
1	647	32,350	1,167	58,350	26,000
2	828	34,863	1,600	67,368	32,505
3 or more	1,060	39,078	2,068	76,240	37,161

As the chart above shows, depending on size of a unit, the household income needed to "afford" the median market rent is from $16,500 - $37,000 higher than the income needed to afford the pre-increase median rent of that same size unit.



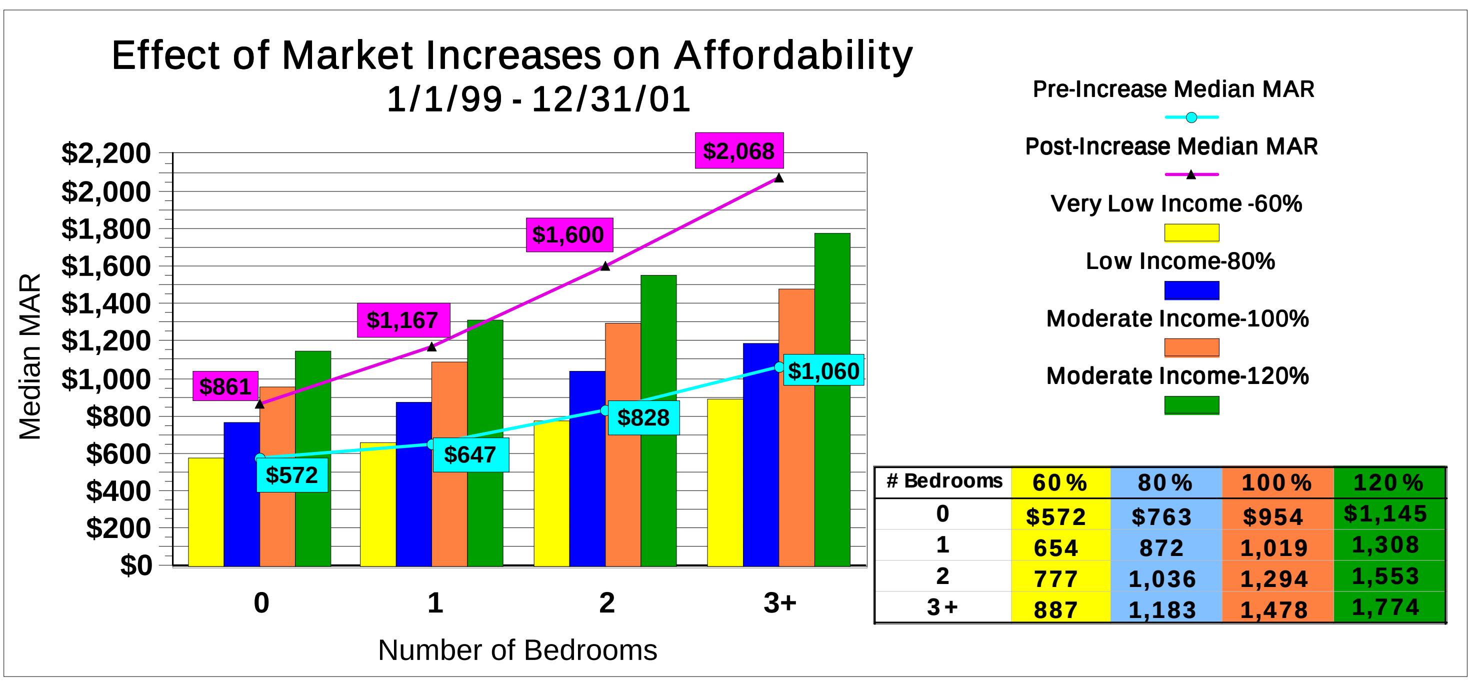
[3] A HUD-determined Household Adjustment Factor is used to calculate the income needed to afford the MAR and results in the unexpected difference for the 0 and 1-bedroom units.
Income Calculation **=** annual rent/household adjustment factor/affordability standard.

Loss of Affordability – 1/1/99 - 12/31/01

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 7,507 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 to a family making 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 $590 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 $294 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 household sizes. 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.



# Bedrooms	60%	80%	100%	120%
0	$572	$763	$954	$1,145
1	654	872	1,019	1,308
2	777	1,036	1,294	1,553
3+	887	1,183	1,478	1,774

Loss of Affordable Units by Income Level

The 7,507 units impacted by market rate increases had a mixture of rents affordable to families at all income levels before the increases were implemented. Forty-seven percent (47%) of these units, or 3,547 of the units, were affordable to families with very low incomes, i.e., families with incomes at 60% of median or less. Eighty-one percent (81%) of the units, or 6,078 of the 7,507 units, were affordable to low-income people, i.e., households with incomes at 80% of the median income or less.

After the market rate increases, units with rents affordable to households with 50% and 60% of median income had shrunk from 47% to 2%, or 165 units. This represents a loss of 3,382 units that had been affordable to very low-income households but are no longer affordable to those households.

Following the market rate increases, of the 81% of the units that had been affordable to low-income families (i.e. 80% of median income), just 12% remained affordable at this income level. This represents a reduction from 6,078 affordable units to just 926, a net loss of 5,152 units affordable to low-income households.

Before the market rate increases, 92% of the units (6,937) were affordable to households at moderate (100% of median) income levels. After the increases, only 36% of the units remained affordable at the 100% income level. This represents a decrease from 6,937 units affordable at this level to 2,708 units now affordable only to families with moderate-income levels or higher (a loss of 4,229 units).

Before the market rate increases, just 8% of the units (570) had rents affordable only to families with incomes at 120% or more of median income. After the market rate increases, 64% of the units (4,799) are now in this category and are only affordable to families at 120% of median income or greater. This represents an increase of 4,229 units in this category.

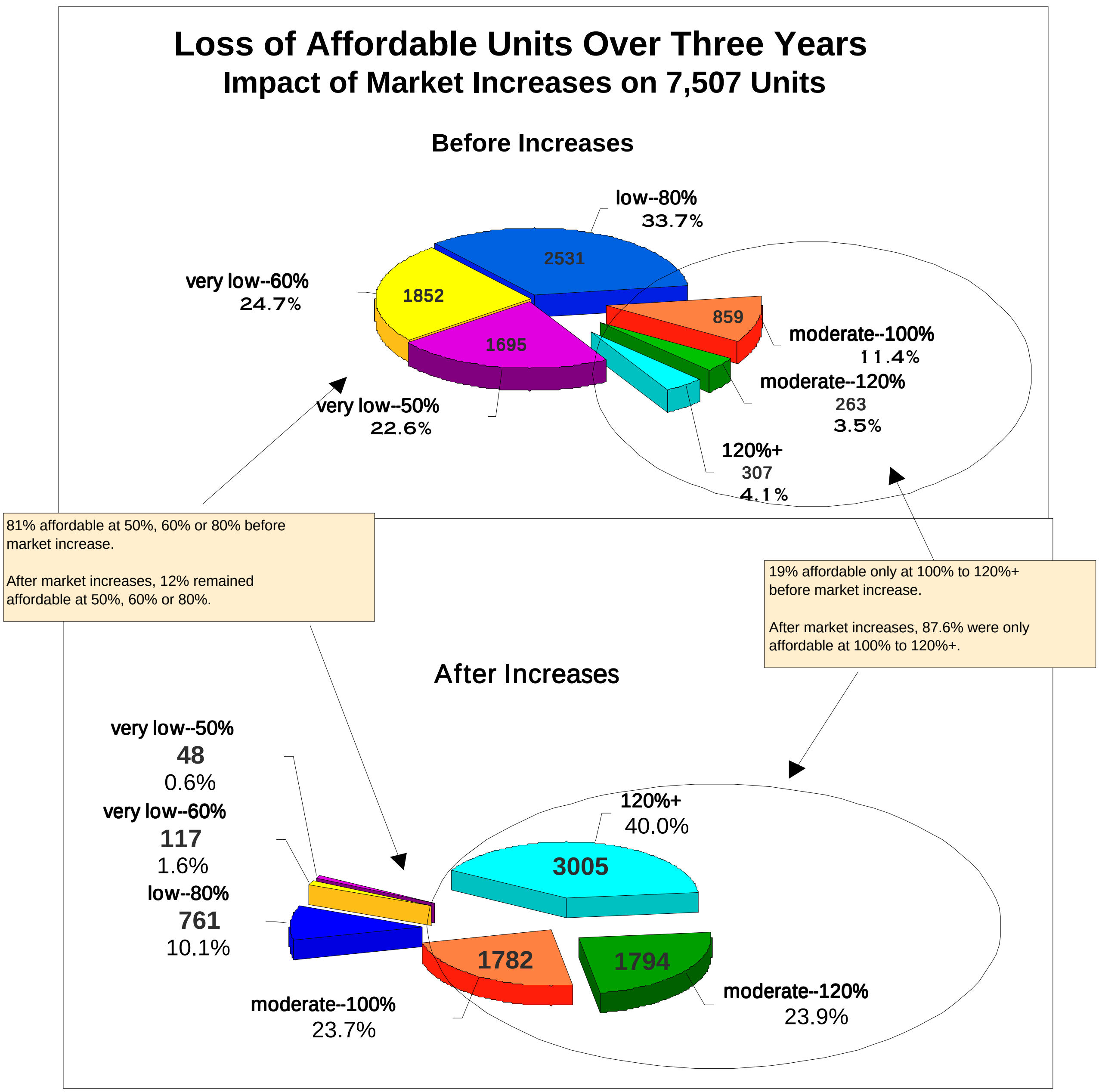
In summary:

- Before the vacancy increases, 47% 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 3,382 units.
- Before the vacancy increases, 81% of the units had median rent levels affordable to **low-income** households. After the increases, only 12% of the units remained affordable at this income level.
- Before the increases, households with **moderate-income** levels could afford 92% of the units. After the increases, only 36% remained affordable to these households.
- Before the increases, 8% of the units were affordable only to families with **incomes at 120% of median or more**. After the increases, 64% 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 7,507 Units Before and After Increases

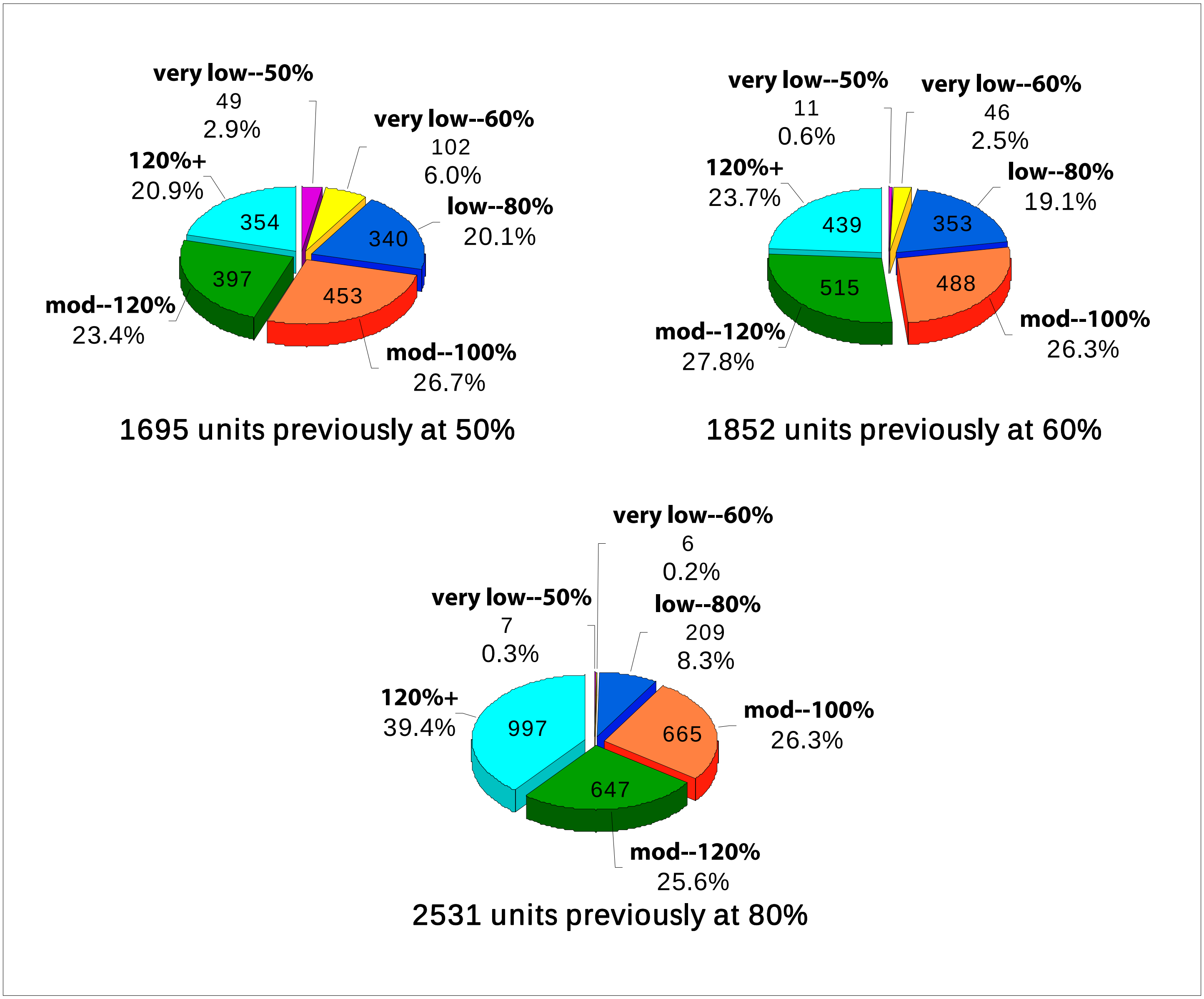
Affordability Category	Number of Units Before Increases	Number of Units After Increases	Difference
Very Low – 50%	1,695	48	-1,647
Very Low – 60%	1,852	117	-1,735
Low – 80%	2,531	761	-1,770
Moderate – 100%	859	1,782	+923
Moderate – 120%	263	1,794	+1,531
120% +	307	3,005	+2,698



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 165 units remain affordable at 50% and 60% of median.

Distribution of Units After Increases

6,078 Units Previously Affordable at 50%, 60% and 80%



CONCLUSION

After three full years of vacancy decontrol/recontrol, 5,152 units that had been affordable to low income households (80% of median income), are no longer affordable to them. Included in this number are 3,382 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 7,507 units that received vacancy increases. Before the increases, 81% of the units had rent levels affordable to low-income households. After the increases, just 12% 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, 88% 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 six 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 5,162, a decrease of 53% (5,931 units).
- Units with rents affordable to very low-income households (60% of median income) decreased from 19,247 to 11,128, a decrease of 42% (8,119 units). This includes 5,931 units formerly affordable at 50% of median.
- Units with rents affordable to low-income households (80% of median income) decreased from 25,676 to 19,118, a decrease of 26% (6,558 units).
- Registration fee waivers held by very low-income seniors decreased from 895 to 575, a loss of more than 35%, between January 1995 and December 2001. This represents a total loss of 320 units since 1995 with 144 of those units lost since 1999 when full vacancy decontrol went into effect.

Despite the substantial loss of affordability in those units that have had a vacancy increase, there remain a substantial number of units (in excess of 19,000) that have not received vacancy increases and that continue to provide affordable housing.