The Impact of Market Rate Vacancy Increases – One Year Report

January 1, 1999- December 31, 1999

Santa Monica Rent Control Board

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IMPACT OF MARKET RATE 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 December 31, 1999, 3,796 vacancy market increase forms were filed. Excluding multiple registrations on the same unit, 3,192 units have been impacted.[1] The impact of the increases on rents and tenants is explored below.

- An average of 319 increases per month were filed from January through March and also from April through June. The rate increased from June through September to an average of 378 per month. However, in the last three months the rate dropped substantially to 232 per month. Excluding hotel units, 695 market vacancy increases were filed in the last three months.
- Excluding multiple increases on the same unit, 3,192 units have been impacted. Of those, 910 occurred between January and March, 836 between April and June, 864 from July to September, and 582 from October to December.

To date, vacancy increases on 3,192 units have resulted in the loss of 2,000 units formerly affordable to low income households (80% of median income) including 1,250 units formerly affordable to very low income households (60% of median income) units and 537 units formerly 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. This rate has been consistent throughout the year.

- Though affordable units continue to be lost at <u>every</u> affordability level and <u>every</u> bedroom size, the rate at which they are lost slowed in the last three months.

[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 3,746 registrations filed for rental units, 3,429 (92%) have been processed, including 214 units on which two market registrations have been filed and 13 on which 3 market registrations have been filed .

- Upon re-rental median MAR's have increased from $568 to $800 (41%) for 0-bedroom units, from $643 to $995 (55%) for 1-bedrooms, from $800 to $1,400 (75%) for 2-bedrooms and from $1,061 to $1,800 (70%) for 3+ bedroom units.
- For all units with market rent increases, the median pre-increase MAR was $683. The median market rent MAR was $1,100, an increase of $417, or 61%.
- Depending on size of a unit, the household income needed to "afford" the median market rent is $13,000 - $27,000 higher than the income needed to afford the pre-increase median rent of the same size unit.

During the four years and one month that vacancy increases have been in effect:

- Units affordable to very low income households (50% of median income) decreased from 11,093 to 5,976, a decrease of more than 46%.
- Units that were affordable to very low income households (60% of median income) decreased from 19,247 to 12,783, a decrease of more than 34%. Three-fourths of the loss is the direct result of vacancy increases.
- Units that were affordable to low income households (80% of median income) decreased from 25,676 to 21,502, a decrease of more than 16%. More than 80% of the loss is the direct result of vacancy increases.
- Fee waivers held by very low income seniors decreased from 895 to 667, a loss of more than 25%, between December 1994 and December 1999. 52 waivers were lost between December 1998 and December 1999 alone.
- Very low income fee waivers on Section 8 units decreased from 793 to 663, a loss of more than 15%, between December 1994 and December 1999. 63 waivers were lost between December 1998 and December 1999 alone.

This report projects that from January through December 2000 there will be a loss of 1,800 additional units that had been affordable at 80% of median on December 31, 1998. That is a citywide loss in one year alone of 7% of the affordable rent-controlled housing stock. Cumulatively, by the end of two years of market increases, 3,800 units (15%) once affordable at 80% of median income will have lost of actual experience.

Rates of Filing – Units Impacted

Between January 1 and December 31, 1999, 3,796 vacancy market increase forms were filed. Excluding hotel units, 695 were filed in the last three months, an average of 232 per month. This is lower than the 344 monthly average of the previous six months. The rate of filing has slowed somewhat during the year. An average of 319 increases per month were filed from January through March and also from April through June. The rate increased from June through September to an average of 378 per month. However, in the last three months the rate dropped substantially to 232 per month[2].

The filing rate also reflects a slowing in the number of new units being impacted. Excluding multiple registrations on the same unit, 3,192 units have been impacted.[3] Of those, 910 occurred between January and March, 836 between April and June, 864 from July to September, and 582 from October to December.

The rate at which affordable units are lost has slowed slightly in the last six months. An average of 185 units per month lost affordability at 80% of median income in the first six months, from January through June. In the three month period from July through September, the average loss at 80% of median was 165 per month. In the most recent three month period, October through December, the average loss at 80% of median was 140 per month.

This report analyzes the 3,192 units that received market increases in 1999. It compares these units to units of the city as a whole, and details the impact of increases on rents and affordability.

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[2] In January 2000, 204 vacancy increases were filed.

[3] Multiple registrations were filed on a 38-unit property and 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 registrations filed for rental units, 3,432 have been processed, including 214 units on which two market registrations have been filed and 13 units on which three or more market registrations have been filed.

Impact on Median MAR's

The chart below summarizes median rent information:

Vacancy Increases 1/1 – 12/31/99 (3,192 units)					Citywide[4]
No. of Bed-rooms	Pre-Increase Median MAR's[5]	Post-Increase Median MAR's	Dollar Amount Change	% Change	12/31/98 Median MAR's
0	$568	$800	$232	41%	$504
1	643	995	352	55	586
2	800	1,400	600	75	750
3 or +	1,061	1,800	739	70	930

Since September, pre-increase median MAR's are from 2-5% higher than the medians in earlier reports for three of the four bedroom sizes. The change in post-increase medians is not significant.

0-Bedroom Units:

For the 490 0-bedroom units receiving a market increase, the median pre-increase MAR was $568 – 13% higher than for the city as a whole. The median of the increased rents is $800. The change between the pre-increase and post-increase medians is $232, an increase of 41%.

1-Bedroom Units:

For 1,684 1-bedroom market rent units, the median pre-increase MAR was $643, 10% 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 $352, an increase of 55%.

2-Bedroom Units:

The median pre-increase MAR for the 891 2-bedroom market rent units was $800, 7% higher than the city as a whole. The median of the increased rents is $1,400. The change between the pre-increase and post-increase medians is $600, an increase of 75%.

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

[5] Vacancy increases for approximately 600 of the 3,192 units took place after September 1, 1999 and the pre-increase MAR's for these units may have included the annual general adjustment that was authorized September 1, 1999. Because the number of units is relatively small and the general adjustment for each unit could not exceed $9, the impact of the general adjustment is not included in the analysis.

3 or more- Bedroom Units:

The median pre-increase MAR for the 127 market rent units with 3 or more bedrooms was $1,061, 9% 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 $739, an increase of 70%.

For all units with market increases combined, the median pre-increase MAR was $680. The median market rent MAR was $1,100, an increase of $420, or 62%.

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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. No significant change was seen in the last three months.

Units With One or Two Prior 15% Vacancy Increases

	Units Citywide		Units with Market Increases		
No. of Bedrooms	% Units with One Vacancy Increase	% Units with Two Vacancy Increases	% Units with One Vacancy Increase	% Units with Two Vacancy Increases	Units with At Least One Prior Market Increase
0	25%	14%	34%	22%	12%
1	21	10	28	21	8
2	18	5	25	14	3
3 or more	10	3	23	11	4
City-wide	19	8	28	19	7

Citywide, 19% of units had one 15% vacancy increase; 8% had two 15% increases. This contrasts significantly with units with market increases – of those, 28% had one 15% vacancy increase, and 19% had two prior increases.

Smaller units were most likely to have had a prior 15% increase. Citywide and among market increase units, 0-bedroom units were more likely to have had prior vacancy increases, 1-bedroom units were second most likely.

After one year of market increases, 7% of units with market increases had at least one prior market increase, probably in addition to one or more 15% increase in the prior three years. As was the case with 15% increases, the likelihood that there was a prior market increase goes up as the number of bedrooms goes down.

This characteristic may be significant for two reasons:

1) It explains why average pre-increase MAR's of the market rate units are higher than citywide average MAR's. It also 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 subsequent vacancies.

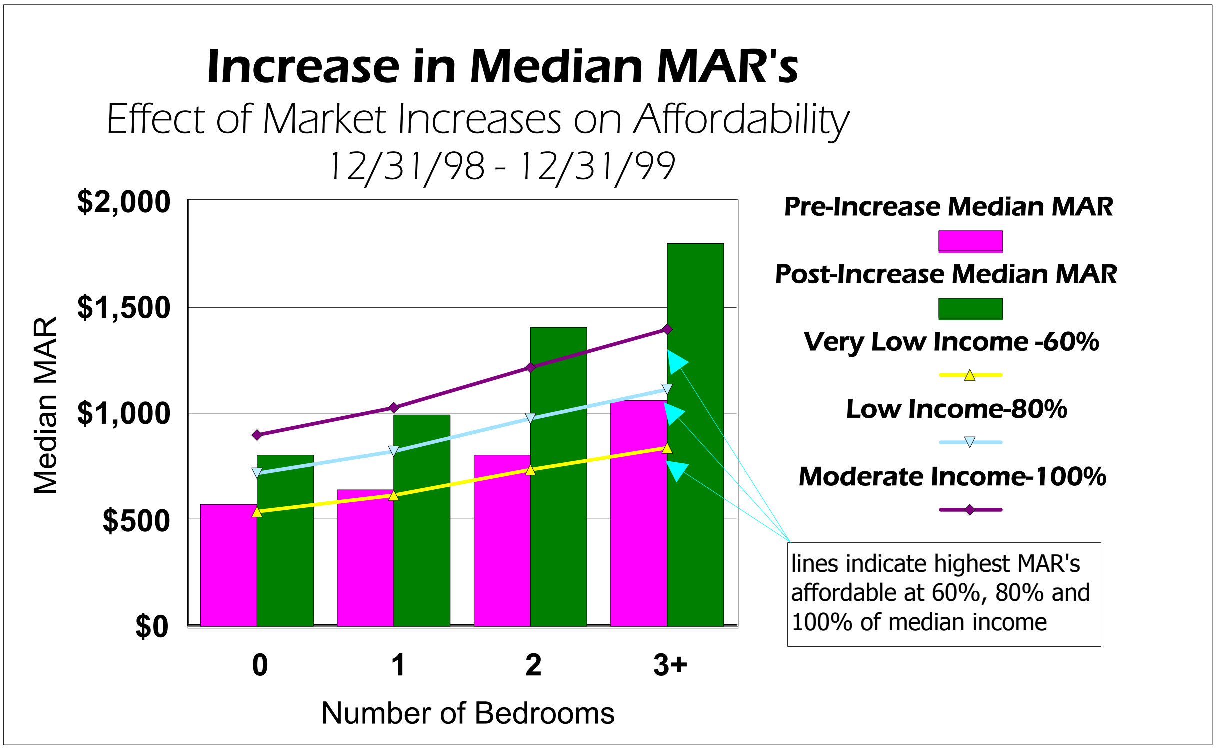
Loss of Affordability – 1/1/99 - 12/31/99

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

For the 3,192 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 market increase units prior to the increase and after the increase. The lines/symbols show the rent affordable for the 60% (very low), 80% (low) 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, staff calculated the minimum income required to afford the median rents.

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)

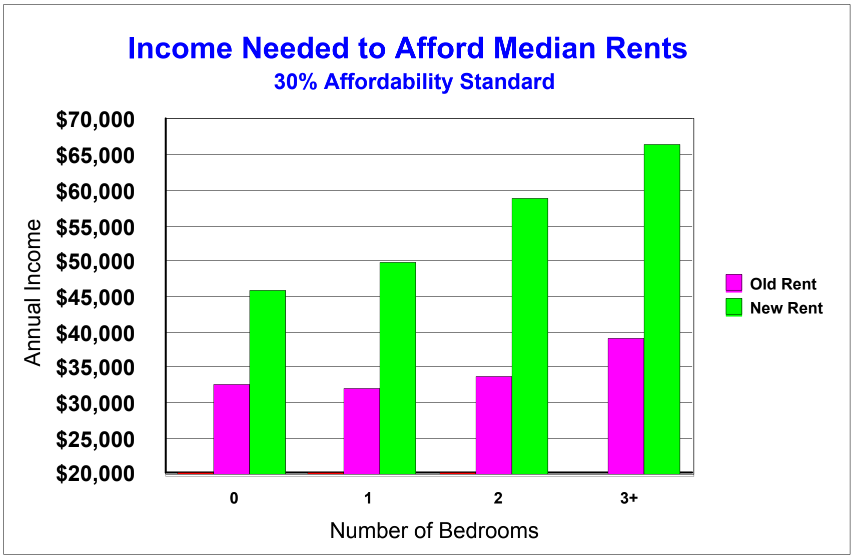
No. of Bedrooms	12/31/98 Median MAR's	Income Needed to Afford MAR
0	$504	$28,800
1	586	29,300
2	750	31,579
3 or more	930	34,286

Income Needed to Afford MAR's (30% Affordability Standard)
Units with Vacancy Increases 1/1 – 12/31/99 (3,192 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	$568	$32,457	$800	$45,714	$13,257
1	643	32,150	995	49,750	17,600
2	800	33,684	1,400	58,947	25,263
3 or more	1,061	39,115	1,800	66,359	27,244

As the chart above shows, depending on size of a unit, the household income needed to "afford" the median market rent is $13,000 - $27,000 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 $16,900 - $32,000 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). 537 of 547 units (98.0%) 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 (very low income). 1,250 of 1,324 units (94%) 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). 2,000 of the 2,533 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. 1,468 units are no longer affordable even at that level. [6]

Only 22 of the 127 post-increase 3-bedroom units were affordable at 100%.

Summarizing, 3,192 market increases resulted in the loss of 2,000 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 at least 100% of median.

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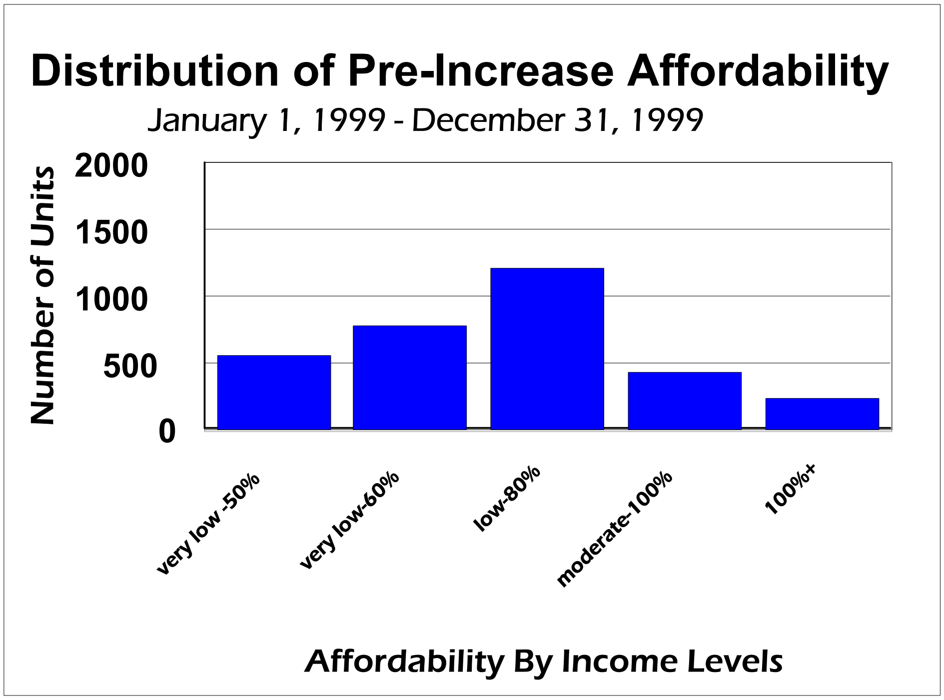
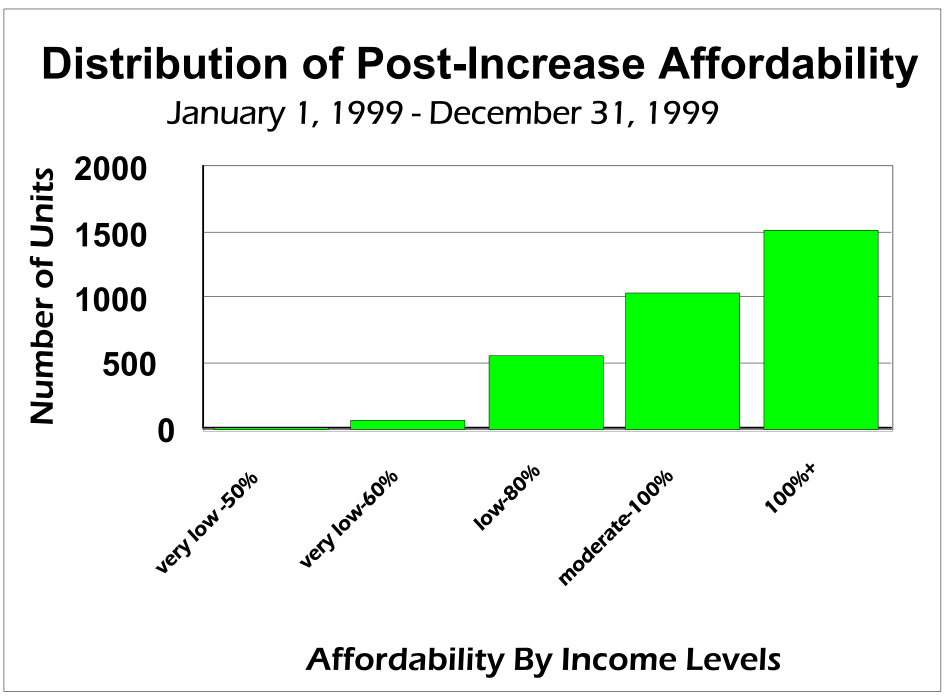
[6] Interestingly, 8 units that were unaffordable at 100% are now affordable at that level – 1 single, 4 1-bedrooms units, 2 2-bedrooms and a 3-bedroom. The rent reductions range from $17 to $542, though it is not possible to know if the prior tenants were actually paying the MAR. The $542 decrease is on a property undergoing major renovation; it is possible that the lower rent resulted from the disruption from the construction.

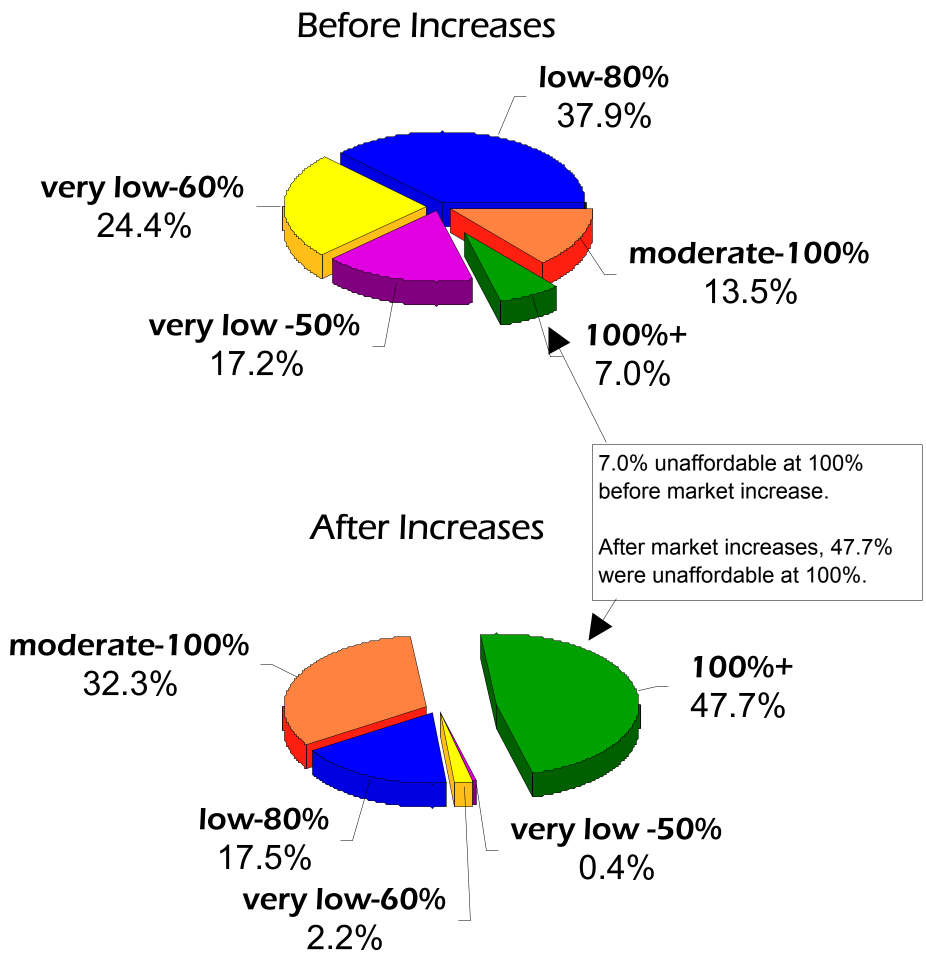
The following graphs depict the effect of market increases on units affordable at the various percentages of median. As the chart shows, the lower the affordability level, the greater the loss of affordable units.





Loss of Affordable Units

Impact of Market Increases on 3,192 Units over one year



Projection of Future Loss of Affordable Units

1999 vacancy reports included projections of the number of units that would lose affordability during the year. The actual number of units affected by market increases was within the range of the projection. The impact on affordability was somewhat less than projections indicated.

Below are details on the original methodology, new factors that were identified during the year, and resulting revisions in the methodology for year 2000. Projections are included for year 2000 loss of affordability.

Projection of Market Increase Registrations

Earlier 1999 vacancy reports projected that if filing of vacancy registrations continued at the same rate – a rate that was the same early in 1999 as it had been from October 1995 through 1998 during limited vacancy increases – slightly more than 3,600 increases would be filed during the year.

In 1999 3,796 market increases were actually filed.

For year 2000 this report projects that 3,570 increase registrations will be filed. The rate of filing dropped during 1999 from a monthly average of 319 in each of the first two quarters to a monthly average of 232 in the fourth quarter. The projection is based on a rolling one-year average. However, the fact that the number of January 2000 filings remained around 200 suggests that the projection may be high.

Projection of Units with at Least One Market Increase

Early reports projected that 3,400 – 3,600 units would receive at least one market increase, based almost entirely on the projected filing rate.

In fact, through December 31, 3,192 units received at least one increase, and 222 increases remain to be processed. It is further expected that some owners may yet file increases for new tenancies that took place prior to December 31. Therefore, though data is only available for the 3,192 units which have been processed, it is likely that at least 3,400 units will have received market increases during the one year period.

The original projection used the filing rate in its entirety to project the number of units with at least one market increase. The actual experience shows that a number of factors which could not be predicted did influence the results.

- **Number of ineligible units**. In 1999, 55 registrations were rejected as ineligible for several reasons including that the units were re-rented prior to January 1, 1999 or had prior deed restrictions.
- **Number of rejected duplicates**. An additional 35 registrations were rejected because they were duplicates filed for the same increase on the same u nit.
- **Number of multiple increases on the same unit**. Over the year 214 units received a second market vacancy increase after the first market rate tenant left. Of those, 13 had a third increase. Second increases were reported at approximately 10 per month, and the rate of third increases was about 2 per month.
- **Number of increases filed but not yet processed.** At the end of the year 222 registration increases were awaiting processing.

When the rolling average of projected filings is adjusted to account for the factors listed above, the projected number of new units to be impacted in year 2000 is 3,047.

Projections of Loss of Affordability

Early reports projected that 2,359 units would lose affordability at the 80% of median affordability level and that there would be a loss of 847 units at the 50% of median income level. Current data indicates that 2,000 units lost affordability at 80% of median income and 537 lost affordability at 50% of median income[7].

While the projection of the number of units impacted was within the projected range, the number of units losing affordability at the various affordability levels was lower than projected. A number of factors that affected these numbers became apparent during the year.

- Percentage of units in housing stock at each affordability level
- Pre-increase affordability of units receiving market increases
- Post-increase affordability of units receiving market increases

In earlier 1999 vacancy reports, projections of future loss of affordability were based on assumptions of affordability at the time of the increase and affordability following the increase.

[7] These numbers are likely to increase as the unprocessed 1999 registrations are recorded.

The original projections applied the percentage of all controlled rental units city-wide at each affordability level and assumed that the same percentages would apply to increases filed. For example, 84% of all units were affordable at 80% of median income. It was therefore assumed that 84% of the projected filings would be affordable at 80% of median prior to the increase.

The actual percentages were somewhat lower:

Affordability Level	Projected % of Registrations	Actual % of Registrations
50% (very low income)	24%	17%
80% (low income)	84%	79%

The reason for the discrepancy became clear during the year. Units with market vacancy increases were not selected at random. Had they been, the original projections would have been the result.

The data indicates that units with market increases were more likely to have had one or two prior vacancy increases under the earlier 15% Costa-Hawkins mandated increase requirements. As a result, the pre-increase MAR's of the units were higher than units of the city as a whole. Higher MAR's directly translate into fewer units affordable at the various levels. One 15% increase was usually enough to move a unit from one affordability level to the next. Many of these units had already lost their affordability at the 50% level during the earlier phase of Costa-Hawkins increases.

The comparative difference in pre-increase MAR's is greatest for the smaller units. The smaller units were even more likely than the larger units to have had prior increases.

For year 2000 the projection of pre-increase affordability levels for units expected to receive market increases are based on the 1999 actuals: 80% of median – 79%; 60% of median – 42%; 50% of median – 17%.

Affordability Level	1999 % of Registrations	Projected for 2000 Number of New Registrations
50% (very low income)	17%	518
60% (very low income)	42%	1,280
80% (low income)	79%	2,407

The projected number of units lost at the various affordability levels is based on the percentage of actual affordable units lost in 1999.

The original projections were based on the earliest market increases and the resulting loss of affordability. At that time, 98% of the very low income MAR's (affordable at 50% of median income) were no longer affordable at that level after a market increase. 78% of the low income MAR's (affordable at 80% of median income) were no longer affordable at that level after a market increase.

Over the year these percentages remained extremely consistent. After one year of experience, 98% of the units that had been affordable at 50% of median income lost affordability, as did 94% of units at 60% of median income and 79% of the units at 80% of median income.

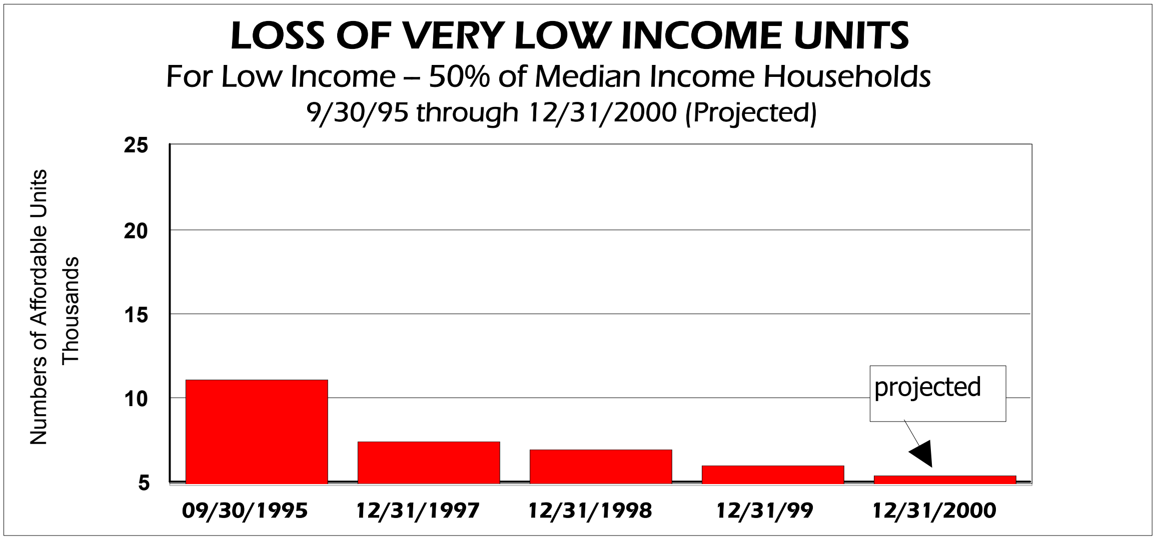
Based on these actual losses, this report projects the following loss of affordability:

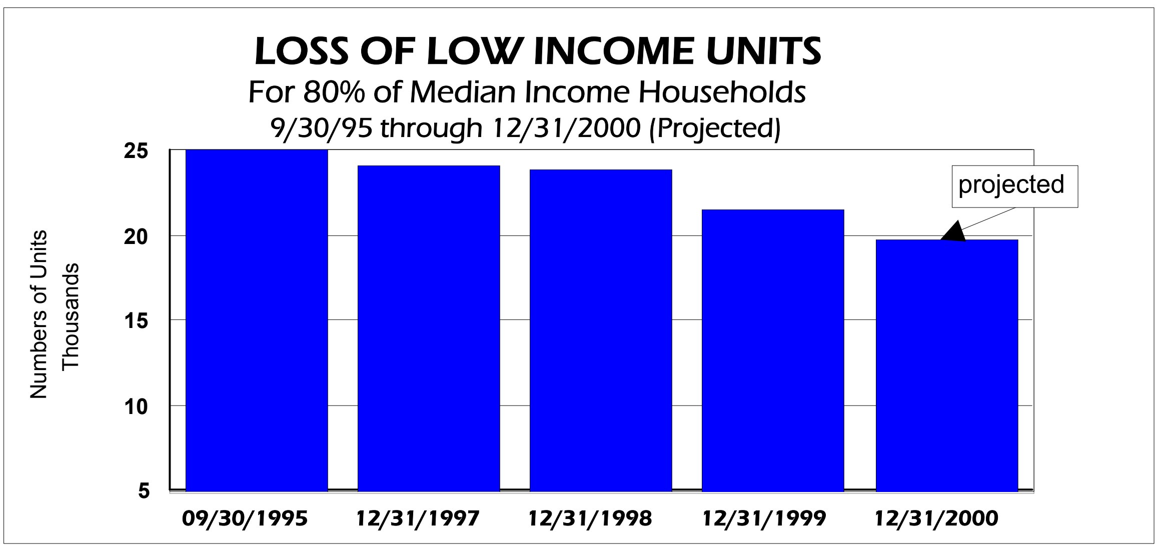
Affordability level	Projected Year 2000 Units Impacted	Projected % Losing Affordability	Projected Year 2000 Units Losing Affordability
50%	518	98%	508
60%	1,280	94%	1,203
80%	2,407	79%	1,902
100%	2,834	49%	1,389

The loss of 2,000 units that were affordable at 80% of median income on December 31, 1998 represents a loss of 7.5% of all units that had been affordable at 80%. The loss of affordability of 1,902 units in year 2000 would be a cumulative loss of 15% of the units affordable to low income households in the 2-year period.

Likewise, the loss of 537 units that were affordable at 50% of median income on December 31, 1998 represents a loss of 7.5% of all units that had been affordable at 50%. The loss of affordability of 508 units in year 2000 would be a cumulative loss of 15% of the units affordable to very low income households in the 2-year period.

The graphs below depict the loss of affordability at the 50% and 80% levels through 1999, and project the estimated loss through December 2000.





CONCLUSION

In the first year of full vacancy decontrol/recontrol, 2,000 units that had been affordable to low income households (80% of median income), are no longer affordable to them. Included in this number are 537 units no longer affordable to very low income households (50% of median income), and 1,250 units no longer affordable to households with an income at 60% of median.

Projections for year 2000 indicate by December 31, 2000, 15% of the units that had been affordable at 80% of median two years earlier will no longer be affordable at that level.