



**CITY OF GLENDALE CALIFORNIA  
JOINT REPORT TO THE CITY COUNCIL AND  
HOUSING AUTHORITY**

July 26, 2016

**AGENDA ITEM**

Agenda Item: Report

Follow-Up Informational Report on Rent Control, Rent Mediation, and Other Citywide Rent Affordability Related Issues

- (1) City Council Motion To Receive and File Report Or Provide Staff Further Direction As Deemed Necessary;
- (2) Housing Authority Motion To Receive and File Report Or Provide Staff Further Direction As Deemed Necessary.

**AUTHORITY ACTION**

Public Hearing [ ]      Ordinance [ ]      Consent Calendar [ ]      Action Item [ ]

Report Only [ X ]

Approved for July 26, 2016 calendar

**ADMINISTRATIVE ACTION**

**Submitted**

Philip Lanza fame, Director, Community Development.....

Signature

**Prepared**

Peter Zovak, Deputy Director of Housing, Community Development.....

Sipan Zadoryan, Hourly City Worker, Community Development.....

Will Provost, Hourly City Worker, Management Services.....

**Approved**

Scott Ochoa, City Manager .....

**Reviewed**

Michael J. Garcia, City Attorney .....

## RECOMMENDATION

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The Department of Community Development recommends that the Glendale City Council (City Council) and Glendale Housing Authority (Housing Authority) receive and file this follow-up informational report. The purpose of this report is to provide follow-up information to a previous report and discussion had by both the City Council and the Housing Authority on April 26, 2016, on past efforts and discussions related to rent control, rent mediation, and other citywide rent affordability related issues within the City of Glendale. This report provides follow-up information requested at that meeting as well as new information related to the subject of affordable housing.

## SUMMARY

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At the joint City Council/Housing Authority meeting of April 26, 2016, a report was presented on past efforts the City of Glendale has made related to rent control, rent mediation, and other citywide rent affordability related issues. The report, attached as Exhibit 1, was requested as both the City Council and Housing Authority had been hearing increasing concerns from residents/constituents on the impact housing costs are having on households, particularly lower income households. Certain questions were raised on various aspects of the April 26<sup>th</sup> report and staff has prepared responses to them in the Background/Analysis section of this report. In addition, new information is being provided regarding changes and updates that have occurred since that initial report.

As stated previously, while the demand for affordable housing remains quite large, it is not a challenge unique to Glendale. Since the April 26<sup>th</sup> staff report, housing and the issue of affordability has been featured and discussed in the media and by regional and state policy makers on an almost daily basis. While much discussion has taken place to date, even more is expected in the coming months on how best to deal with the issue of housing affordability. Some of these regional and/or state solutions may be mandated, while other measures may allow for City of Glendale input and action.

The basic finding of this report is that the City of Glendale is not immune to the problem of housing security and affordability that exists in the region and State. In response to the growing issue, most experts suggest an "all of the above", multi-pronged, approach to improving affordability within a specific community. However, the fundamental recommendation to address the issue of housing affordability is to increase supply to address the existing and increasing demand for housing.

The report is broken down into five main sections to help inform the discussion:

- *Housing Need/Demand* – Situates Glendale in the broader regional and national context.
- *Housing Affordability in Glendale* – Provides an overview of Glendale's housing statistics.
- *Legislation* – Focuses on proposals at the state and local level that may directly impact residential development in the City of Glendale.
- *Rent Control/Rent Mediation/Just Cause Eviction* – Provides an update on rent control ordinances throughout the State, with a focus on the assessment of the rent stabilization program in the City of Los Angeles (per Council request). It also summarizes Glendale's JCE program and the potential to add additional protections for renters, pursuant to Council's previous directives.
- *Plan for Moving Forward* – Building off of previous sections, this section provides an 8-point strategy of potential policy concepts for Housing Authority consideration and to further the ongoing discussion.

## FISCAL IMPACT

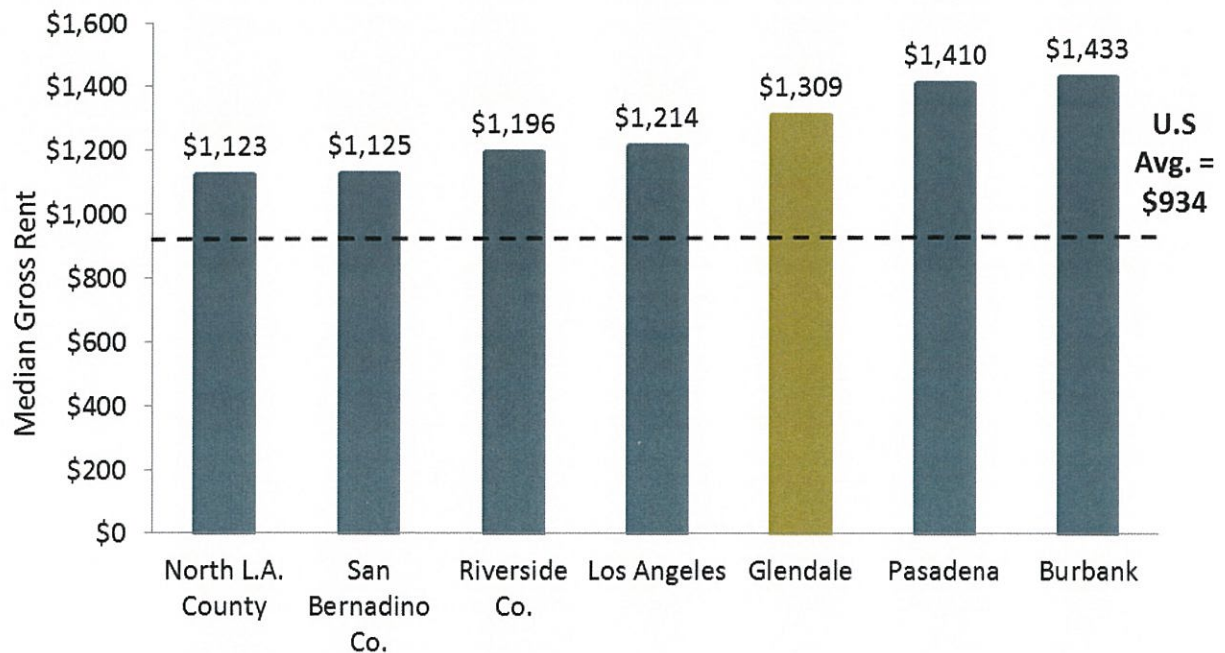
This report is for informational purposes only. There are no fiscal impacts.

## BACKGROUND/ANALYSIS

### HOUSING NEED/DEMAND:

The challenge of housing affordability on a statewide level has been gaining increasing attention in recent months. According to a recent report from the State Legislative Analyst Office (LAO), an average California home costs approximately 2½ times the average national home price and the average California rent is approximately 50% higher than the rest of the country. According to the report, even California's least expensive housing markets are more expensive than the national average. As demonstrated by staff in multiple examples in its April 26<sup>th</sup> report and one additional example in Figure 1, below, according to 2014 U.S. Census data, Glendale housing data places it above the median for most cities within the state for high housing costs and low housing affordability, slightly ahead of the City of Los Angeles, but below the cities of Pasadena and Burbank and major northern metropolitan areas of Northern California. In short, the issue of housing affordability is widespread and affects both the market for rental units and home ownership.

Figure 1: Median Gross Rent, Glendale and Comparison Cities, 2014



Source: U.S. Census Bureau, 5-Year ACS PUMS, 2010-2014

Note: North L.A. County includes the cities of Lancaster and Palmdale.



The Executive Summary of the LAO report is attached as Exhibit 2. Among a number of conclusions, the LAO report cites that the main contributors to the lack of affordable housing within the state can be attributed to the fact that:

- California's home prices and rents are higher than just about anywhere else in the country;
- Building less housing than people demand drives high housing costs;
- High housing costs are problematic for households and the State's economy;
- Recognition needs to be given to affordable housing programs; and
- More private construction must be built in coastal urban areas.

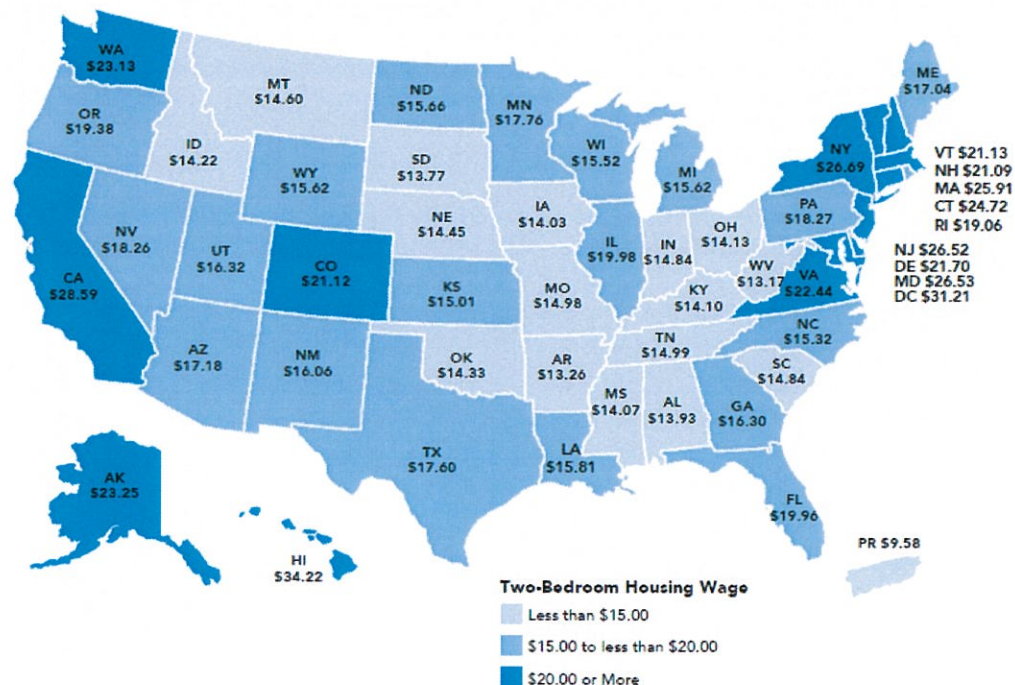
Since the LAO report issuance, multiple other reports (some excerpts attached as Exhibit 3) have been published and/or highlighted that reach similar conclusions on the housing affordability issue, mainly, the California market as a whole suffers from both a shortage of supply and the lingering effects of the housing crash and Great Recession and that it remains among the highest housing cost states within the country.

According to the National Housing Low Income Coalition, as graphed in Figure 2 below, with the exception of Hawaii and the District of Columbia, California is the highest cost state for rental housing when converted to a base pay necessary to afford housing, requiring approximately a \$29 per hour wage.

Figure 2

## 2016 TWO-BEDROOM RENTAL UNIT HOUSING WAGE

Represents the hourly wage that a household must earn (working 40 hours a week, 52 weeks a year) in order to afford the Fair Market Rent for a two-bedroom rental unit, without paying more than 30% of their income.



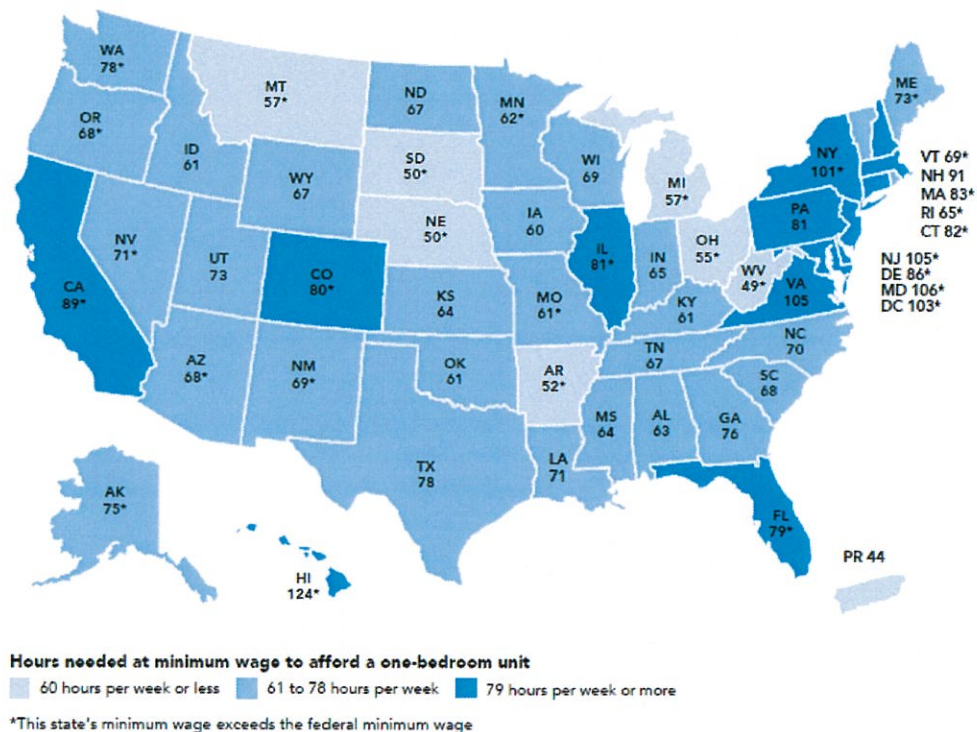


As seen in Figure 3, below, when looking at it from a minimum wage perspective and how many hours within a week at minimum wage pay would be required to support rental of a one-bedroom housing unit, California is fifth highest in the country, behind Hawaii, New York, Virginia, DC, Maryland and New Jersey, requiring 89 hours a week.

Figure 3

## 2016 HOURS AT MINIMUM WAGE NEEDED TO AFFORD RENT

In no state can a minimum wage worker afford a **ONE-BEDROOM** rental unit at the average Fair Market Rent, working a standard 40-hour work week, without paying more than 30% of their income.



According to the USC Lusk Multifamily Forecast Report, the California economy has outpaced the nation in terms of job growth and output. While this is expected to create greater demand for existing housing among those with jobs and income growth opportunities, it may also have an exaggerated and negative impact on seniors, the under-employed and unemployed. Another significant factor cited in the report is the fact that many millennials were observed to have delayed making life style decisions during the Great Recession and now, given the slow but steady California economic recovery, many are expected to be in a position to become renter and first time homebuyers in large numbers. Accordingly, rising rents in Southern California are forecasted over the next few years. Ultimately, most of the reports call for the increased construction of market rate housing balanced with a targeted affordable housing program and new project development.

According to all of the reports cited, the fundamental recommendation to address the housing issue is for more housing (both market rate and affordable) to be produced to address demand.

The housing production must take place on a state wide level across all communities in a consistent and objective manner.

### **HOUSING AFFORDABILITY IN GLENDALE:**

As presented in the following data, alongside broader trends in the region and the state, the City of Glendale has experienced a significant increase in housing costs. Today, the median home sales price in Glendale is approximately \$650,000, and the median rent is more than \$1,300. Moreover, growth in housing costs have outpaced growth in the average household's income. As a result, more than 50% of households in the City of Glendale are "cost burdened", meaning that they are paying more than 30% of their income towards housing costs<sup>1</sup>.

Below are a number of key statistics for understanding housing affordability in Glendale. Unless otherwise noted, all data were obtained from the U.S. Census Bureau, American Community Survey (ACS) using the most recently available 1-Year or 5-Year sample.

- Median Household Income: \$51,020
- Median Home Value: \$598,600
- Median Gross Monthly Rent: \$1,309
- Percent of Households that are Cost-Burdened: 57%
- Share of Owner Occupied Households: 34%

In addition to reporting summary statistics and distributions, using the ACS Public-Use Microdata Sample (PUMS), this report estimates the number of "affordable housing units" available to households based upon their household income. The analysis presented in Figure 4 defines affordable units as rental units with a gross rent of less than 30% of a household's income, or owner occupied units with values of less than 2.5 times a household's income. As displayed in Figure 4, while households earning more than \$35,000 a year appear to have a number of housing options, there is a shortage of housing available for Glendale's low-income population. In addition, these shortages are likely exacerbated as relatively higher income households utilize a share of the low income housing supply.

Figure 4 displays the distribution of households and affordable units by household income. For example, for a household earning between \$35,000 and \$50,000 a year, we assume the household can afford rent of \$875 to \$1,250, or 30% of their total income. In addition, we assume that they could afford to purchase a home worth between \$87,500 to \$125,000, or 2.5 times their gross income<sup>2</sup>. Using Census data on current home values and rents, we are then able to calculate how many units would be affordable to a household in that income bracket. In this case, there are 8,788 households earning between \$35,000 and \$50,000 a year, and 13,958 units that are priced within that range. Looking at the lower end of the distribution, however, there are only 6,158 units that are affordable to the 25,819 households earning less than \$35,000 a year. This results in an estimated shortage of nearly 20,000 units at the low end of the income distribution. Also worth noting, is the relatively higher median age of these low income

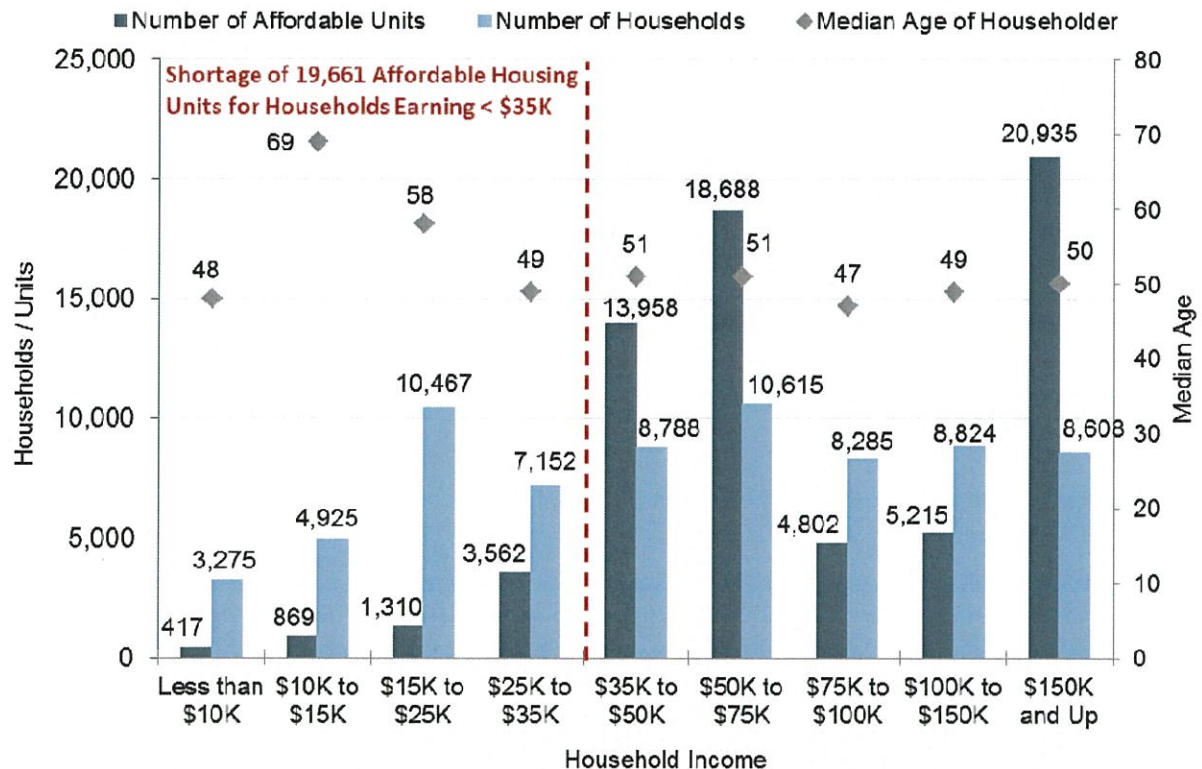
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<sup>1</sup> According to the U.S. Department of Housing and Urban Development, cost burdened households are in need of affordable housing, as they "may have difficulty affording necessities such as food, clothing, transportation and medical care" (HUD, 2016). In addition to providing consistency with widely-used standards, the thirty percent cost burdened threshold also provides a useful framework for analyzing trends in housing affordability across communities and over time.

<sup>2</sup> According to Investopedia, 2.5 is an appropriate ratio to guide prospective homeowners..

households. While some of the low income households may have mortgages, since the majority of even older households in Glendale are renters, they are likely paying for housing costs based on shrinking or fixed incomes.

Figure 4: Distribution of Housing Units vs. Distribution of Household Incomes, City of Glendale, 2010 - 2014



Source: City of Glendale Analysis of U.S. Census Bureau, 5-Year ACS PUMS, 2010-2014

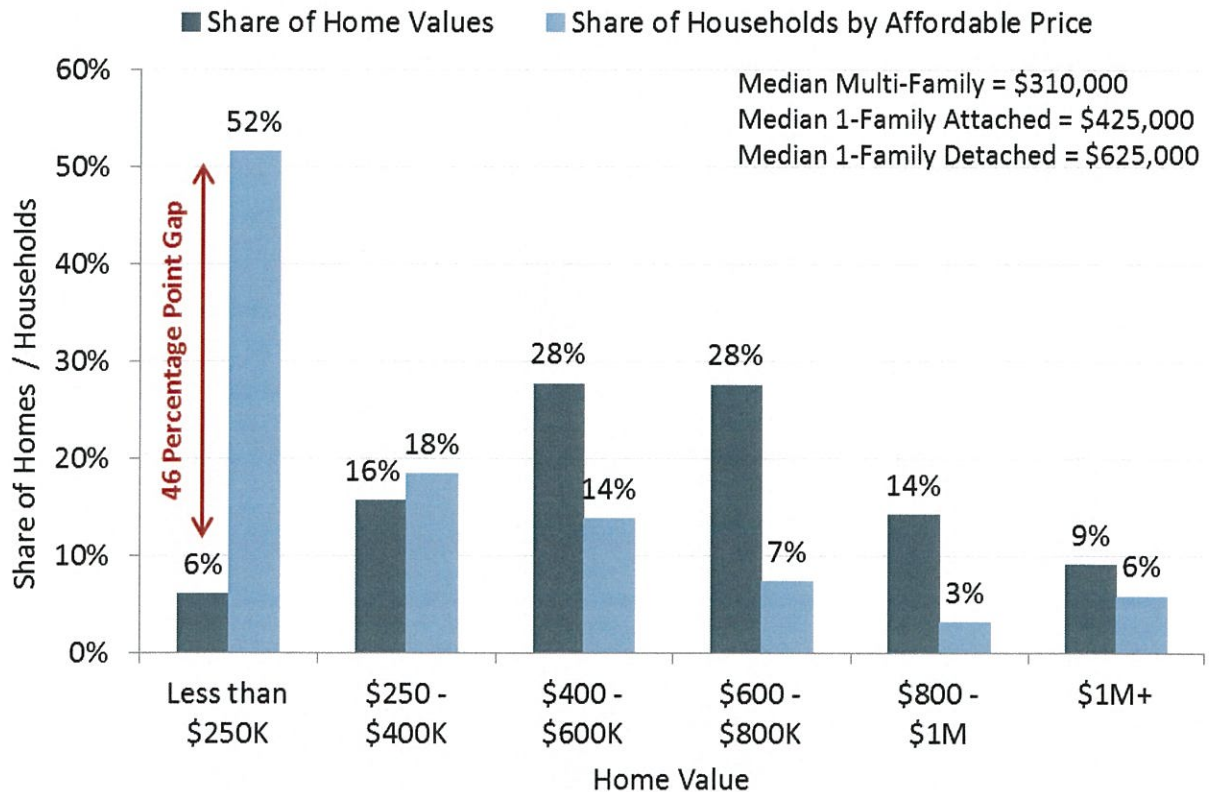
Note: Excludes unoccupied units and units for which cash rent was not applicable.

Figure 4 provides an overview of the entire housing market in Glendale, and highlights a housing gap for households earning less than \$35,000 a year. However, there are two distinct markets at play – the market for rental units and the market for prospective homeowners. Figures 5 and 6 take a closer look at each market individually. Figure 5 compares the distribution of household incomes with the distribution of home values, while Figure 6 compares the distribution of household incomes with monthly rental costs.



As can be seen from Figure 5, more than 52% of the population lives in a household that could only afford to purchase a house at a price of less than \$250,000. However, only 6% of owner-occupied homes in the City of Glendale have a value of less than \$250,000. Therefore, the market for homeownership is largely limited to households that can afford a house/unit worth at least \$250,000 and likely more than \$400,000. While Figure 4 used a “rule of thumb” to estimate the number of affordable households, in an effort to further refine those estimate, Figure 5 defines affordability as a mortgage with an estimated monthly payment of less than 30% of household income.

Figure 5: Distribution of Owner-occupied Home Values vs. Distribution of Household Incomes, City of Glendale, 2010 - 2014



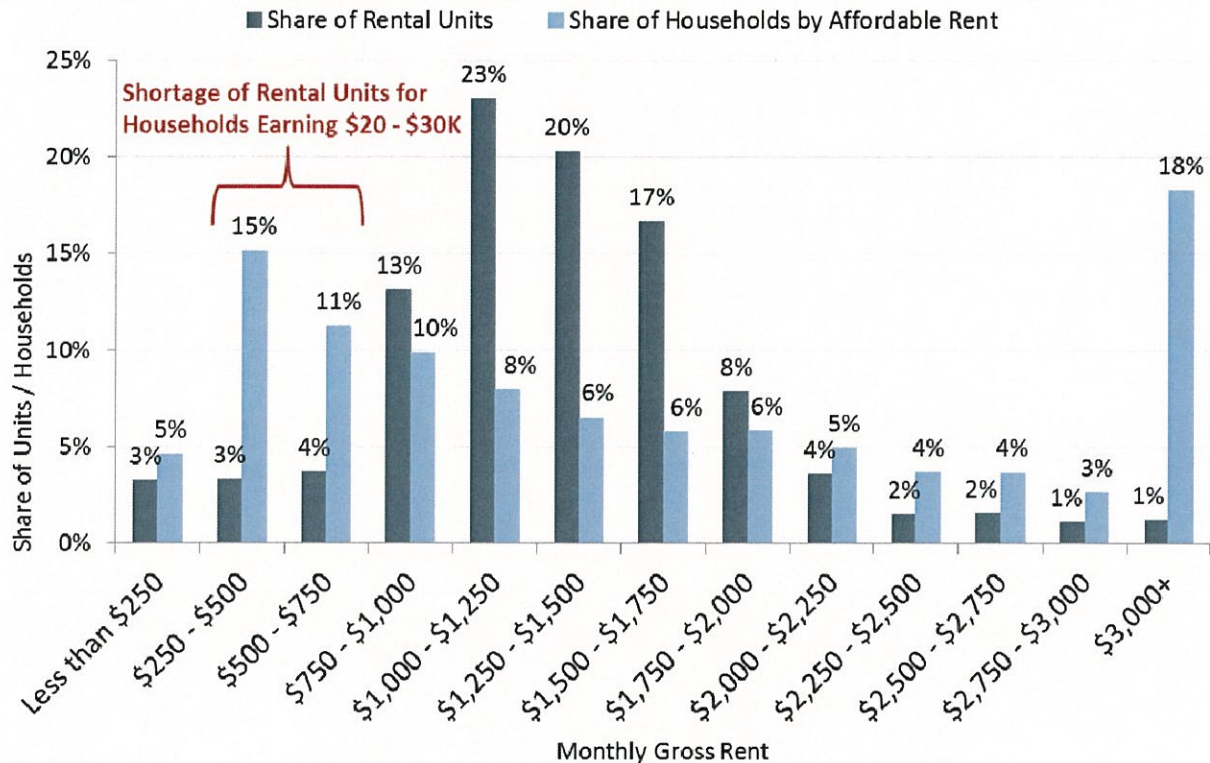
Source: City of Glendale Analysis of U.S. Census Bureau, 5-Year ACS PUMS, 2010-2014; Lending-tree Mortgage Payment Calculator, assumes 10% down-payment and 3.25% interest

The housing types used in this report are: Single-family detached, Single-family attached, and Multifamily.

- Single-family detached includes typical single-family homes, as well as manufactured homes, and other detached dwelling units.
- Single-family attached includes row houses, townhouses, etc., in which dwelling units may share a common wall.
- Multifamily includes all attached structures, such as duplexes and other apartment buildings.

Similarly, the distribution for rental units in Glendale does not align with the distribution of incomes. In particular, as seen in Figure 6, for the 26% of households earning between \$20,000 and \$30,000 annually, there is a severe shortage of affordable units (i.e. units that would cost less than 30% of household income). Both forceful policy directives and considerable funding will be necessary in order to realign these distributions.

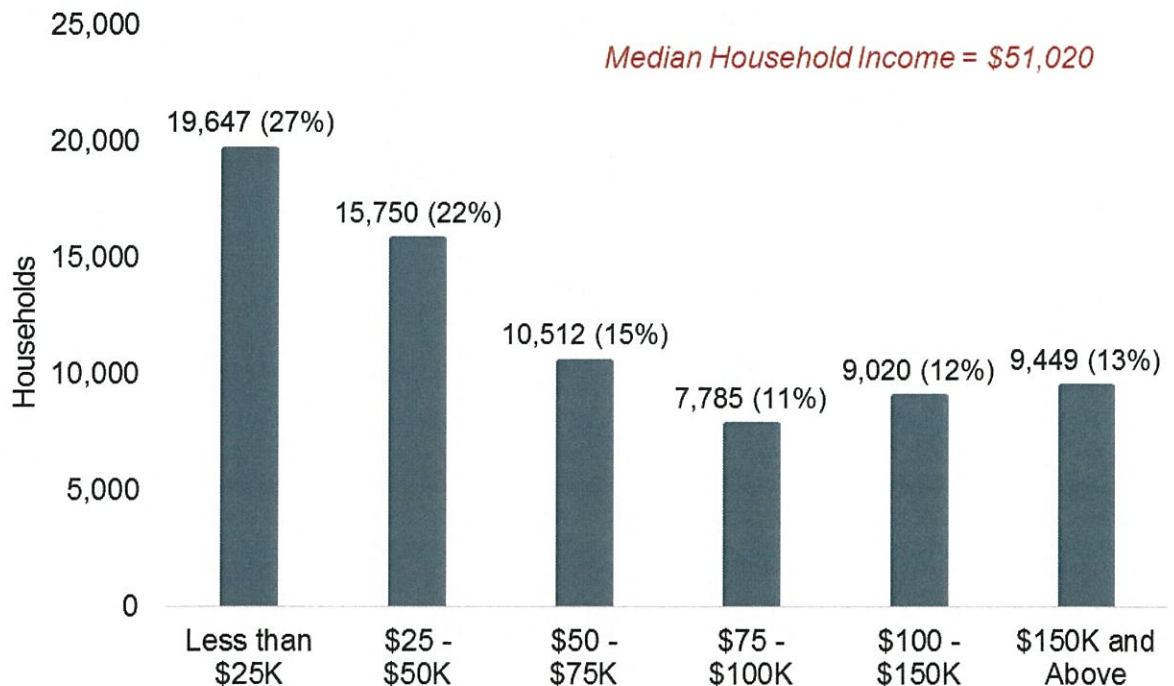
Figure 6: Distribution of Gross Rental Costs vs. Household Incomes, Glendale, 2010 - 2014



Source: City of Glendale Analysis of U.S. Census Bureau, 5-Year ACS PUMS, 2010-2014

As highlighted in previous reports, these affordability gaps are not strictly created by housing costs; they also have to do with the distribution of household incomes throughout Glendale. Although the median household income in Glendale is approximately \$51,000 a year, there is considerable variation across households. Figure 7 illustrates the household income distribution throughout Glendale in 2014. As seen in the Figure, nearly 20,000 households (or 27% of all Glendale households) earn less than \$25,000 per year. Similarly, one quarter of all households earn more than \$100,000 annually. The middle 48% of households have incomes between \$25,000 and \$100,000 annually.

Figure 7: Household Income Distribution, Glendale, 2014



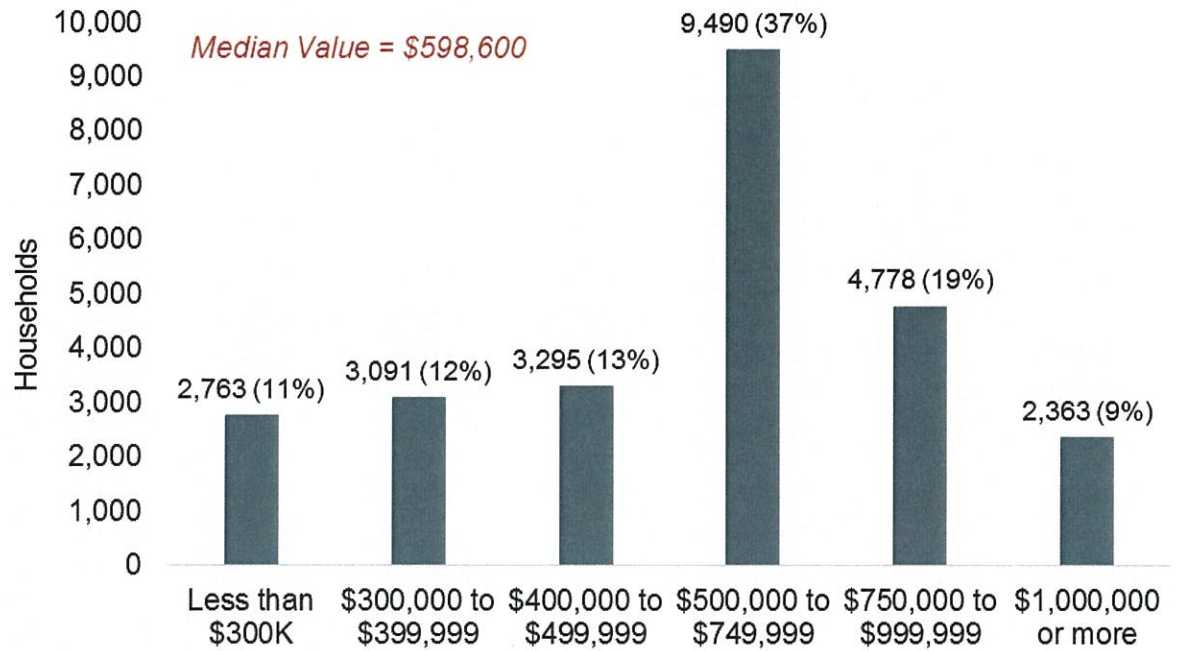
Source: U.S. Census, ACS 2014, B19001, B19013

Figures 8 and 9 display the distribution of home values and the ratio of Glendale's median value to the area's median income, respectively. As seen in Figure 8, in Glendale, 36% of the owner occupied households have a home value below \$500,000, while 37% of owner occupied home values are between \$500,000 and \$750,000. The remaining 28% of owner occupied homes have a value in excess of \$750,000. The median home value in this distribution is \$598,600.

Given the aforementioned statistics, as seen in Figure 9, Glendale has a value-to-income ratio of more than 12. In other words, the average house is 12.5 times more expensive than the average household's annual income. Moreover, the ratios of Glendale, Los Angeles County, and California are more than double HUD's standard ratio, with Glendale's ratio exceeding Los Angeles County (8.3) and California as a whole (6.7). Lower ratios indicate that housing in a region is more affordable; by comparison, the ratio for households across the United States is 3.4.

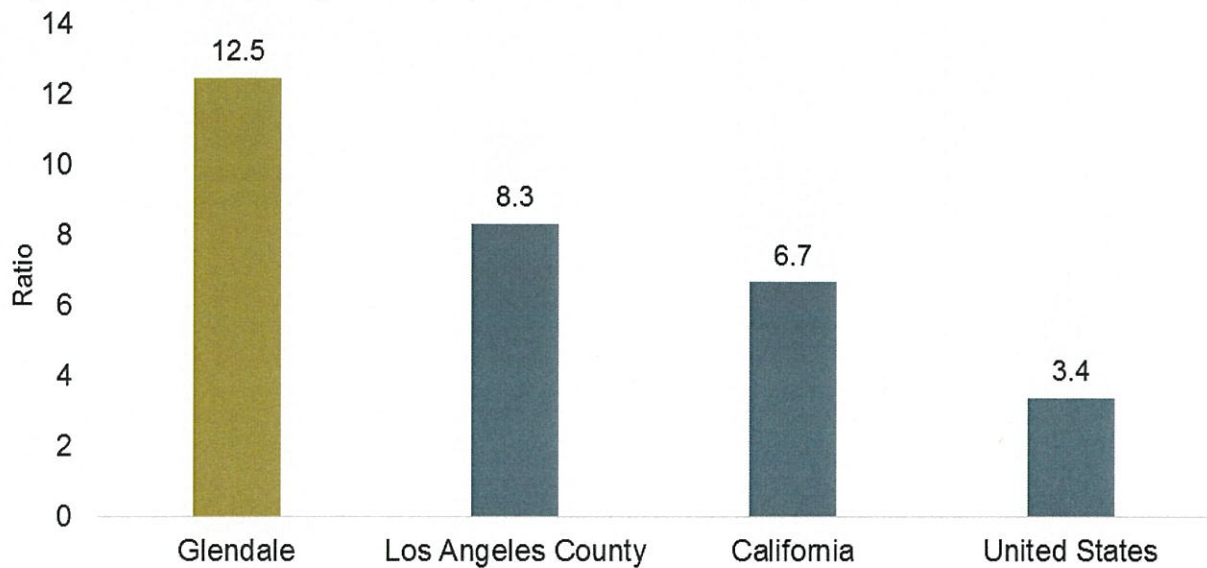


Figure 8: Distribution of Owner Occupied Home Values, Glendale, 2010-2014



Source: U.S. Census, ACS 2010-2014, B25075, B25077

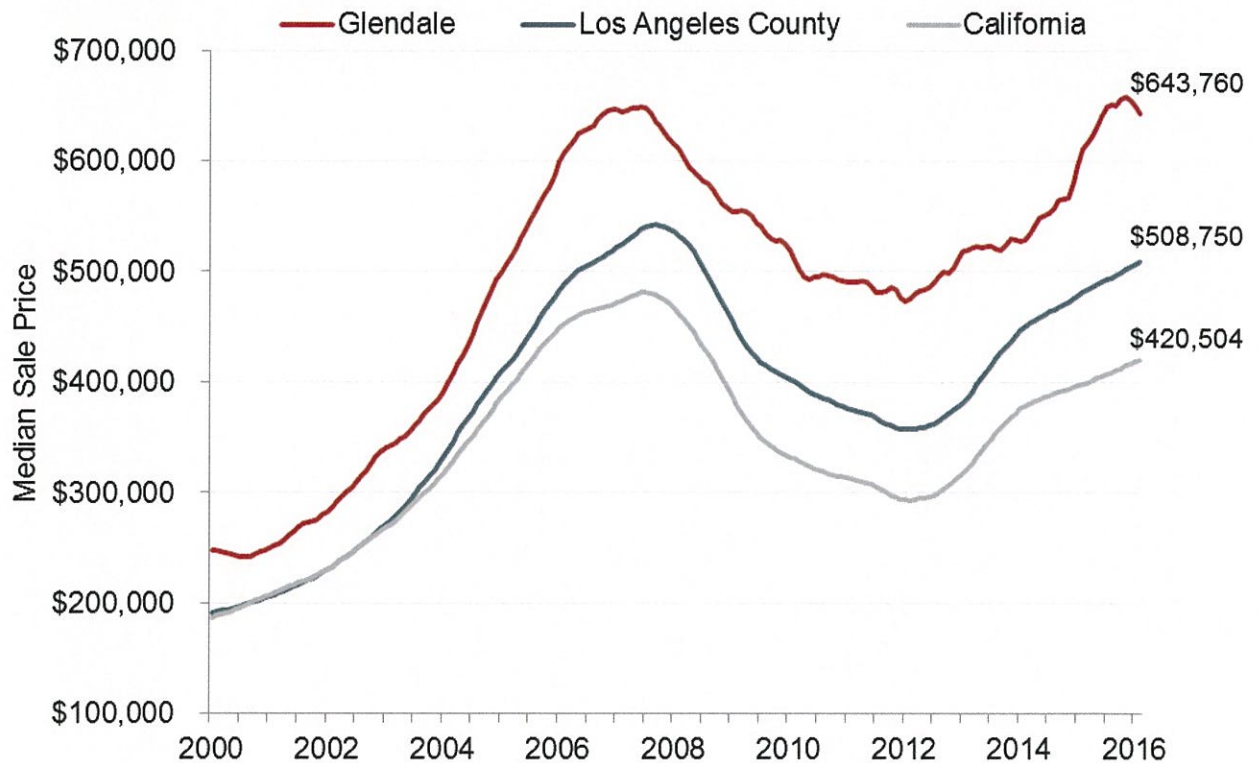
Figure 9: Ratio of Median Owner-Occupied Housing Value to Median Household Income, City of Glendale, Los Angeles County, and California, 2014



Source: U.S. Census, ACS 2014, B25077, S1901

The majority of data used in this report was obtained from the U.S. Census Bureau's most current estimates from 2014. However, Zillow offers more current data on home values that are consistent with findings from the U.S. Census Bureau's data. Figure 10 displays the median sale price in Glendale from 2000 to 2016 using data provided by Zillow Research Data. These data show that Glendale's median sale price has consistently been above the median sale price of both Los Angeles County and California. In addition, Glendale's median sale price has recovered from the housing market crash, recently surpassing its pre-recession peak. As a result, Glendale's median home sale price for the 12-month period ending in April 2016 is \$643,760, as compared to \$508,750 in Los Angeles County, and \$420,504 across California.

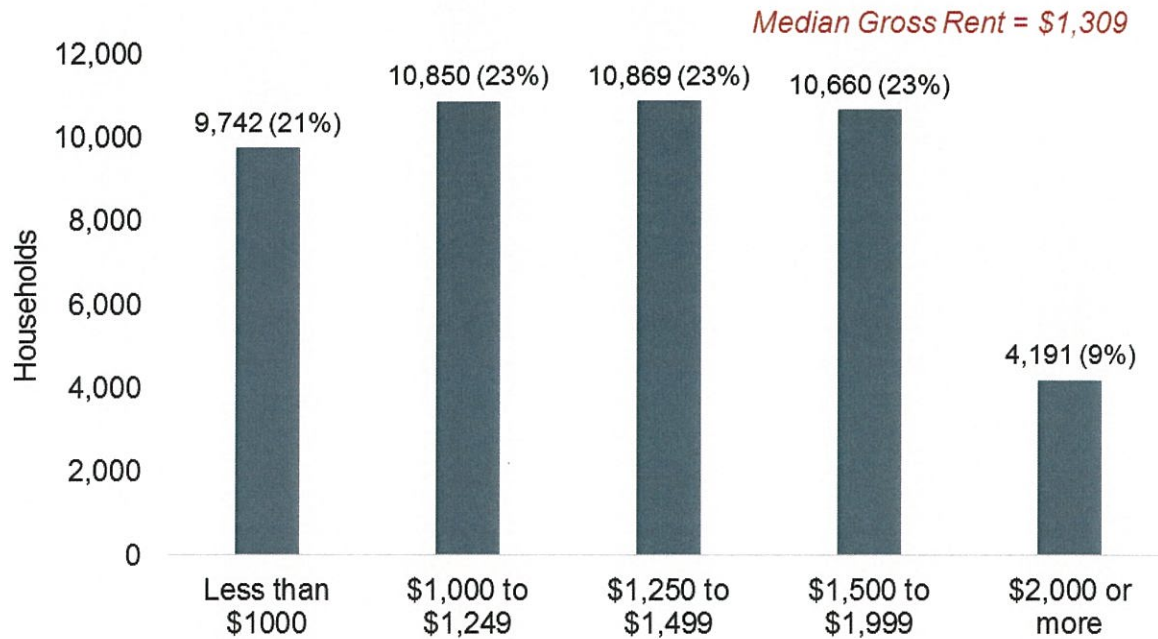
Figure 10: Median Home Sale Price, Glendale, Los Angeles County, and California, 12-Month Rolling Average, 2000 - 2016



Source: City of Glendale calculations using Zillow Research Data, Median Sale Price

In general, rental costs appear to be more affordable than ownership for the average household. Figure 11 shows the distribution of gross rental costs in Glendale. In 2014, more than 40% of households paid less than \$1,250 for rent. However, as discussed previously, for households with relatively low incomes, even rents at the lower end of the distribution may be burdensome.

Figure 11: Distribution of Gross Rental Costs, 2014

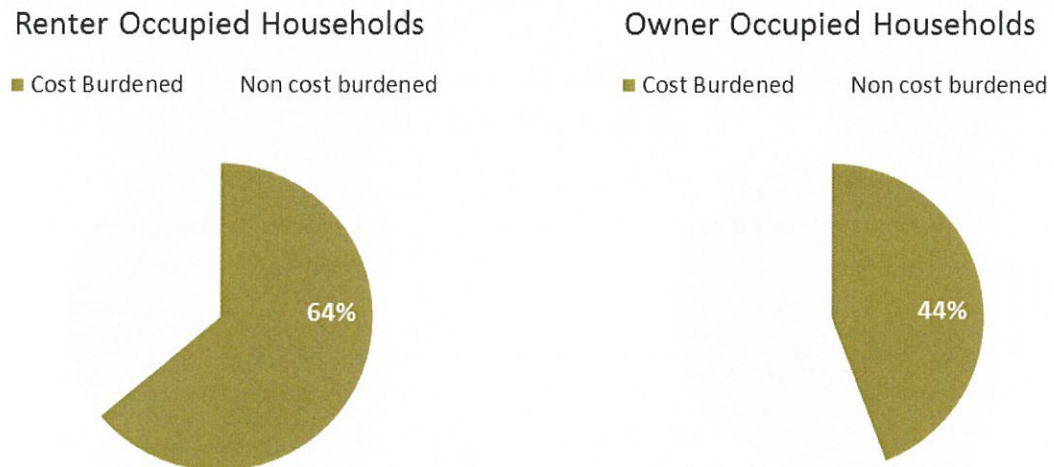


Source: U.S. Census, ACS 2014, B25063, B2506



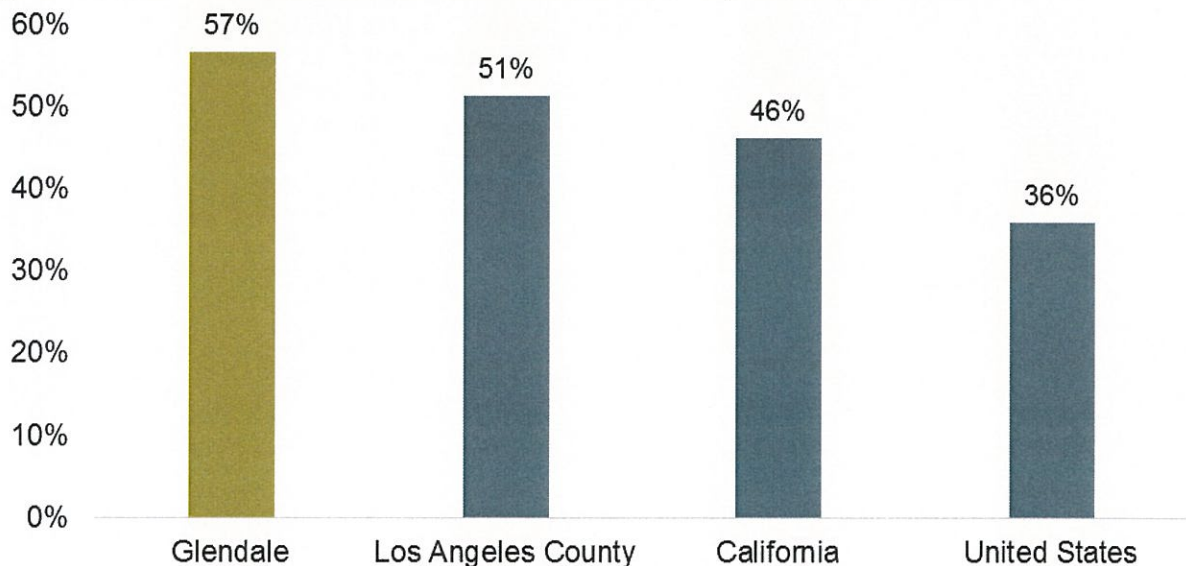
Given these high costs, many residents of Glendale pay a disproportionate share of their income to housing, when compared to other geographies. Furthermore, as shown in Figure 12, a greater portion of renter occupied households (64%) in Glendale are cost burdened when compared to owner occupied households (44%). Figure 13 displays the percent of households that are cost burdened in Glendale, Los Angeles County, California, and the United States as a whole. These data illustrate that households in Glendale are more likely to be cost burdened than households in Los Angeles County, and in California as a whole. In 2014, 57% of households paid more than 30% of their income for housing expenses.

Figure 12: Percent of Households that are Cost Burdened by Ownership Status, 2010-2014



Source: U.S. Census Bureau, American Community Survey, 2010-2014, B25070, B25091

Figure 13: Percent of Households that are Cost Burdened, 2010-2014



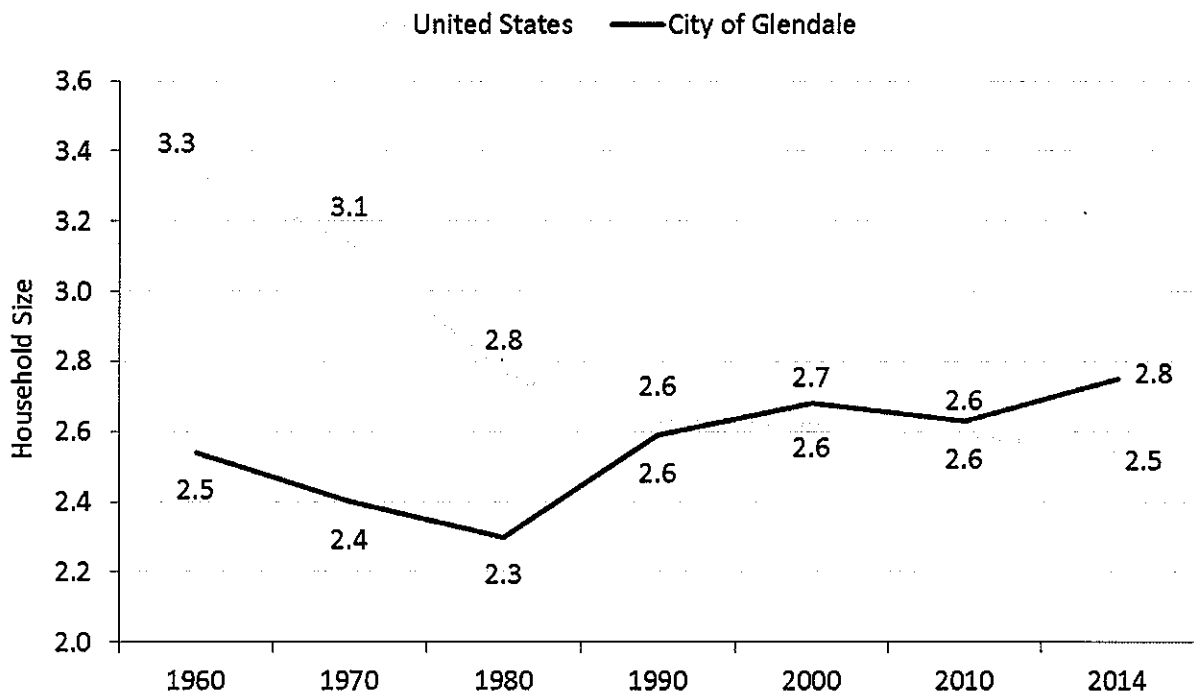
Source: U.S. Census Bureau, American Community Survey, 2010-2014, B25070, B25091

DEVELOPMENT AND DEMOGRAPHIC TRENDS:

As the number of households and population grows in Glendale, there will be continued pressure on the housing market. Without comparable growth in the number of units or a shift in Glendale's household income trends, there will likely be further upward pressure on housing costs across the city. The following charts provide a brief overview of the current housing stock and recent development trends.

Figure 14 presents the average household size for the City of Glendale and the United States from 1960 to 2014. As is displayed in the Figure, nationally there has been a consistent downward trend in the average household size, however, in recent decades the average size of a typical Glendale household has been increasing. Moreover, despite being considerably lower than the national average in 1960, Glendale's average household is now larger than the U.S. average. The relatively higher average is likely correlated with the relatively higher cost of housing in the City of Glendale and may decrease if there were more affordable units in the housing market.

Figure 14: Average Households Size, City of Glendale and United States, 1960 - 2014

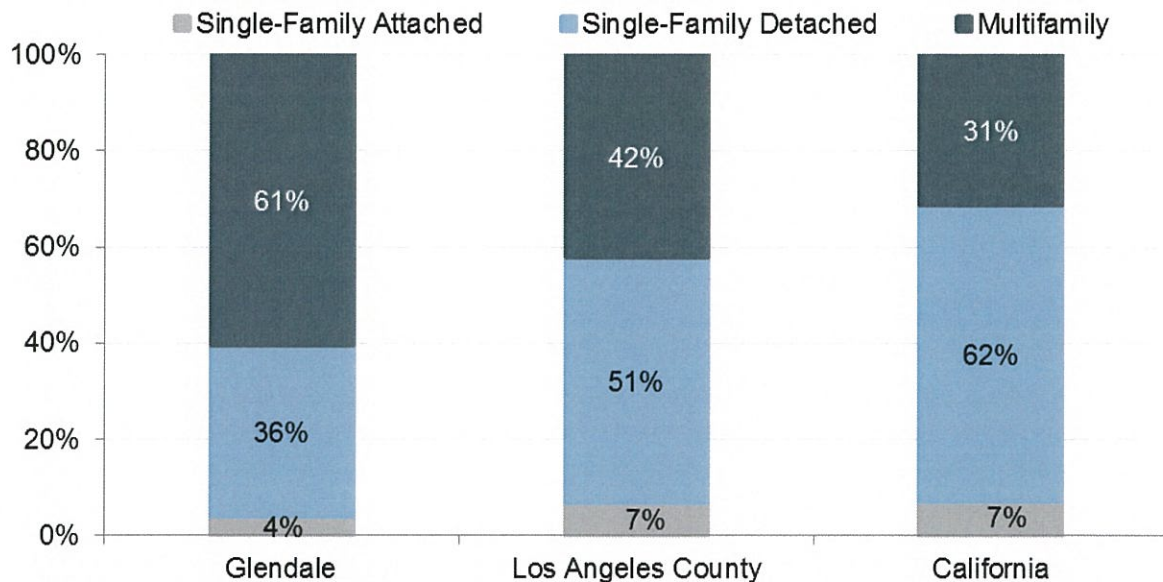


Source: U.S. Census Bureau, 1960 - 2014

Figure 15 illustrates the percentage of dwelling units by type in Glendale, Los Angeles County, and California in 2014 based on data from the U.S. Census. As mentioned previously, the housing types used in this analysis are: Single-family detached, Single-family attached, and Multifamily. Single-family detached includes typical single-family homes, as well as manufactured homes, and other detached dwelling units. Single-family attached includes row houses, townhouses, etc., in which dwelling units may share a common wall. Multifamily includes all attached structures, such as duplexes and other apartment buildings.

These data show that a majority of dwelling units (61%) in Glendale are multifamily, while a majority of dwelling units in Los Angeles (51%) and California (62%) are single-family detached.

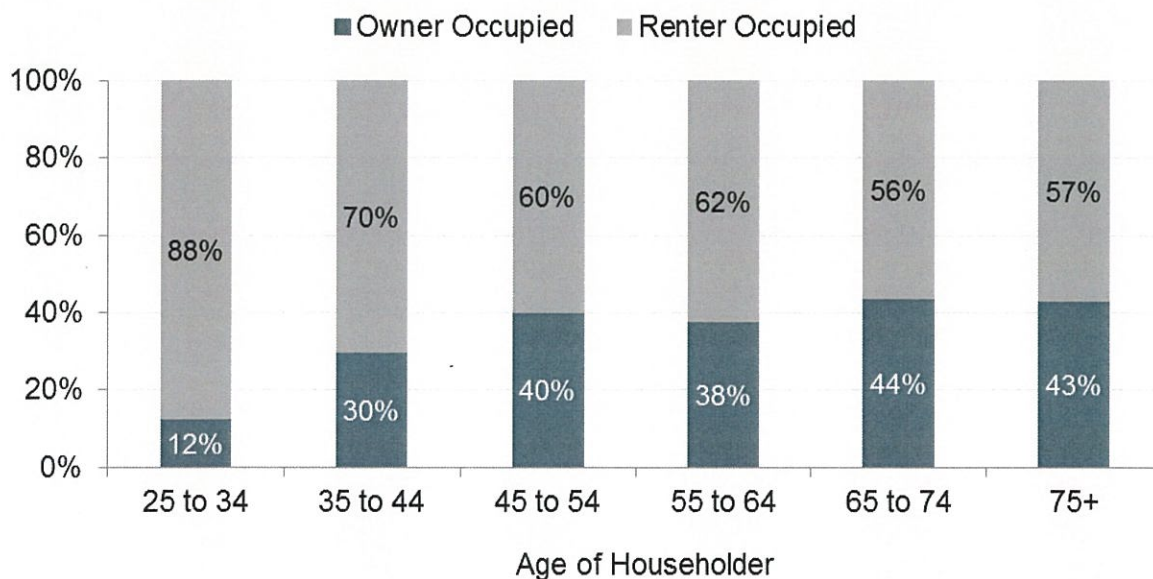
Figure 15: Dwelling Units by Type, 2014



Source: U.S. Census, 2014, CP04 Comparative Housing Characteristics

Consistent with the relatively large share of multifamily units, the majority of Glendale units are renter occupied, for households across all age groups. Figure 16 displays households by ownership status and age. These data illustrate that a higher percentage of younger householders are renters as compared to older householders, with 88% of 25 - 34 year old householders renting. Nonetheless, only 34% of all households in Glendale live in owner occupied households.

Figure 16: Households by Ownership Status and Age of Householder, 2014



Source: U.S. Census, ACS 2014, B25007



## **LEGISLATION:**

Given the widespread nature of the issue, the state legislature has been pursuing a number of activities to mitigate the adverse impacts of high housing costs. Since the issuance of the LAO report and accompanying housing reports, state and regional lawmakers have placed affordable housing on the top of their agendas. A flurry of legislative proposals have been or are being proposed to help provide either direct or indirect assistance for affordable housing production. They are listed below. Some of them are new since the last report presented to the City Council/Housing Authority, and some are updates to what was previously presented.

- A proposed Los Angeles County “Millionaires Tax” that will allow the County to impose a tax on those households with personal income over \$1 million a year to fund housing and services for the homeless.  
**Status:** Proposal requires State to increase local taxing authority in order to proceed.
- Approval of a Los Angeles County Homeless Initiative plan that includes 47 strategies (see Exhibit 5) to combat homelessness.  
**Status:** Approved by Board of Supervisors February 9, 2016.
- AB 2734 - a bill to require the Dept. of Finance to determine the state general fund savings for the fiscal year as a result of the dissolution of redevelopment agencies, and upon appropriation, 50% of that amount will be allocated to the Dept. of Housing & Community Development to create an equitable funding formula that is geographically balanced and would take into account factors such as poverty rates and lack of supply of affordable housing for people with low/moderate incomes in local jurisdictions.  
**Status:** Proposal has failed and is no longer viable.
- AB 2817 - a bill that would increase the aggregate housing credit dollar amount that may be allocated among low-income housing projects under the low-income housing tax credit program pursuant to which the California Tax Credit Allocation Committee provides procedures and requirements.  
**Status:** Currently in California Senate Appropriations Committee.
- SB 873 - a bill that would allow a taxpayer to sell all or a portion of a low income housing tax credit to one or more unrelated parties, with certain conditions. The bill would also require the California Tax Credit Allocation Committee to enter into an agreement with the Franchise Tax Board to pay any costs incurred by the Franchise Tax Board in administering these provisions.  
**Status:** Approved, pending Governor’s signature.
- AB 1618 - “No Place Like Home” Initiative. An initiative to assist local communities in preventing and addressing homelessness. The proposals will empower local governments with additional resources and flexibility to better serve homeless individuals and families, increase access to affordable housing, address the effects of income inequality and, extend proven programs for homeless who are either disabled or in need of mental-health assistance. Funding would be used for:
  - \$2 billion bond to construct permanent supportive housing for chronically homeless persons with mental illness.
  - \$45 million in 2016-17, to provide supportive housing in the shorter-term, as well as rent subsidies, while the permanent housing is constructed or rehabilitated.**Status:** Approved, signed by Governor July 1, 2016.

- **AB 1335 – “Building Homes and Jobs Act”.** An initiative that charges a \$75 fee on recorded real estate transaction documents. The funds would be utilized to create a permanent and ongoing source of funding for affordable housing. Previous versions of the bill failed due to lack of support from the California Association of Realtors, however, after negotiations, the Association of Realtors are in support of the proposal.

**Status:** Proposal failed in February, 2016.

- **City of Los Angeles Bond Measure –** a municipal bond measure to be decided by voters this November that would result in a \$1.2 billion property tax increase to pay for housing and support services for the homeless population in the City of Los Angeles. If passed, the City will be tasked with managing the development and management of a vast number of housing units in the years to come.

**Status:** Anticipated to be on the November 8<sup>th</sup> ballot in 2016.

**By Right Housing Proposal.** Taking the lead of state and regional lawmakers, the Governor has proposed a budget amendment that calls for expediting housing development at the local level. Currently being called the “By-Right” housing proposal, the amendment would streamline housing development projects by pre-empting local discretionary land use approvals of specified housing developments by having all such approvals be considered “ministerial” actions, meaning eliminating opportunities for public review, project-level environmental review and restricting design review.

The proposal requires cities and counties to approve:

- A certain type of housing project that contains certain minimum levels of affordable units;
- As a permitted “use by right”;
- With no public input;
- With limited ministerial review; and
- No CEQA compliance.

To qualify, a housing project must be:

• **General plan and zoning:** Consistent with objective general plan and zoning standards in effect at the time the application is submitted.

• **Location:** Located anywhere in the state on a site that is either immediately adjacent to parcels that are developed with urban uses or at least 75% of the perimeter of the site adjoins parcels that are developed with urban uses.

• **Affordability (TPA):** For developments within a *transit priority area*, subject to a restriction lasting 30 years requiring at least 10% of the units be affordable to lower income households or at least 5% of the units to be affordable to very low income households.

• **Affordability (non-TPA):** For developments outside a transit priority area, subject to a restriction lasting 30 years requiring at least 20% of the units to be affordable to households whose income is 80% or less of area median gross income.

**Status:** This proposal is pending approval of an associated housing plan in the State Legislature and as of the writing of this report, the proposal is currently in “back room” negotiations between the Governor and the legislators. The Governor rejected an earlier proposal by Assembly

Democrats for \$1.3 billion for affordable housing and he countered in his May Budget Revise with his proposal to approve certain affordable housing projects "by right." Since then the Governor has offered a \$400 million one-time funding for affordable housing in exchange for approval of the By-Right proposal. Labor, environmental groups and cities, including the City of Glendale, have opposed the bill due to the proposed loss of public engagement and environmental review. While discussions continue, the budget sets aside \$400 million in a reserve account that will only be appropriated upon the adoption of future legislation to streamline the approval of projects. It is worth noting that this \$400 million allotment would likely be enough to construct 3,500 to 7,000 units statewide, depending on the terms of the respective projects.

The proposal and negotiation strategy is a significant step by the Governor who had been criticized by affordable housing advocates for eliminating Redevelopment Agencies in 2011, which were the biggest source of funding for affordable housing. Last year the Governor vetoed bills that would have provided more funding.

#### **RENT CONTROL/RENT MEDIATION/JUST CAUSE EVICTION:**

At the meeting of April 26, 2016, staff presented information on past efforts the City had made related to rent control and rent mediation. The report outlined an extensive process in the last decade in which rent control and rent mediation were evaluated and discussed. The discussion began in January 2001 with a review of the Glendale rental housing market, followed by an evaluation of the impacts to implementing rent control/rent stabilization, the implementation of a voluntary rent mediation program, and culminated with the passage of the Just Cause Eviction Ordinance.

Of all of the proposals cited, only the Just Cause Eviction Ordinance is in effect today. No action was taken on the establishment of rent control. A voluntary rent mediation program, called the "12/12 Rent Disclosure Program" and partially funded by the City, was established in 2002. However, it soon failed due to the lack of participation by landlords.

Based on Council discussion at the April 26, 2016 meeting, below is a review of potential solutions/improvements suggested by the Council.

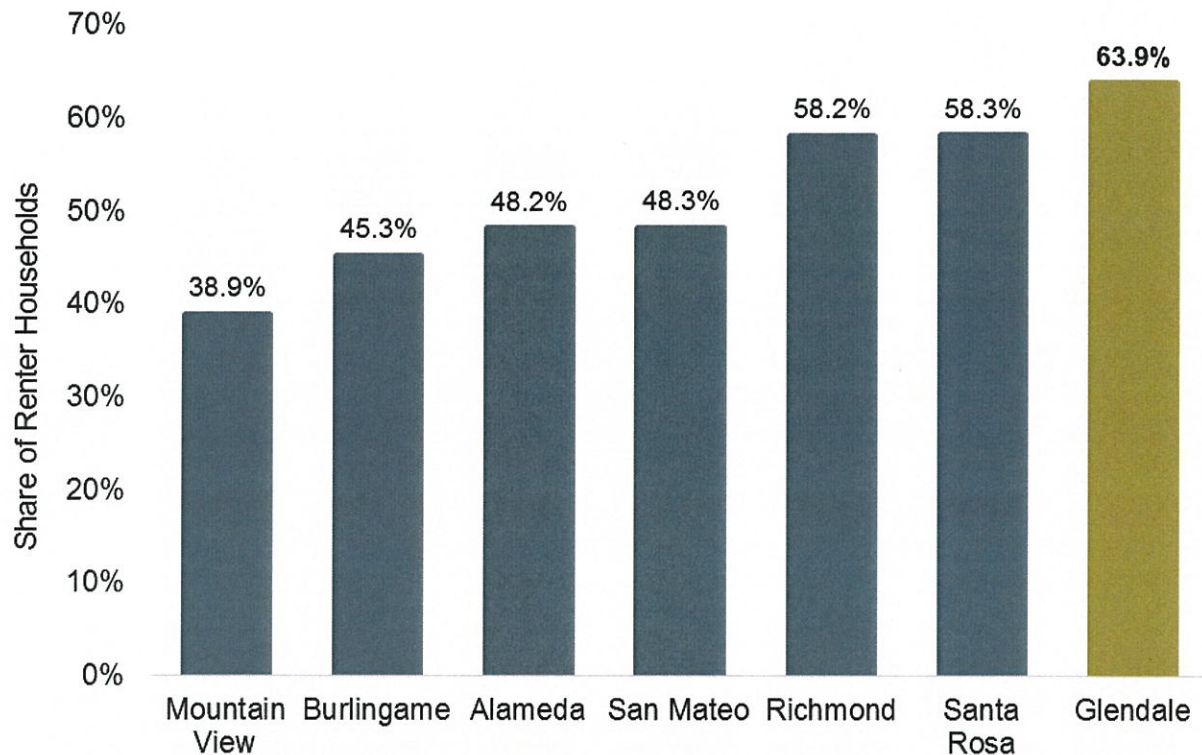
#### **Rent Control/Rent Stabilization:**

Rent control/rent stabilization establishes a base rent level for particular occupancies in multi-family units. It permits automatic or inflationary increases on an annual basis, and most programs have provisions for a "fair market rate of return" increase upon showing that a reasonable investment may not be financially feasible at rent control levels. As seen in Figure 17 below, only a small handful of states in the nation have rent control, many of them being the high cost states previously highlighted in Figures 2 and 3. Most of the remaining states specifically prohibit rent control while a small number remain neutral on the issue.



Figure 17

Figure 18: Percent of Renter Occupied Households that are “Cost-Burdened”, 2010-2014



Source: U.S. Census Bureau, American Community Survey 2010 – 2014, B25070

Additionally, certain questions were asked of the rent stabilization program for the City of Los Angeles. Answers to those questions are provided below. In general, the Los Angeles Rent Stabilization Ordinance applies to properties built before October 1, 1978. The law covers allowable rent increases, the registration of rental units, the legal reasons for eviction, and the types of evictions that require tenant relocation assistance.

- The Los Angeles Rent Stabilization Ordinance (RSO) covers 66% of LA’s inventory of rental units, impacting approximately 640,000 housing units.
- From 2000–2007, approximately 20,000 rental units were removed from the RSO and are no longer regulated.
- All rent increases allowed under the RSO program have been issued pursuant to annual Consumer Price Index increases.
- Because of program structure and fears of economic uncertainties by landlords, tenants in RSO units have been found to have had more frequent rent increases than tenants in non-RSO units.

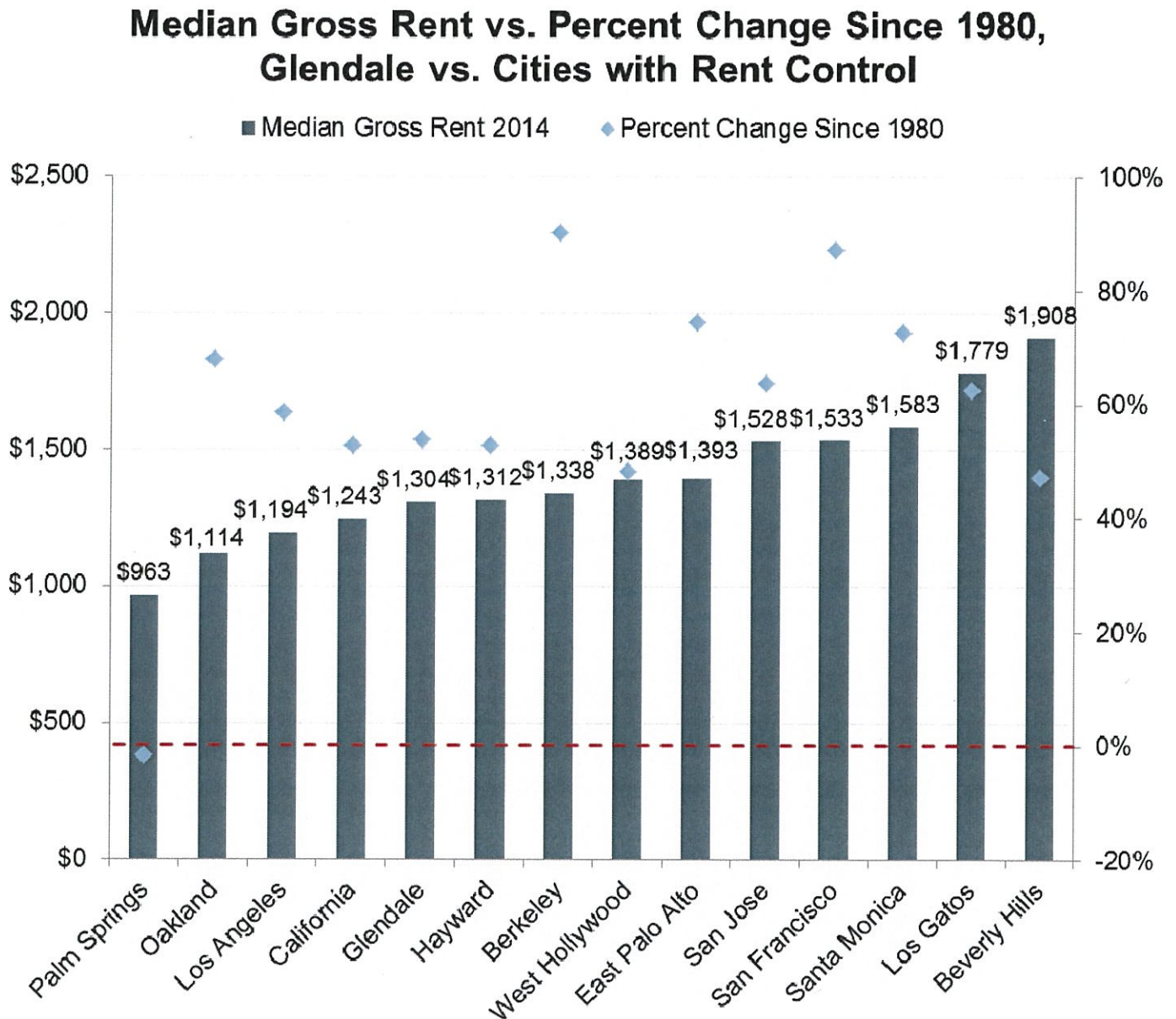
Staff has also conducted further research and has found a 2009 report issued by the City of Los Angeles that examined the City’s RSO and looked to evaluate the effectiveness, strengths and weaknesses of the program. The report is attached as Exhibit 4. Highlights of the self-evaluation include:

- The RSO program touches a large segment of households in Los Angeles, most of whom are at the lower end of income distribution and protects them against rapid rent increases and arbitrary evictions.

- The RSO program is limited in that it does not address the overall scarcity of housing and housing that is affordable in Los Angeles and provides little rent savings for short-term tenants, with large administrative burdens placed upon owners.
- While the purpose of the RSO is to protect tenants from excessive rent increases yet allow owners a reasonable rate of return on investment, it is a difficult balance to achieve in a rental market with both long-term decline in renter incomes and inflation in housing prices.
- Owners of small rental properties are the least profitable segment of the RSO and have the weakest grasp of financial issues related to the properties, and are thus ill-equipped to deal with paperwork required under the RSO program.
- The reduced level of rent paid by long-term RSO tenants can have a significant impact on small property owners for whom a single unit provides a quarter to half of total rent revenue.
- The rent differential between RSO and non-RSO units ranges from a high of \$500 to virtually no difference.
- With regards to long term tenant occupancies, if owners increase rent every year by the amount allowed under the RSO, rents are unlikely to be more than 35% less than market rates.
- Owners representing over 70% of the RSO inventory report that they do not get a reasonable return on their investment from RSO properties.
- Returns on investments for landlords are greatly influenced by when properties were purchased. Many recent purchasers have incurred mortgage obligations that leave little space for cash flow or investment.



Figure 19: Median Gross Rent vs. Percent of Change 1980 2014



Staff also tested rent control programs in other cities to gauge how effective it was in controlling both the change in rent over time and gross rent. Figure 19 shows both variables. With the exception of Palm Springs who has an extremely stringent rent control program, Glendale's percentage of increase is similar or less than other comparison cities with a rent control program. As noted on April 26, gross rent is slightly higher than the City of Los Angeles and the California average; however, lower than several others. Glendale median gross rents (\$1,304/mo.) are also lower than our neighboring cities of Burbank (\$1,459/mo.) and Pasadena (\$1,544/mo.), neither of which have a rent control program.

**Just Cause Eviction:**

Questions were also raised about Glendale's Just Cause for Eviction (JCE) Ordinance (GMC Chapter 9.30) and whether certain protections could be added to help support renters in Glendale. The existing JCE Ordinance outlines twelve legal reasons for eviction and issues relating to the termination of a tenancy. The law currently requires a landlord to pay relocation expenses if the eviction meets certain conditions. Specifically, staff was asked:

1. Can a municipality enact an ordinance requiring a longer period of time for a rent increase notice than what state law provides?
2. Can the City enact an ordinance to require a landlord to pay relocation expenses when they are proposing to raise rents by more than 10% and the tenant determines the increase to be unaffordable and must move?
3. Can the City require a housing inspection when a landlord seeks to raise rents on a unit(s) by more than 10%?

1. As to whether a municipality can enact an ordinance requiring a longer period of time for notice of a rent increase, California statutory law and case law has decided that question in the negative. California Civil Code Section 827 sets forth the required notice a landlord must provide a tenant prior to raising the rent and California case law has determined that this statute preempts local governments from enacting a longer notice period.

2. A requirement to pay relocation expenses is generally within municipalities' police powers. What is proposed would be novel since it would not be a relocation expense required as a result of an eviction, but rather, a requirement to pay relocation as a result of a voluntary choice on the part of the tenant to not continue with the tenancy due to a proposed rent increase. Thus, in an effort to insulate such a policy decision statutory challenges, and if the Council is inclined to adopt such a requirement, it may want to consider imposing it only on units constructed before February 1, 1995.

3. With respect to an inspection requirement, the City Attorney's office is of the opinion that the City can lawfully enact a requirement that a rental unit be subject to inspection when a landlord proposes to increase a tenant's rent by more than 10%. Such an inspection requirement would have to satisfy Fourth Amendment requirements, including either through consent or by way of inspection warrant. Because of the risk associated with tying the inspection to a proposed rent increase, Council may desire to examine a more standardized rental inspection program.

**PLAN FOR MOVING FORWARD:**

As noted previously, most experts agree that the answer to addressing housing affordability issues rely on policymakers to pursue an "all of the above" approach requiring a multi-pronged effort on multiple levels to effectuate change. Efforts such as identifying new local funding sources for affordable housing development, new zoning policies to facilitate both market rate and affordable housing production, and lobbying for changes at the state and federal level for a greater and more diverse supply of affordable housing policies and programs that balance the needs of communities.

While rent control/rent stabilization programs can have tremendous symbolic value, they have generally proven costly to administer, undermined by existing State law, and do not necessarily

achieve the goal of housing affordability. As noted during the discussion on April 26<sup>th</sup>, the California cities that do have rent control still face considerable affordability challenges (e.g. San Francisco) because occupancy of a rent controlled unit is not based on a means-test. Recognizing the limited practical value of a rent control program, Council directed staff to develop solutions for the City's housing challenges. To that end, staff has developed an 8-Point Strategy to improve affordability for Housing Authority consideration and to further the ongoing discussion:

1. Implement a development impact fee (DIF) for all new residential development in Glendale. Similar to the impact fees for parks and library amenities, identifying the nexus between market-rate residential development and the need for affordable housing could provide justification for the City to adopt housing impact fees that can then be used to develop affordable housing. Numerous cities within the State have implemented such a fee. Indeed, some cities (mainly in Northern California), have required the fee for new commercial developments as well, linking it to a jobs/housing imbalance. This commercial fee application is less frequently applied by cities because of concerns with business attraction and retention issues.
2. Adopt an inclusionary zoning ordinance on a city-wide basis for new, ownership housing development. Currently, there is no city-wide inclusionary housing ordinance; the only requirements exist in the former San Fernando Road Redevelopment Project Corridor Project Area as a result of former redevelopment housing law. Due to legal limitations set in Costa Hawkins court rulings, inclusionary housing in this former redevelopment project area, as well as all other city-wide areas, can only apply to homeownership units. Rental unit development is exempt from all inclusionary housing ordinances. Yet with the possibility of expanding small-lot subdivisions and condominium conversions, there is an opportunity for this tactic to prove at least marginally valuable.
3. Continue boldly with existing affordable housing programs and projects through City/Housing Authority operations of the Section 8 Rental Assistance program, affordable housing development, and density bonus zoning regulations.
4. In conjunction with the League of California Cities, draft legislation that would reinstate the Low-Moderate Housing funding stream that existed under redevelopment law, and which rewards those communities that actively develop new affordable housing.
5. Within the context of the Community Planning process, identify and designate specific "workforce housing incentive zones" in specific neighborhoods that offer existing amenities like transit access, open space and circulation; and designate meaningful financial resources from the City that may be leveraged with the private sector.
6. Develop and place on the ballot an affordable housing bond targeting the increase of affordable housing stock by 20% (with a mix of more than 1,200 rental and first-time homebuyer units). Such a bond could cost the average single-family homeowner \$100 per year, the average renter \$2 per year (on a per unit basis), and \$0.05 per square foot on non-residential property owners over thirty years.
7. Promote greater density in many parts of the City, with the intention of increasing the overall number of housing units. Options include: increasing FARs and height limits, reducing parking requirements, decreasing minimum unit sizes, and relaxing limitations on accessory dwelling units.



8. Implement a business registration/license fee for Glendale multifamily property owners. Locally, the cities of Pasadena, Burbank and Los Angeles implement such a fee. The fee may be used to fund a rental housing inspection program for multifamily units in Glendale. Such a program could help ensure that residents have available to them decent, safe and sanitary housing that is inspected on a consistent and systematic basis.

## **ALTERNATIVES**

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Alternative 1: The City Council/Housing Authority may elect to receive and file the report as submitted;

Alternative 2: The City Council/Housing Authority may elect to provide staff further direction as deemed necessary;

Alternative 3: The City Council/Housing Authority may elect to consider any other alternative not proposed by staff.

## **CAMPAIGN DISCLOSURE**

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Not applicable at this time.

## **EXHIBITS**

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1. April 26, 2016 Joint City Council/Housing Authority Staff Report
2. LAO Executive Summary
3. Miscellaneous Housing Report Excerpts
4. 2009 City of Los Angeles Economic Study of Rent Stabilization Ordinance
5. L.A. County Homelessness Strategies

## M O T I O N

Moved by Council Member \_\_\_\_\_,  
seconded by Council Member \_\_\_\_\_, that the  
Council hereby receives and files the follow-up informational report on rent control, rent  
mediation and other citywide rent affordability related issues, and provides staff further  
direction as follows:

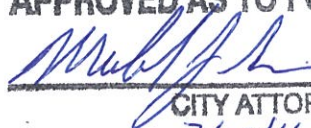
Vote as follows:

Ayes:

Noes:

Abstain:

Absent:

APPROVED AS TO FORM  
  
CITY ATTORNEY  
DATE 7/21/16

M O T I O N

Moved by Authority Member \_\_\_\_\_,  
seconded by Authority Member \_\_\_\_\_, that the  
Housing Authority receives and files the follow-up informational report on rent control,  
rent mediation and other citywide rent affordability related issues, and provides staff  
further direction as follows:

Vote as follows:

Ayes:

Noes:

Abstain:

Absent:

APPROVED AS TO FORM

  
CITY ATTORNEY

DATE 7/21/16





CITY OF GLENDALE CALIFORNIA  
JOINT REPORT TO THE CITY COUNCIL AND  
HOUSING AUTHORITY

April 26, 2016

**AGENDA ITEM**

Agenda Item: Report

Informational Report Summarizing Past Efforts and Discussions on Rent Control, Rent Mediation, and Other Citywide Rent Affordability Related Issues

- (1) City Council Motion To Receive and File Report Or Provide Staff Further Direction As Deemed Necessary;
- (2) Housing Authority Motion To Receive and File Report Or Provide Staff Further Direction As Deemed Necessary.

**AUTHORITY ACTION**

Public Hearing [   ]	Ordinance [   ]	Consent Calendar [   ]	Action Item [   ]
Report Only [ X ]			
Approved for <u>April 26, 2016</u> calendar			

**ADMINISTRATIVE ACTION**

**Submitted**

Philip S. Lanzafame, Director, Community Development .....

Signature

**Prepared**

Peter Zovak, Deputy Director of Housing, Community Development...

**Approved**

Scott Ochoa, City Manager .....

**Reviewed**

Michael J. Garcia, City Attorney .....

Jess Duran, Director, Community Services and Parks .....

## **RECOMMENDATION**

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The Department of Community Development recommends that the Glendale City Council (City Council) and Glendale Housing Authority (Housing Authority) receive and file this informational report on City of Glendale past efforts and discussions on rent control, rent mediation, and other citywide rent affordability related issues.

## **SUMMARY**

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The purpose of this report is to provide a brief summary of past efforts and discussions made/held by the City related to rent control, rent mediation, and other citywide rent affordability related issues.

This report comes at a time when the City Council and Housing Authority have been hearing increasing concerns from residents/constituents on the impact housing costs are having on households, particularly lower income households. According to Glendale Water and Power, residential vacancy rates for apartments in Glendale have consistently been below 2% for the last five years, with the March 2016 report set at a vacancy rate of 1.38%. Also, census data for the City, State and the country show a demand for affordable housing across the board for lower income households.

Through the affordable housing programs and projects directly offered over the years, the City of Glendale (City), in partnership with the Housing Authority, continues to demonstrate its commitment to provide balanced, quality housing for lower income residents. The City has provided a variety of housing options (rental, homeownership, emergency shelter, transitional housing) for the Glendale community and continues to do so despite the challenges in accessing funding and finding appropriate sites for development.

In addition to its work locally, the City has been active in lobbying efforts on legislative measures at the state and federal level that would result in more affordable housing production. The City of Glendale's Legislative Platform, adopted by Council in 2013, outlines the City's position on legislative matters and serves as the foundation for the City to support, remain neutral, or oppose positions on legislation. This Legislative Platform has allowed the City of Glendale to advocate for state and federal legislation and act quickly when advocacy is needed, particularly in the area of affordable housing. By supporting measures increasing the availability of alternative funding sources, the City has been able to successfully leverage these sources of funding with local projects/programs to expand opportunities for Glendale residents. Advocating for more Section 8 funding from HUD, and more tax credits through the State has been a critical goal for the City. Also, identifying a local source of funding for affordable housing has been a goal of the City as well and staff continues to explore options for future City consideration.

Finally, with regards to the issue of rent control and rent mediation, back in 2001, the City convened a committee of stake holders within the community to look at the housing challenges facing the Glendale community at that time. Among other things, the year-long work of the committee focused on issues facing the rental community. After much debate and discussion, the recommendation by the committee was to look at alternative methods such as rent mediation and just cause eviction, in lieu of rent control, as tools to help address the then demands of the rental market.

## **FISCAL IMPACT**

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This report is for informational purposes only. There are no fiscal impacts.

## **BACKGROUND/ANALYSIS**

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### **Census Data:**

As demonstrated in census data and in existing affordable housing programs and projects in Glendale, the demand for affordable housing is large. This dilemma is not unique to Glendale as the same concerns are being heard in cities neighboring Glendale and throughout the state and some parts of the nation. According to a recent report from the State Legislative Analyst Office, an average California home costs approximately 2½ times the average national home price (\$440,000 versus \$180,000) and the average California rent is approximately 50% higher than the rest of the country (\$1,240 versus \$840). According to the report, even California's least expensive housing markets are more expensive than the national average.

According to the Census 2014 Population Estimator, Glendale has a population of approximately 200,000 people. There are approximately 75,000 housing units within the City. Of that, approximately 25,700 are owner occupied and 45,300 are renter occupied, for an owner to renter ratio of approximately 36% to 64% (approximately 5% were vacant at the time of the survey). The most common housing problems are housing cost burden (overpayment) and overcrowded housing, which are often related. These problems apply to all levels of low income renters and to a lesser extent to low income homeowners.

Cost burden/overpayment is defined as households paying more than 30 percent of their gross income on housing related expenses. This includes rent or mortgage payments and utilities. High housing costs can cause households to spend a disproportionate percentage of their income on housing. This may result in repayment problems, deferred maintenance or overcrowding. Severe overpayment is defined as paying 50% or more of the household's gross income on housing related expenses.

According to the 2009 ACS information presented in the SCAG Existing Housing Needs Data Report, 53.3% of the total households in Glendale experience overpayment. Within most of the City's non-mountainous census tracts up to 72% of households are experiencing a cost burden that is greater than 30%.

Cost burden is the greatest challenge for small related renter households and for extremely low income elderly households. Extremely low income renter households tend to have multiple housing problems that extend beyond either cost burden or overcrowding individually. Those households with a senior citizen member are more likely to be an extremely low income household.

### **Affordable Housing Production:**

Despite the daunting task, the City of Glendale has gone to great lengths to provide as much affordable housing as possible. Efforts include, but are not limited, to the following:

- The Housing Authority has supported and funded development of numerous affordable housing projects using affordable housing funding since its inception in 1975. These projects have provided new affordable rental housing for seniors, families, veterans and special needs populations as well as homeownership for first time home buyers. To date,

the Housing Authority has developed nearly 1,300 units of affordable housing for low income renters and homeowners.

- The Housing Authority has leveraged approximately \$100 million in other agency funding to develop affordable housing projects in Glendale.
- The Housing Authority oversees a "High Performing" Section 8 Housing Choice Voucher program that serves approximately 3,042 households annually at a cost of approximately \$24 million. Nearly 100% of these households served under Section 8 are extremely low income.
- The Housing Authority oversees a Continuum of Care Program for homeless persons. The City of Glendale is one of only three cities in the County of Los Angeles that operates its own homeless Continuum of Care and is eligible to receive Continuum of Care funds directly from HUD in the amount of \$2.7 million annually. On an annual basis, approximately 2,097 unduplicated persons are served through Glendale's Continuum of Care through intensive case management, mental health services, substance abuse programming, employment, and housing services.

The Housing Authority currently has 130 units of scattered site apartments in the City of Glendale for homeless persons who continue to utilize ongoing case management. CoC currently has one Transitional Housing program for families who are fleeing domestic violence. This program provides a short term subsidy for families up to 12 months and case management with linkage to employment services and ultimately to independent living arrangements.

- The City has supported and approved 14 Density Bonus Housing Applications providing a total of 170 affordable housing units for lower income households.
- The Housing Authority has funded 228 First Time Home Buyers loans assisting moderate income buyers to purchase their own home.
- The Housing Authority has funded over 650 single and multi-family rehabilitation loans/grants assisting in the preservation of over 1,600 housing units occupied by low and moderate income households in Glendale.
- The City contracts with the Housing Rights Center to provide free telephone and in-person counseling to both tenants and landlords regarding their rights and responsibilities under California law and local city ordinances. Housing Counselors are trained in landlord/tenant law and are able to inform clients of a wide-range of actions they can take to enforce their rights.

Most recently, despite the elimination of redevelopment by the State of California and the resulting loss of a substantial local funding source for affordable housing development, the City/Housing Authority have continued to identify new revenue sources for ongoing affordable housing efforts. This includes restructuring of existing development projects to generate and accelerate housing program income and issuing \$7.5 million in housing bonds for future affordable housing project development.



**Affordable Housing Advocacy:**

The City's 2016 Legislative Platform was voted on by the City Council on March 22, 2016. On the agenda of legislation to support were four items pertaining to affordable housing production. They included:

- AB 2734 – A bill to require the Dept. of Finance to determine the state general fund savings for the fiscal year as a result of the dissolution of redevelopment agencies, and upon appropriation, 50% of that amount be allocated to the Dept. of Housing & Community Development to create an equitable funding formula that is geographically balanced and would take into account factors such as poverty rates and lack of supply of affordable housing for people with low/moderate incomes in local jurisdictions.
- AB 2817 – A bill that would increase the aggregate housing credit dollar amount that may be allocated among low-income housing projects under the low-income housing tax credit program pursuant to which the California Tax Credit Allocation Committee provides procedures and requirements.
- SB 873 - A bill that would allow a taxpayer to sell all or a portion of a low income housing tax credit to one or more unrelated parties, with certain conditions. The bill would also require the California Tax Credit Allocation Committee to enter into an agreement with the Franchise Tax Board to pay any costs incurred by the Franchise Tax Board in administering these provisions.
- "No Place Like Home" Initiative – An initiative to assist local communities in preventing and addressing homelessness. The proposals will empower local governments with additional resources and flexibility to better serve homeless individuals and families, increase access to affordable housing, address the effects of income inequality and, extend proven programs for homeless who are either disabled or in need of mental-health assistance. Funding would be used for:
- \$2 billion bond to construct permanent supportive housing for chronically homeless persons with mental illness.
  - \$200 million, over 4 years, to provide supportive housing in the shorter-term, rent subsidies, while the permanent housing is constructed or rehabilitated.

While these measures described above do not and cannot meet all of the demand for affordable housing, it does demonstrate that the City Council/Housing Authority are committed to supporting measures at the state and federal level that could provide benefits to Glendale residents.

**2001 Committee Work**

In early 2001, the Glendale City Council and Housing Authority directed staff to assess options for addressing affordability issues associated with the private rental housing market. The discussions and work began in 2001 and extended into 2004. Over the years since then, subsequent City Council/Housing Authorities have requested informational staff reports and/or memorandums on that work product along with any applicable updates. The last staff report

update came in December 2008. To date, no further actions have been taken in these subsequent updates.

The discussion began in January 2001 with a review of the Glendale rental housing market, followed by an evaluation of the impacts to implementing rent control/rent stabilization, the implementation of a voluntary rent mediation program, and culminated with the passage of the Just Cause Eviction (JCE) ordinance. Table 1 below, details the chronology of the discussion and actions that have taken place to date. (The discussions have been detailed and exhaustive. Due to the volume of work done, it was not feasible to attach all the reports as an exhibit. As an alternative, a binder containing the reports was provided in the Council/Housing Authority office for review in advance of this meeting).

Of all of the proposals cited below, only the JCE Ordinance is in effect today. No action was taken on the establishment of rent control. A voluntary rent mediation program, called the "12/12 Rent Disclosure Program" and partially funded by the City, was established in 2002. However, it soon failed due to the lack of participation by landlords.

**Table 1**  
Chronology of Past Actions

<u>MONTH</u>	<u>YEAR</u>	<u>ACTION</u>
January	2001	Report on rental housing market
September	2001	Report on rent stabilization
November	2001	Report regarding Rent Mediation Commission Ordinance
January	2002	Report and City Council endorsement of voluntary mediation program
February	2002	Report and motion approving \$15,000 for community outreach
August	2002	Just Cause Eviction Ordinance adopted
November	2002	Initiative petition launched by Property Owners for Property Rights group to essentially prohibit rent control or any pricing limitations on the sale or rental of property
January	2003	Just Cause Eviction Ordinance amended
February	2003	Report to convene Rental Housing Issues Working Committee
June	2003	Lawsuit filed challenging initiative petition prohibiting any form of rent control
November	2003	Final report and recommendations from Rental Housing Issues Working Committee
December	2003	Report on Rental Housing Issues Working Committee task matrix
December	2003	Report on amendment to Just Cause Eviction Ordinance
February	2004	Report regarding (1) Mandatory or Model Residential House Leases; (2) Repeal of Just Cause Eviction Ordinance; and (3) Consideration of Amendments to JCE
March	2004	Lawsuit challenging initiative petition to prohibit rent control successful -writ granted based upon untimely signatures submitted

### Rent Control

As one of the tools to address the issue of escalating rents and the impacts it has on low and fixed income individuals, in 2001 the City Council/Housing Authority explored the concept of rent control/stabilization for the City. While this was not the first time rent and affordability within the City was raised as a concern amongst renters, it was the first time that the Council/Housing Authority conducted serious discussions about escalating rents in Glendale.

The idea of regulating rents has received attention throughout the United States beginning primarily in the 1940's as a result of concerns with the national economy during World War II (Emergency Price Control Act of 1942). With the end of the war and the normalization of the economy, the Act was allowed to expire in 1947; however, it was replaced with the Federal Housing and Rent Act that remained in effect for a number of years before control was eventually given to states and cities. It was at this time that New York City took control over its local program and it has since become the longest running rent control program in the United States.

Rent control/stabilization establishes a base rent level for particular occupancies in multi-family units. These levels are not uniform across all units, so they typically vary per project. It permits automatic or inflationary increases on an annual basis, and most programs have provisions for a "fair market rate of return" increase upon showing that a reasonable investment may not be financially feasible at rent control levels. It is important to note that rent control is not a mechanism to provide affordable housing, as it is not based upon a renter's income or ability to pay. In fact, many of the cities with rent control (San Francisco, Los Angeles, and Santa Monica) still struggle with the issue of affordability despite rent control measures having been in place for some time now. Rent control simply provides a rent standard for units based upon a rent schedule that is frozen at a particular point in time (most often a year or so prior to adoption of an ordinance) and allows rent increases per some set standard, typically Consumer Price Index (CPI). While the tenants may receive a slight rollback or reduction in rent at the initiation of a rent control ordinance and the security of an objective and/or measured method in which rent increases are tied to, it can often take time in terms of occupancy of the same unit, combined with increasing household income, before a unit may become "affordable" to a resident. With even more time with that same tenant in the same rent controlled unit, the unit may then reach a point that it is considered below market rate. At a subsequent vacancy, the unit rent then is reset to a new market rate rent level.

In California, approximately a dozen cities have adopted rent control either through charter amendment, ballot initiative, or municipal code ordinance over the years. According to staff research, no new city has adopted rent control for approximately the last 30 years. The latest city to consider the adoption of rent control was the City of Richmond. After a ten month study, a rent control ordinance was adopted by the City on a 6-1 vote in August 2015. Subsequently, a referendum petition protesting the adoption was submitted and qualified for a ballot vote. In lieu of placing the item on the ballot, the city elected to rescind the ordinance in November 2015 on a 7-0 vote.

For the purposes of rent control, up to approximately 45,000 housing units in Glendale could potentially be subject to rent control provisions, if ever enacted. That number is expected to be lower, possibly by as much as 5,000-7,000 units, because there are certain exemptions in existing state law with regards to rent control. The Costa-Hawkins Act (AB 1164) limits the ability of cities to enact rent control by providing the following unit exemptions:

1. Housing constructed after 1995 must be exempt;
2. New housing that was already exempt from a local rent control ordinance in place before February 1995 must remain exempt;
3. Single family homes and condominium units must be exempt; and
4. Rental property owners must have the ability to establish their own rental rate when units change tenancy.

Another law that affects the number of units under rent control and, according to recent media reports, is being used more and more frequently in California is the Ellis Act (CA Gov. Code Section 7060). This law allows landlords the right to evict tenants of a rent control building and remove the units from the rent control ordinance if their intent is to change the "use" of the building. Most Ellis Act evictions are used in order for landlords to convert rental units to condominium projects.

Rent control typically requires that a fee be levied against multi-family properties in order to support monitoring and administering the program. Depending upon the size and scope, new



staffing levels must be secured for this particular program. In addition to staffing, a rent control board or commission is typically required to be formulated to rule on and provide policy direction for the program and to hear appeals on program decisions and disputes.

A rent control population of the potential size of approximately 45,000 units would place Glendale in the upper category in terms of cities with rent control programs. As can be seen in the sampling of rent control cities in Table 2 below, that would place Glendale ahead of cities such as Santa Monica with a program size and budget of approximately 26,000 units/\$4.7M, and behind Los Angeles and San Francisco with program sizes and budgets of 638,000 units /\$15.5M and 171,000 units/\$6.7M respectively.

Table 2  
 Rent Control City Sampling

City	Year Implemented	Qualifying Units	Employees Budgeted	Annual Cost	Annual Revenue	Registration Fee Per Unit
Los Angeles	1978	638,000	82	\$15,571,892	\$15,637,380	\$25
San Francisco	1979	171,000	32	\$6,700,000	\$6,156,000	\$36
Santa Monica	1979	26,335	25	\$4,755,170	\$4,646,090	\$175
Berkeley	1978	21,000	21.5	\$4,245,000	\$3,900,000	\$194
West Hollywood	1984	16,895	12	\$2,394,940	\$2,027,400	\$120
East Palo Alto	1988	2,507	2.5	\$650,000	\$586,638	\$234
Richmond	2015/Failed	9,912	N/A	\$2,245,171	N/A	N/A

No administration studies were conducted when the item was previously studied in Glendale as it did not proceed far enough to quantify. Early in the Glendale process, an initiative petition to prohibit rent control was launched by a group called "Rental Property Owners for Property Rights". The petition was submitted for validation; however, a lawsuit challenging the petition was filed based upon the signature collection methodology. Eventually, the lawsuit was successful and a writ was granted denying the initiative based upon the untimely submission of signatures.

Based upon the information submitted at the time, the City Council elected not to pursue rent control and looked at other possible alternatives to address rent concerns.

#### Rent Mediation

As an alternative to rent control and in response to concerns about possible landlord retaliation to tenants reporting code violations for their units, a rent mediation program was pursued by the City Council. The program concept was to provide a City operated mechanism for review of rent increases, eviction notices, etc., in an effort to limit excessive increases or retaliatory actions that cause evictions. In response to a proposal from the then formed Glendale Apartment Association, a voluntary rent mediation was formulated in early 2002 and partially funded by the City (\$15,000 for education and outreach funded by CDBG). In August 2002, the voluntary program was discontinued as the Glendale Apartment Association was unable to solicit voluntary compliance with the adopted program.

#### Just Cause Eviction

One measure that was adopted and still in effect today is the Just Cause Eviction Ordinance.

The JCE Ordinance was designed to provide well-maintained living units and discourage retaliatory evictions by landlords. The ordinance provides twelve (12) legal reasons for eviction and other issues related to the termination of a tenancy. The ordinance also provides guidance under which landlords must provide relocation assistance to tenants forced to move under certain conditions.

Both the City Attorney's Office and Community Development Department (Housing) receive multiple calls monthly from both tenants and landlords regarding the JCE, whose concerns may not rise to the level of an investigation, but nonetheless both utilize the ordinance to resolve housing disputes. When warranted, the JCE is enforced by the City, via the City Attorney's Office. To date since adoption, approximately 30 cases have been investigated by the City Attorney's Office and only one (1) case has been prosecuted.

#### **ALTERNATIVES**

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Alternative 1: The City Council/Housing Authority may elect to receive and file the report as submitted;

Alternative 2: The City Council/Housing Authority may elect to provide staff further direction as deemed necessary;

Alternative 3: The City Council/Housing Authority may elect to consider any other alternative not proposed by staff.

#### **CAMPAIGN DISCLOSURE**

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Not applicable at this time.

#### **EXHIBITS**

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None

# California's High Housing Costs

## Causes and Consequences



MAC TAYLOR • LEGISLATIVE ANALYST • MARCH 17, 2015

## EXECUTIVE SUMMARY

*California's Home Prices and Rents Higher Than Just About Anywhere Else.* Housing in California has long been more expensive than most of the rest of the country. Beginning in about 1970, however, the gap between California's home prices and those in the rest country started to widen. Between 1970 and 1980, California home prices went from 30 percent above U.S. levels to more than 80 percent higher. This trend has continued. Today, an average California home costs \$440,000, about two-and-a-half times the average national home price (\$180,000). Also, California's average monthly rent is about \$1,240, 50 percent higher than the rest of the country (\$840 per month).

*Building Less Housing Than People Demand Drives High Housing Costs.* California is a desirable place to live. Yet not enough housing exists in the state's major coastal communities to accommodate all of the households that want to live there. In these areas, community resistance to housing, environmental policies, lack of fiscal incentives for local governments to approve housing, and limited land constrains new housing construction. A shortage of housing along California's coast means households wishing to live there compete for limited housing. This competition bids up home prices and rents. Some people who find California's coast unaffordable turn instead to California's inland communities, causing prices there to rise as well. In addition to a shortage of housing, high land and construction costs also play some role in high housing prices.

*High Housing Costs Problematic for Households and the State's Economy.* Amid high housing costs, many households make serious trade-offs to afford living here. Households with low incomes, in particular, spend much more of their income on housing. High home prices here also push homeownership out of reach for many. Faced with expensive housing options, workers in California's coastal communities commute 10 percent further each day than commuters elsewhere, largely because limited housing options exist near major job centers. Californians are also four times more likely to live in crowded housing. And, finally, the state's high housing costs make California a less attractive place to call home, making it more difficult for companies to hire and retain qualified employees, likely preventing the state's economy from meeting its full potential.

*Recognize Targeted Role of Affordable Housing Programs.* In recent decades, the state has approached the problem of housing affordability for low-income Californians and those with unmet housing needs primarily by subsidizing the construction of affordable housing through bond funds, tax credits, and other resources. Because these programs have historically accounted for only a small share of all new housing built each year, they alone could not meet the housing needs we identify in this report. For this reason, we advise the Legislature to consider how targeted programs that assist those with limited access to market rate housing could supplement broader changes that facilitate more private housing construction.

*More Private Housing Construction in Coastal Urban Areas.* We advise the Legislature to change policies to facilitate significantly more private home and apartment building in California's coastal urban areas. Though the exact number of new housing units California needs to build is



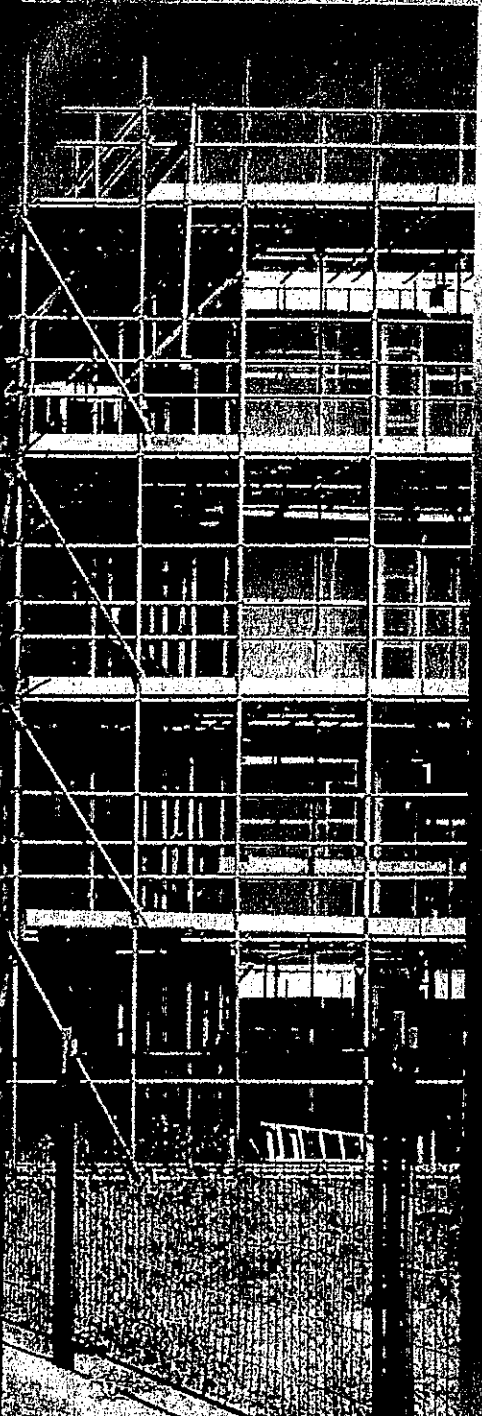
## AN LAO REPORT

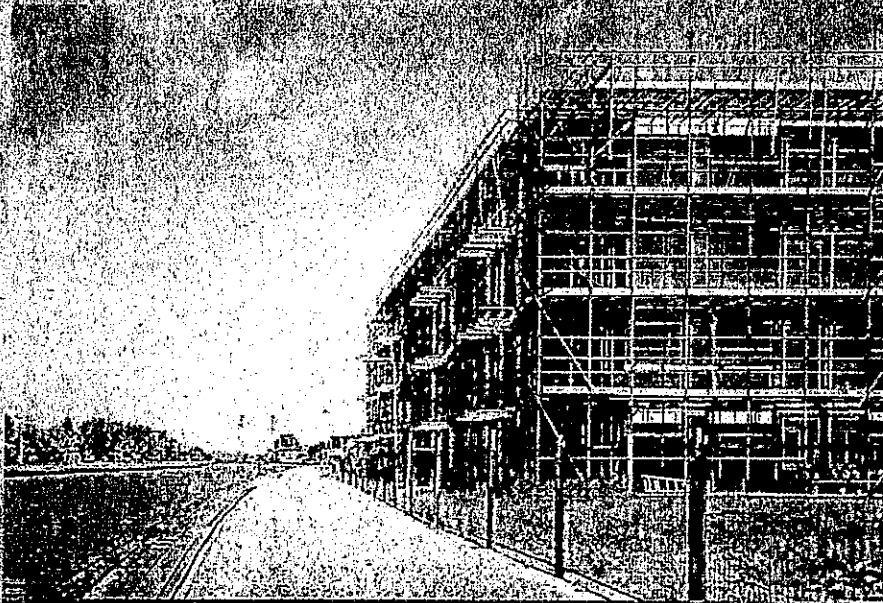
uncertain, the general magnitude is enormous. On top of the 100,000 to 140,000 housing units California is expected to build each year, the state probably would have to build as many as 100,000 additional units annually—almost exclusively in its coastal communities—to seriously mitigate its problems with housing affordability. Facilitating additional housing of this magnitude will be extremely difficult. It could place strains on the state's infrastructure and natural resources and alter the prized character of California's coastal communities. It also would require the state to make changes to a broad range of policies that affect housing supply directly or indirectly—including policies that have been fundamental tenets of California government for many years.

# CURRENT STATE OF THE CALIFORNIA HOUSING MARKET

A COMPARATIVE  
ANALYSIS

MARCH 2016





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## Overview

California's current housing market suffers from a shortage of supply and the lingering effects of the housing crash and the Great Recession.

- Homeownership rates, which have historically been low compared to rates in other states, have been declining throughout California, as many residents - especially those with recent foreclosures on record - remain unqualified for mortgage loans. In 2014, California ranked 49<sup>th</sup> in terms of homeownership, as only 53.8% of homes were owner-occupied<sup>1</sup>.
- Housing costs are high relative to incomes and have been increasing in recent years for both homeowners and renters. California's average homeowners spent 25.4% of their household income on housing costs in 2014, more than homeowners in any other state.
- Housing remains overcrowded as the proportion of renter-occupied housing units with more than one person per bedroom grew from 12.7% in 2007 to 13.2% in 2014.
- Home prices are more expensive than in all other states, particularly in major metropolitan areas. Diminishing levels of affordability have already driven many low-income and middle-income households to migrate to more affordable states.
- Housing remains in short supply, placing upward pressure on home prices and reducing levels of affordability. From 2005 to 2015, permits for only 21.5 housing units were filed for every new 100 residents in California, less than any other state except Alaska.

Indeed, California currently ranks near the bottom in terms of its supply of housing relative to population growth. Add that to the increasing demand to live near the coast, to be close to tech hubs, and to be near downtowns, and it's not too surprising that home prices throughout the state continue to rise. In the years to come, the dearth of new homes could exacerbate the problem, making housing even less affordable for many of California's residents.

The cost of development and stringent regulations imposed on developers has contributed to the lack of homebuilding in California. Tough environmental and zoning laws sometimes create an obstacle for homebuilders that are seeking approval for development activities, especially along California's coastal cities. Although these laws reflect good intentions and were enacted to preserve the state's

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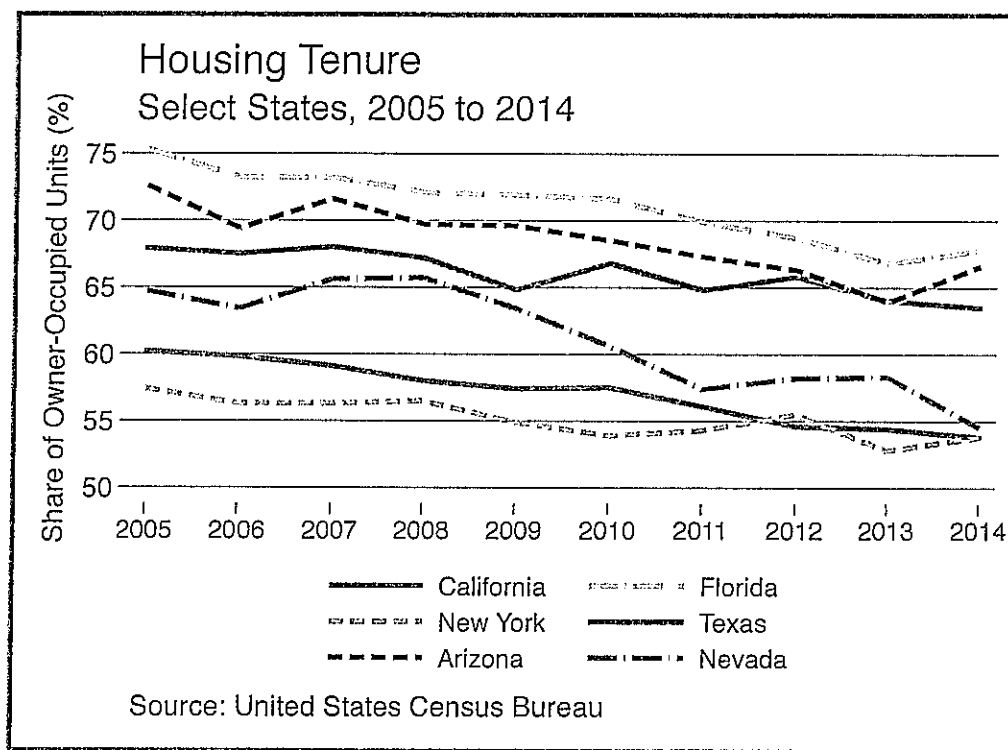
<sup>1</sup> Unless otherwise noted, all statistics in this report are attributed to the U.S. Census.



Next 10

natural land, they are well past due to be reevaluated, as they are often poorly implemented and abused.<sup>2</sup>

This report will provide further evidence that California's residential real estate market needs more housing by showing how the state stacks up against other states. Taken together, these key housing trends explain the economic fundamentals of the housing market and why housing is becoming too expensive for many California residents, laying the groundwork for the decisions and policy changes that need to be made to improve the lives of those living in the Golden State.



<sup>2</sup> A few examples include the Sacramento Senior Homes in the City of Berkeley (2001), the East County Transitional Living Center in the City of El Cajon (2003), the Wagon Wheel Village in the City of Oxnard (2009), and the Parkmerced Development Project in the City of San Francisco (2014).

## Structure of Housing Occupancy

Many households in the state rent rather than own. This is common in states like New York and Massachusetts, where major metropolitan areas attract young professionals who prefer to live near their jobs rather than own homes in more affordable suburbs. Areas like San Francisco, the South Bay, Los Angeles, and San Diego have been attracting more young professionals from out of state in recent years. Migration patterns from 2007 to 2014 indicate that over 52,700 persons over 25 years of age with bachelor's degrees moved to California from other states on net. In contrast, 469,800 persons without bachelor's degrees moved out of California on net.

In 2014, California ranked 49th among all states in homeownership. Proposition 13 has had a negative effect on the homeownership rate because it encourages properties to remain under the same ownership for longer periods of time, making it difficult for new homeowners to enter the market. Move-up buyers can rent out their prior homes and maintain the lower costs associated with the lower assessed values, in comparison to the costs and assessed values for would-be owners were they to sell their homes.

Not only is the homeownership rate in California low, it has also been falling over the last ten years for

**Housing Affordability in Select Metropolitan Areas**

MSA	Housing Affordability Index		Median
	2014	Rank	Home Price(\$)
Youngstown, OH	369.0	1	78,600
Toledo, OH	368.1	2	87,200
Rockford, IL	353.5	3	86,300
Decatur, IL	343.5	4	89,700
Elmira, NY	320.0	5	100,800
Cleveland, OH	285.5	18	122,600
Cincinnati, OH	257.4	33	140,500
Amarillo, TX	230.2	58	144,500
Atlanta, GA	221.7	70	159,500
Tampa, FL	205.6	85	151,500
Dallas, TX	197.7	92	188,300
Chicago, OH	190.3	103	203,900
Albuquerque, NM	182.3	118	177,600
San Antonio, TX	180.4	120	182,100
Houston, TX	180.4	121	198,400
Austin, TX	169.9	134	240,700
Tucson, AZ	169.6	135	175,800
El Paso, TX	168.9	136	140,800
Orlando, FL	168.8	137	180,000
Phoenix, AZ	166.7	140	198,500
Las Vegas, NV	158.8	144	198,000
Washington, DC	147.1	154	383,800
Sacramento, CA	136.9	157	268,700
Denver, CO	135.9	158	310,200
Portland, OR	134.7	160	286,000
Seattle, WA	125.3	163	355,800
Boston, MA	125.3	164	389,800
Inland Empire, CA	117.9	165	273,900
Miami, FL	111.8	167	266,000
New York, NY	108.2	168	1,984,000
San Diego, CA	77.6	171	497,900
Los Angeles, CA	73.0	172	449,500
San Francisco, CA	70.5	173	737,600
Honolulu, HI	67.7	174	682,800
Orange County, CA	65.0	175	687,900
South Bay, CA	64.3	176	860,000

Source: National Association of Realtors

Based on 176 Metropolitan Statistical Areas

various reasons related to the economic cycle. California residents suffered greatly during the housing crash, and the effects of the crash continue to linger. Subprime mortgages were very prevalent in inland regions throughout the state, which caused massive numbers of foreclosures in these areas. An overcorrection of home prices between 2009 and 2013 created bargains for investors, providing them an advantage further fueled by the lack of competition from the many traditional buyers who held foreclosures on record. Many investors converted these homes to rentals and will benefit from low tax rates due to Proposition 13 until they decide to sell.

With few distressed properties now available on the market, residents in middle-income households, many of whom were subprime borrowers during the downturn, are finding it increasingly difficult to become homeowners. In addition to the introduction of much tighter lending standards, metropolitan areas in both the Bay Area and Southern California continue to rank at the bottom in terms of affordability when compared to metropolitan areas throughout the nation. Even inland metropolitan areas such as Sacramento and the Inland Empire are estimated to be less affordable than metropolitan areas in other states, such as Las Vegas, Phoenix, Chicago, Washington, D.C., San Antonio, and Houston.

CoreLogic estimates that 11.4% and 8.7% of homeowners with mortgages in the Inland Empire and Sacramento region, respectively, were still underwater, with negative equity, as of the third quarter of 2015. Housing costs in the Golden State continue to remain elevated for both homeowners and renters when compared to housing costs in other states. Approximately 40.6% of households living in owner-occupied housing units with a mortgage spend 30% or more of their income on housing. Apartment renters in California are also struggling, as 56.8% of households living in rental units spend 30% or more of their income on housing- second only to Florida (57.9%).

Average Percentage of Household Income Spent on Housing								
State	Owner-Occupied				Renter-Occupied			
	Income Spent (%)		Rank		Income Spent (%)		Rank	
	2000	2014	2000	2014	2000	2014	2000	2014
Texas	18.0	19.3	16	24	25.0	30.3	15	15
Arizona	21.0	20.4	40	33	27.2	30.9	42	19
Nevada	22.6	21.6	48	39	26.8	30.0	38	13
Florida	21.4	22.4	43	43	28.8	35.5	50	46
New York	21.7	23.0	45	46	28.0	36.4	47	49
California	23.8	25.4	50	50	28.1	36.0	48	48
Source: U.S. Census Bureau								

Indeed, California continues to have expensive apartment rental rates as well. In 2014, the average apartment rental rate was 35.7% above the national average. In comparison, the State of New York, despite the significantly high rental rates in Manhattan, has an average apartment rental rate that is only 22.9% above the national average.

The high cost of housing has contributed to two notable trends among California households. First, household sizes, which were steeply declining prior to the recession, started to grow larger over the last five years as young adults are living with their parents for longer periods of time. This trend made national headlines during the recession because it affected every state. However, the issue continues to affect California households even as the economy is expanding, particularly with respect to renter-occupied housing units. California had the highest share of renter-occupied housing units with more than one resident per bedroom in 2014 (13.2%).

Proportion of Homes with More than 1 Resident per Bedroom								
State	Owner-Occupied				Renter-Occupied			
	2000 (%)	2007 (%)	2014 (%)	2014 Rank	2000 (%)	2007 (%)	2014 (%)	2014 Rank
Florida	3.7	1.3	1.6	37	12.9	5.2	5.5	40
New York	2.6	1.7	2.0	43	13.6	7.6	8.5	48
Nevada	4.7	1.8	2.2	44	14.5	5.6	6.4	43
Arizona	5.4	3.0	2.4	45	15.4	7.7	7.6	46
Texas	6.3	3.2	3.2	47	15.0	7.3	7.3	45
California	8.6	4.1	3.9	48	23.9	12.7	13.2	50

Source: U.S. Census Bureau

The second notable trend stemming from the high cost of housing is a trend in domestic out-migration: more residents are leaving California than are moving in from other states. An analysis of California's aggregate domestic net migration between 2007 and 2014 shows a net outflow of approximately 625,000 residents (excluding migrants who are enrolled in college and universities, as they may be only temporary residents). This is compared to net positive domestic migration for Texas (975,700), Arizona (261,400), Florida (558,500), and Nevada (102,000) over the same time span. New York also experienced a net domestic out-migration, with a net outflow of 967,400 residents.



Net Domestic Migration, 2007–2014 (in thousands)						
Component	California	Arizona	Florida	Nevada	New York	Texas
<b>Total</b>	-625.0	261.4	558.5	102.0	-967.4	975.7
<b>By Household Income Group</b>						
Under \$50,000	-563.0	157.5	294.3	73.2	-476.5	432.0
\$50,000 to \$99,999	-138.9	70.0	175.5	15.2	-292.0	312.6
\$100,000 to \$149,999	-3.3	15.6	54.5	20.9	-105.2	149.3
\$150,000 and Over	80.1	18.3	34.3	-7.3	-93.7	81.8
<b>By Age Group</b>						
Under 36	-292.6	38.5	45.2	37.0	-484.7	641.3
36 to 65	-309.8	138.7	324.8	47.3	-361.6	276.7
Over 65	-22.6	84.1	188.5	17.8	-121.1	57.7
<b>By Education (25 Years and Over)</b>						
Less than Bachelor's Degree	-469.8	169.3	324.5	54.6	-480.4	407.3
Bachelor's Degree or Higher	52.7	72.2	163.5	11.0	-204.6	196.9

Source: U.S. Census Bureau

Migration patterns confirm that middle-income households are being driven out of the local housing market. Persons in households with incomes of between \$50,000 and \$100,000 constituted 22.2% of domestic migrants leaving California between 2007 and 2014. Meanwhile, in other states, such as Arizona, Florida, and Nevada, households in this income group represented a high share of the positive net domestic migration over the same period. And while more middle-income households are leaving the state, the opposite can be said about high-income households. Net domestic migration of persons in households with incomes of more than \$150,000 was 80,100 persons between 2007 and 2014.

Further declines in homeownership and levels of home affordability could carry serious consequences and affect the future economic growth of the State of California. Homeowners are more likely to invest in their homes and communities than renters, an important reason to encourage homeownership. Furthermore, households that spend high proportions of their incomes on housing will spend less on goods and services. High costs for housing increase the likelihood that lower-income households will be reliant on government welfare, which in turn puts undue fiscal pressure on state and local governments. Yet these concerns only exist because homes are in short supply.

Owner-Occupied Housing Statistics, 2014						
Component	California	Texas	Arizona	Florida	Nevada	New York
<b>Total Persons Living in Owner-Occupied Housing</b>	6,855,688	5,674,241	1,484,857	4,693,621	547,905	3,857,906
<b>Share of Owner-Occupied Households (%):</b>						
With Income of less than \$50,000	28.1	35.4	40.0	43.2	36.4	29.2
With Income of \$150,000 or More	22.6	15.3	11.8	10.7	10.8	20.1
With Householder in Retirement Age	30.1	25.9	35.3	39.0	31.4	29.7
Whose Householder has a Bachelor's Degree	42.5	35.3	36.0	35.1	31.8	42.0

Source: U.S. Census Bureau

## Housing Supply Constraints

California ranks near the bottom in terms of the number of residential permits issued on a per capita basis. From 2005 to 2015, only 21.5 new units have been permitted for every 100 new residents, compared to 33.4 new units nationwide. Housing statewide has favored multifamily structures more than single-family structures, a trend that sets California apart from many other states. From 2005 to 2015, only 59.1% of housing units permitted were for single-family homes, a category in which California ranks 46th. While the city centers of the largest cities in the state are fairly built out, and thus mainly receive permits for multiunit properties, construction of new single-family homes in suburban areas has lacked significant growth.

The deficient amount of homebuilding in California is in part the result of a number of regulatory changes. Among these regulatory factors is the California Environmental Quality Act (CEQA). Following CEQA, local governments require new developments (either residential or nonresidential) to conduct environmental reviews for potential environmental effects, which may lead to either limiting developments or stopping them altogether. According to the 2012 Annual Planning Survey Results published by California's Governor's Office of Planning and Research, 21% of respondents indicated that the primary barrier to implementing infill projects was community opposition/CEQA/lawsuits, while another 24% of respondents attributed a lack of funding/high costs, which can be impacted by the fear of a CEQA lawsuit.<sup>3</sup>

Permitting by State, 2005-2015

Rank	State	Permits per 100 New Residents
1	Michigan	166.0
2	Rhode Island	92.2
3	Maine	74.2
4	Vermont	69.7
5	Louisiana	58.6
6	Ohio	56.3
7	New Hampshire	53.7
8	Illinois	47.6
9	Mississippi	47.2
10	North Dakota	46.8
11	South Dakota	46.5
12	Wisconsin	45.3
13	Iowa	42.8
14	New York	42.3
15	New Jersey	40.7
16	Nebraska	40.2
17	South Carolina	39.6
18	Delaware	37.4
19	Alabama	37.4
20	North Carolina	36.7
21	Indiana	36.1
22	Idaho	36.1
23	Pennsylvania	36.0
24	Florida	35.3
25	Kansas	34.7
26	Tennessee	34.7
27	Missouri	34.6
28	Minnesota	34.5
29	Oregon	33.3
30	Washington	33.1
31	Georgia	33.0
32	Nevada	32.0
33	Arizona	31.5
34	Virginia	31.2
35	Arkansas	31.2
36	West Virginia	31.1
37	Maryland	30.7
38	Utah	30.0
39	Colorado	29.9
40	Texas	29.4
41	Kentucky	29.2
42	Massachusetts	28.9
43	Montana	28.5
44	New Mexico	28.5
45	Connecticut	27.9
46	Oklahoma	27.6
47	Wyoming	25.3
48	Hawaii	25.1
49	California	21.5
50	Alaska	16.2
	United States	33.4

Source: U.S. Census Bureau

<sup>3</sup> State of California, Governor's Office of Planning and Research, "Annual Planning Survey Results, 2012". Available at [https://www.opr.ca.gov/docs/2012\\_APSR.pdf](https://www.opr.ca.gov/docs/2012_APSR.pdf)

The scarcity of developable land has also made any form of homebuilding along the coast difficult. The Legislative Analyst's Office (LAO) reports that just under two-thirds of the area surrounding urban centers on California's coast is undevelopable due to mountains, hills, ocean, and other water.<sup>4</sup> The 1976 passing of the California Coastal Act, which was enacted to protect and maintain the overall quality of the coastal zone environment, has played a role in limiting how much coastal land can be developed for residential construction.<sup>5</sup>

On multiple occasions, local communities have blocked homebuilding by utilizing land use authority to either slow or stop projects. The resistance to new developments often stems from the desire to maintain current home values or from the perception that the land should not be developed for various reasons.

Also concerning to developers, especially those that handle fewer properties, are the costs associated with tearing down existing buildings and addressing the environmental concerns that may arise during the redevelopment phase. The State of California has some of the toughest zoning laws in the country, requiring developers to adhere to multiple state and local ordinances. The fees associated with development also put more financial strain on homebuilders, resulting in these fees being passed along to homebuyers. These fees include the building permit, utility connection, environmental impact assessment, and zoning and subdivision fees. These items were all key issues discussed at a recent House L.A. 2015 Summit hosted by the Building Industry Association's Los Angeles and Ventura Chapter, which featured a number of local and national developers along with local political representatives.<sup>6</sup>

Some developers assert that many local governments have favored commercial projects over residential, as these projects provide a larger financial upside than residential projects. Cities and counties are aware that sales taxes collected by potential commercial and retail establishments far outweigh the property taxes homeowners would pay. Some local governments have also remained cautious toward homebuilding because the accompanying population growth is sometimes costly, leading to an increased need for funding to facilitate infrastructure development and for policing.

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<sup>4</sup> Mac Taylor, *California's High Housing Costs, Causes and Consequences*, Legislative Analyst's Office, March 2015, available at [www.lao.ca.gov/reports/2015/finance/housing-costs/housing-costs.pdf](http://www.lao.ca.gov/reports/2015/finance/housing-costs/housing-costs.pdf).

<sup>5</sup> See the 2003 State of California General Plan Guidelines, p. 174.

<sup>6</sup> For more information, see [www.bialav.org](http://www.bialav.org).

## Conclusion

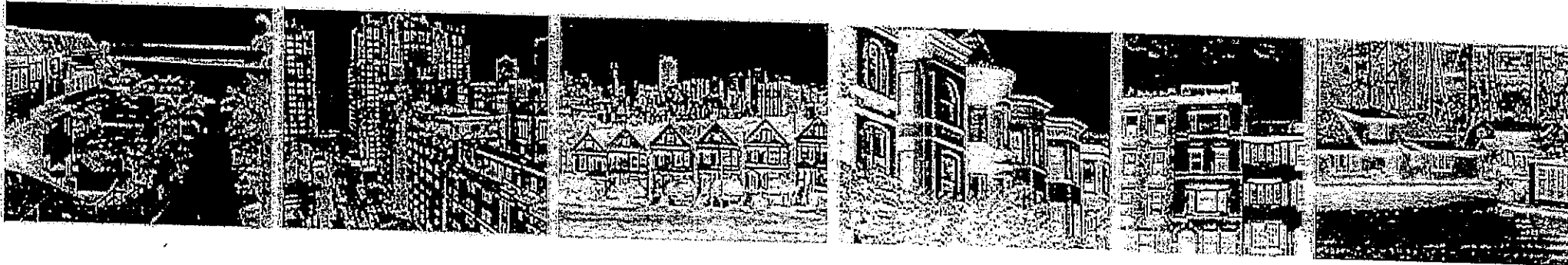
California's current housing climate is not able to support its growing population. The low levels of residential construction could result in further increases in home prices, such that fewer and fewer California residents will be able to afford homes. It is true that home prices have increased throughout the country, but California remains the most expensive state for purchasing a home. Rental rates have also continued to climb, and residents who usually flock to the rental market to avoid unaffordable home prices find little relief. The state's lower-income residents suffer the most; they are burdened with having to spend a higher proportion of their incomes on housing and are forced to cut back on other discretionary, but oftentimes necessary, purchases. However, diminishing levels of affordability are also reducing the ability for middle-income residents to own a home, which is discouraging for residents of both low-income and middle-income categories. Indeed, the current state of housing has led many to leave California in the hope of finding more affordable living circumstances elsewhere.

To alleviate the housing affordability crisis that plagues low-income and middle-income households in the state, more housing construction needs to take place. Homebuilders should be encouraged to build in California. One such way would be by streamlining the permitting processes and finding a way to reduce concerns about environmental protection policies. The LAO report references a few solutions that may help alleviate the housing affordability crisis that California currently faces, including encouraging more residential development along California coastal cities and, if possible, an increase in the residential density for such developments.

# USC Lusk

*Casden Real Estate  
Economics Forecast*

## 2016 Multifamily Forecast Report





USC LUSK CENTER FOR REAL ESTATE  
CASDEN REAL ESTATE ECONOMICS FORECAST  
2016 MULTIFAMILY REPORT

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## USC CASDEN FORECAST 2016 MULTIFAMILY REPORT

### EXECUTIVE SUMMARY

The U.S. financial market meltdown that dominated the news at the start of the year has faded and it is becoming clear that fears surrounding the potential impact of oil, the global economy, terrorism, and financial bubbles were highly overstated. The U.S. economy continues to truck along at a steady, albeit mediocre, pace of growth. That the financial markets should have gotten it wrong is no surprise—this is the fourth major selloff since the 'Great Recession' came to an end, an unprecedented display of volatility.

Nevertheless, USC Casden Forecast believes the great rental housing bull market that has defined the current economic expansion is starting to wane. The industry had been given a massive boost by the mortgage market mess that was at the center of the recession. The wave of foreclosures and new regulations that severely restricted access to mortgage credit pushed record numbers of people into rental housing. In total there were 5.5 million new renting households added to the market between 2006 and 2015.

But the tide is beginning to turn. Strong growth in the labor markets has increased the number of households that can afford to make the move to ownership. The credit markets are showing signs of thawing, and single-family housing is still very affordable from a long run standpoint because of low interest rates. Ownership rates are starting to rise again.

At the same time, record amounts of new supply are coming on to the market. Housing starts for 5+ unit buildings hit 385,000 last year at the national level—the highest since 1987. This new supply is already causing vacancy rates in many regions across the United States—and even here in California—to move up, albeit modestly. Permits for new construction across the nation were over 450,000, implying that even more supply will be coming online this year.

While we see the market softening, we don't foresee a rout. There are a number of other important trends that will maintain demand for multifamily rental properties.

- While the mortgage credit markets are loosening, the pace is still slow and from a medium term perspective the markets are clearly still tighter than normal and will likely remain so for some time.
- Household formation in the United States—muted for years because of slower migration and the lack of job opportunities for young workers—is starting to return to a normal pace of growth. The nation has seen 1.2 million new households form per year in the last two years—a sharp increase over previous years.
- Millennials are delaying major life decisions such as marriage, children, and home ownership, more than previous generations.

Just as important as these potentially inflationary demand side factors, there is a stabilizing influence on the supply side. Well over half of the newly renting households in the United States ended up in single-family rental properties over the past decade—roughly three million in total. These properties are owned by a wide variety of investors who took advantage of the record high disparity between rental rates and homeownership costs that existed from 2009 through 2011. History suggests that such investors will sell their assets into a new housing market expansion—and anecdotally there have already been announcements of sell offs by some major property holders.

As for California and Southern California, the situation is different. While the national trends described are clearly in place for the state, features that are unique to California's

housing market will alter the supply-demand balance and keep the markets tight.

To begin, there is the constriction of overall housing supply that comes from various regulatory controls such as CEQA and Prop 13. California is home to 13% of the nation's population and traditionally sees a faster than average rate of population growth. Yet, over the last 20 years, the state has only been responsible for 8% of new residential building permits. And this trend is continuing. Over the last two years California has added more than four new people for each new residential building.

Similarly, the credit market tightness that currently constrains demand for owner-occupied housing is magnified in a state with home prices that are twice as high as the national average.

While the overall market will remain tight, the USC Casden Forecast does see potential issues in the high-end rental markets. The distortions that exist in California's housing supply pipeline also tend to skew construction towards high-end units. The average permit value for a multifamily unit in California is up 35% in real (cost adjusted) terms from 2004. The average permit value is 40% higher in California than the U.S. average. Families that start to migrate to owner-occupied product are likely to come out of the demand base for this type product. But this implies weaker rental growth for class A property as there is enough excess demand in other parts of the market to fill the space if priced accordingly.

This report on multifamily markets in Southern California begins with a "stay-the-course" outlook for the national and state economies in the Current View on the Economy section that immediately follow. Stronger fundamentals in all components of the real estate markets and the construction industry are a part of that outlook.

The multifamily markets of Southern California - Los Angeles County, Orange County, Inland Empire (Riverside and San Bernardino Counties), and San Diego County - are each

covered in subsequent sections of this report. For the most part, the markets of Southern California have experienced declining in vacancy rates and increasing rents over the post-recession period. These trends have been met with a pronounced supply response in Los Angeles, Orange, and San Diego Counties where multifamily permits have increased sharply over the last few years, with a more muted increase in the Inland Empire. The increase in supply has slowed the fall in vacancy rates in some markets and submarkets while others have seen vacancy rates edge up more recently. But it has barely tempered the rate of increase in rents.

Among the Southern California markets, Orange County saw the highest rent among the multifamily markets last year at \$1,577/month, while San Diego County experienced the fastest growth rate in rents from 2014 to 2015 at 5.9%. Los Angeles County's vacancy rate was the lowest last year at 4.2% with Orange County marginally higher at 4.4%. Both Los Angeles and Orange Counties have seen steady, substantial increases in permit activity over the last four years, with San Diego not too far behind.

Rising rents throughout Southern California are a part of the forecast picture over the next two years. Economic fundamentals will drive the demand side of the market, notably job and income growth along with positive trends in demographics. Meanwhile, increases in the supply of units will continue and will temper decreases in vacancy rates over the next two years.



## CURRENT VIEW OF THE ECONOMY

### U.S. Economy On Steady Course, Growth Continues in 2016 (and 2017)

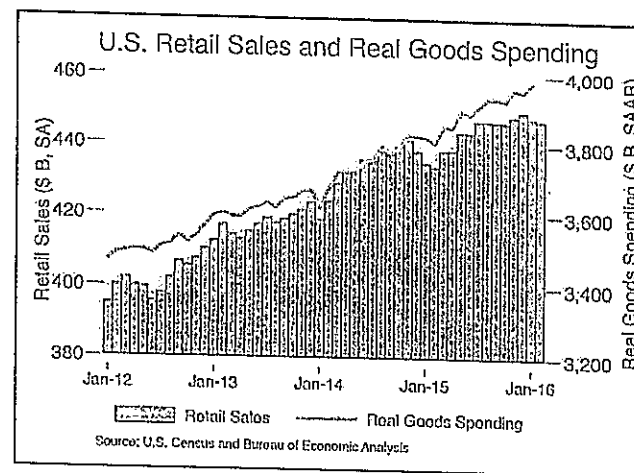
Ostensibly, the year has not started well for the U.S. economy. The financial markets spooked in January and equity values dropped sharply even as treasuries rallied to highs not seen since 2012. Data from the U.S. Bureau of Economic Analysis (BEA) showed the nation's economy slowing to a crawl in the 4th quarter of 2015, and there have been perpetual worries about China, oil prices, high-yield credit, tech bubbles, deflation, and the list goes on.

Taking a step back from the noise, the reality is that the U.S. economic expansion continues to move along at a steady, if mediocre, pace. With that expansion, the unemployment rate has decreased to its lowest level in years, more people are working full-time, and wages are on the rise. More importantly, there is little reason to believe that the nation will stray from its current path of growth in 2016. The Gasden Forecast believes growth will continue in the 2.5% plus range for the year, with perhaps even better numbers next year.

As for the financial markets, they apparently have overcome some of the fear that dogged them earlier in the year. The S&P has already gained back half the losses experienced in January and February. Bond prices are settling back as well.

So where will the economy see growth? Real spending data from the BEA indicates that 2015 was a strong year for consumer spending on goods, particularly in the auto sector where U.S. automakers enjoyed a record year. U.S. consumers are also being helped by solid, ongoing job growth, weak inflation, and low interest rates, conditions that have extended into the current year. Beyond the consumer sector, the U.S. economy will see a solid performance among many of its key industries (including manufacturing, professional and technical services, health care, and retail) while housing and construction will continue to improve.

There are plenty of reasons why the United States' economy will not grow as rapidly as everyone would like over the next couple of years. But there is little reason to believe the nation's economy will stop growing. Sometimes it pays to be a tortoise—particularly when that 'tortoise' offers the relatively high quality of life that so many Americans enjoy.



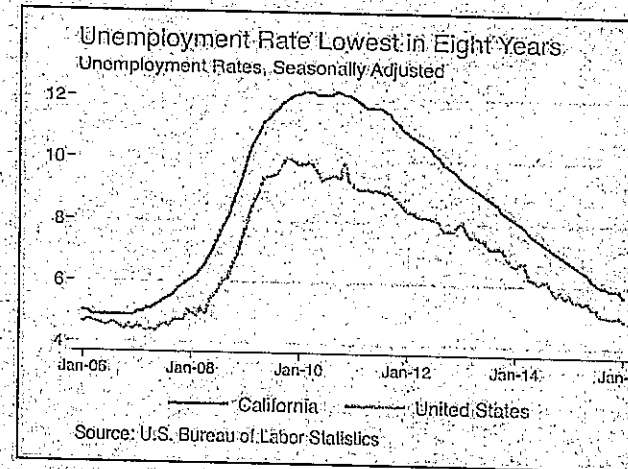
## California Economy Outpacing the Nation

California did it again. The high-priced, over-regulated, fruits-and-nuts state that everyone loves to hate turned in another strong performance in 2015. For the fourth year in a row, California outpaced the nation in job growth as well as output. The state experienced broad-based gains across its key industries ranging from agriculture to high tech and nearly everything in between.

The closest thing to a real-time gauge of California's economic performance is its labor market. As the state economy has chugged forward over the past three and a half years, its unemployment rate has declined steadily. By the end of 2015, the unemployment rate stood at 5.9%, the lowest since late 2007, as job creation outpaced increases in the labor force.

For the fourth year in a row, California added wage and salary (nonfarm) jobs at a faster pace than the United States as a whole (3.0% annual rate compared to 2.1% for the U.S.). The pace of growth actually accelerated in 2015 to its fastest in over fifteen years. The state added over 460,000 jobs, with nearly every part of California—along the coast as well as inland—participating in that growth.

Nearly every industry in California experienced job gains over the past year, generally adding to the gains of recent years. Health Care & Social Assistance, Leisure & Hospitality, and Construction led the state's industries, combining to produce nearly 45% of the state's total job gains last year. Only Mining and Logging lost jobs last year, as it reeled from the plunge in energy prices.



### Job Gains Across California Industries

Industry	2015 Jobs Change '14-15		
	(000s)	(000s)	Change '14-15 (%)
Construction	726.6	52.2	7.7
Transport, Warehouse, Util.	553.5	30.1	5.8
Information	482.5	19.6	4.2
Leisure and Hospitality	1,828.3	69.4	3.9
Education/Health	2,455.8	90.0	3.8
Admin Support	1,058.8	33.8	3.3
Prof/Sci and Tech	1,207.4	34.1	2.9
Real Estate	271.9	6.7	2.5
Retail Trade	1,663.4	34.5	2.1
Management	230.1	4.5	2.0
Government	2,460.0	48.3	2.0
Finance and Insurance	526.2	9.6	1.9
Farm	423.3	6.9	1.6
Other Services	545.3	8.7	1.6
Wholesale Trade	720.8	10.8	1.5
Manufacturing	1,292.2	18.0	1.4
NR/Mining	29.0	-2.6	-8.3
Total Private	13,591.7	419.4	3.2
Total Nonfarm	16,051.8	467.7	3.0

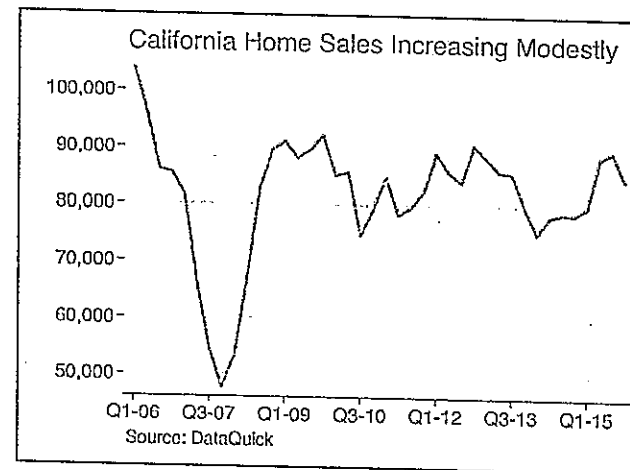
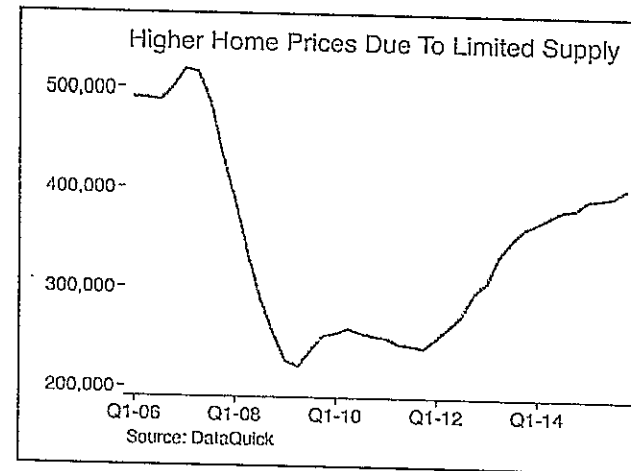
Source: California Employment Development Department

## Housing Sector Prospects Improving

California's housing market continued to improve last year in terms of prices, sales, and new construction. The statewide median price of a home was \$403,600 in final quarter of 2015, an increase of 5.5% from one year earlier. Sales rose by 10.5% following a decrease of 8.7% in 2014, but are still constrained by lean inventories in much of the state. Meanwhile, rental markets across the state were marked by low vacancy rates and rising rents last year, as the state's homeownership rate (54.3%) showed little sign of improvement.

Higher home prices and sales ought to trigger an increase in construction, but new home building has been restrained in this cycle. In 2015, the total permits rose last year, but still fell short of the 100,000 mark and were less than half of the peak levels that preceded the 'Great Recession'. Moreover, multifamily permits accounted for the lion's share of permits, mainly because much of the activity is taking place in the state's large metro areas.

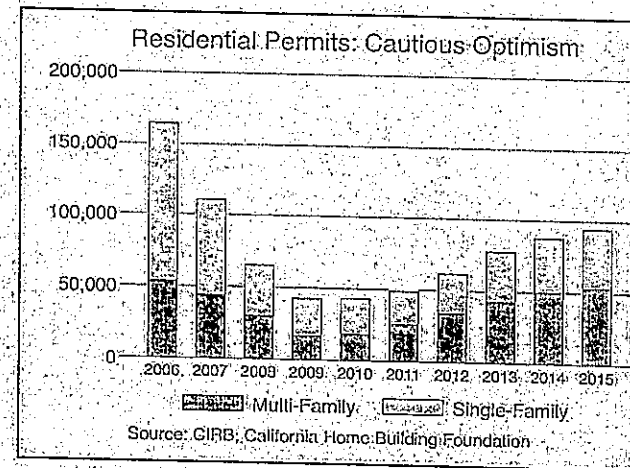
Several forces should combine to drive heightened demand for housing in the next two years. Two of these are job and income growth along with low but rising mortgage rates, but a third demographic force will also play a significant role. Many Millennials delayed life cycle decisions such as forming households, becoming homeowners, and starting families in the immediate aftermath of the recession. Now in their late 20s and early 30s, these individuals are in a position to become renters and first-time buyers in large numbers over the next few years, a development that should drive new construction and lift the housing market overall.



## Conclusion: California Economy Grows in 2016, Faces Long-Term Challenges

This year is shaping up to be one of steady gains in overall economic activity and employment, with the state's key industries continuing to see job growth and the fortunes of California's households improving with rising wages and growth in personal income. Despite concerns over the business climate, the state economy is one of the most dynamic in the country, as evidenced by the large amount of venture capital it has attracted on a consistent basis over the last several years.

The state is well-acquainted with the challenges it faces in 2016 and beyond. As the economy prospers, home prices shoot up and housing affordability plunges. Builders respond, but the incentives and constraints they face affect the mix of homes, leading to more higher-priced homes and an undersupply of lower-priced homes that the state needs. This story is not new, but rather is a recurring theme of California's housing market.



# LOS ANGELES

The Los Angeles County economy has made steady progress over the last year. It may not be the fastest growing part of the state but it accounted for nearly one-fifth of all jobs created in California last year, placing it way ahead of every other county in terms of absolute job growth. The largest job gains occurred in Leisure & Hospitality, Health Care, and Government, but Retail Trade, Transportation and Warehousing, and Construction also experienced sizable increases. The county's unemployment rate fell to 6.7% on the heels of these gains, and is expected to show further improvement this year and next. In turn, the housing market will continue to ramp up, having seen hefty increases in rents, home sales, and prices over the past year.

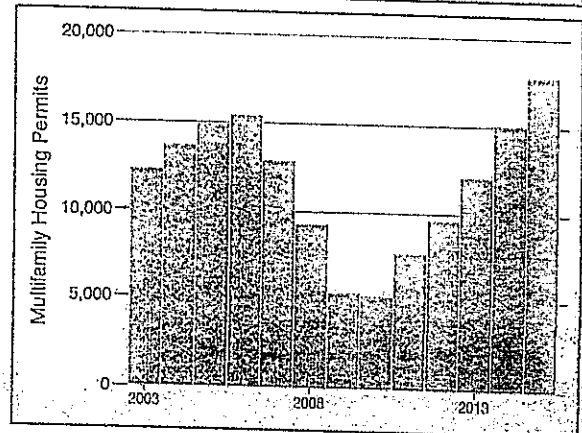
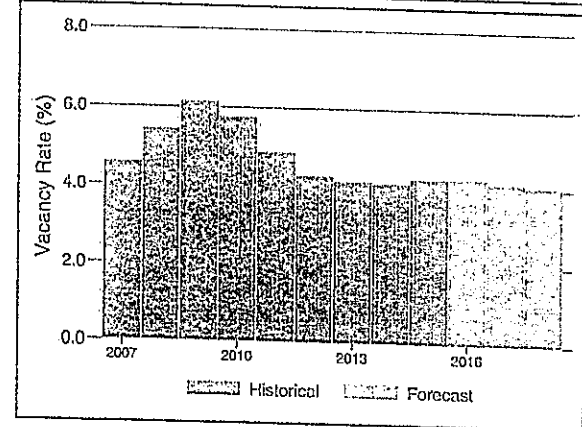
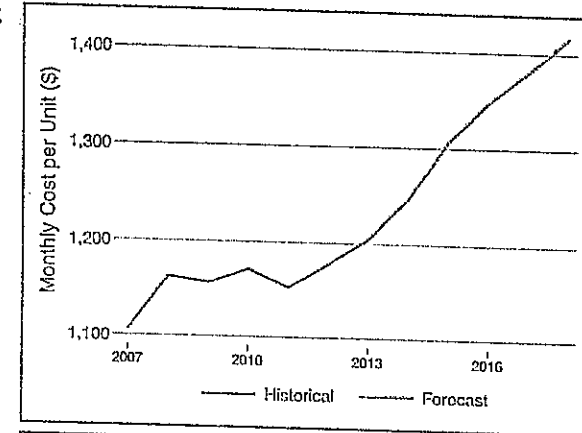
The Los Angeles County multifamily market has been quite active in recent years, with rents on the rise and vacancy rates generally tightening. The average rent in 2015 was \$1,307/month, rising 4.8% from one year earlier. The average vacancy rate went virtually unchanged, with a slight uptick from 4.1% in 2014 to 4.2% last year. Multifamily construction in the County has increased sharply in recent years, with an 18% increase in permits last year alone.

The Coastal Communities-Beverly Hills submarket led Los Angeles County's submarkets with the highest monthly rent last year (\$1,648/month), followed by Burbank-Glendale (\$1,357/month) and the West San Gabriel Valley (\$1,315/month). South Los Angeles saw the lowest rent at \$822/month. Rents increased most quickly in the Coastal Communities-Beverly Hills submarket (7.0%) and Long Beach-South Bay (6.9%).

Vacancy rates were generally quite low among the County's submarkets. The lowest average vacancy rate was in the Inglewood-Gardena-Hawthorne submarket at 1.5%, followed by the San Fernando Valley at 1.9%. Vacancy rates were mixed last year, with decreases in four of Los Angeles County's 12 submarkets and increases in the remaining submarkets.

Population increases in Los Angeles County will fuel demand over the next few years and with more Millennials entering their late twenties and early thirties, demand for multifamily property should be particularly strong. Builders have responded to demographic forces in recent years, pushing new multifamily construction to pre-recession levels. Much of the growth has been in multifamily, but generally favors trendy locations and moderate- to high-income renters.

## LOS ANGELES OVERVIEW





### AVERAGE RENTS IN LOS ANGELES COUNTY SUBMARKETS

Submarket	Average Rent (2015)	Percent Change (1-Year)
Coastal-Communities-Beverly Hills	1,648	+7.0
Burbank-Glendale	1,357	+3.8
West San Gabriel Valley	1,315	+6.6
Long Beach-South Bay	1,270	+6.9
San Fernando Valley	1,250	+6.5
Palmdale-Lancaster	1,244	+5.7
Southeast Los Angeles	1,175	+4.1
East San Gabriel Valley	1,150	+4.4
Downtown	1,086	+6.7
Inglewood-Gardena-Hawthorne	1,071	+3.1
Koreatown-Mid-City	1,061	+4.7
South Los Angeles	822	+1.1
Los Angeles County	1,307	+4.8

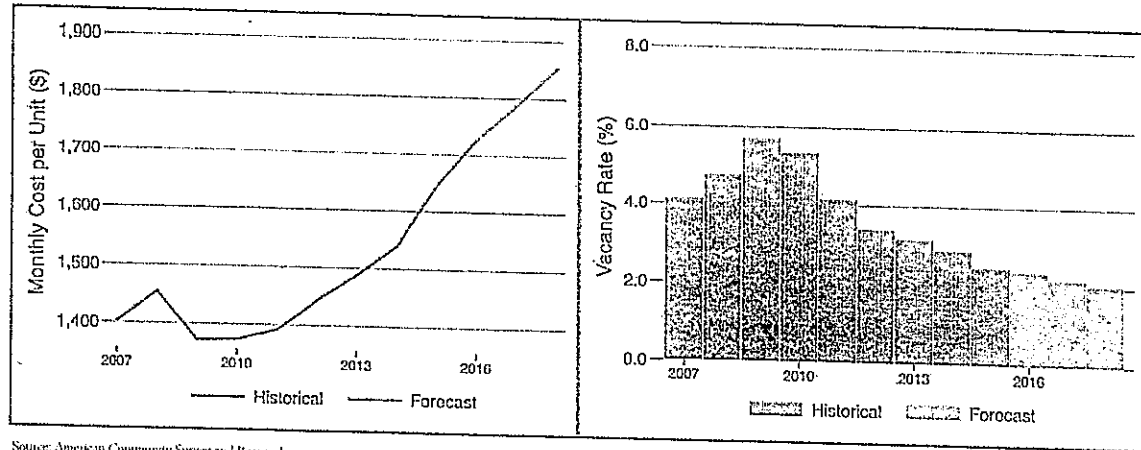
### VACANCY RATES IN LOS ANGELES COUNTY SUBMARKETS

Submarket	Vacancy Rate (2015)	Basis Point Change (1-Year)
Inglewood-Gardena-Hawthorne	1.5	+13
San Fernando Valley	1.9	-191
West San Gabriel Valley	2.4	+24
Long Beach-South Bay	2.4	-40
Coastal-Communities-Beverly Hills	2.5	-42
Burbank-Glendale	3.3	+188
South Los Angeles	3.8	+31
Palmdale-Lancaster	4.0	-130
Southeast Los Angeles	4.5	+12
East San Gabriel Valley	6.2	+28
Koreatown-Mid-City	7.4	+249
Downtown	7.9	+14
Los Angeles County	4.2	+

# LOS ANGELES MULTIFAMILY MARKET TRENDS

## SUBMARKETS

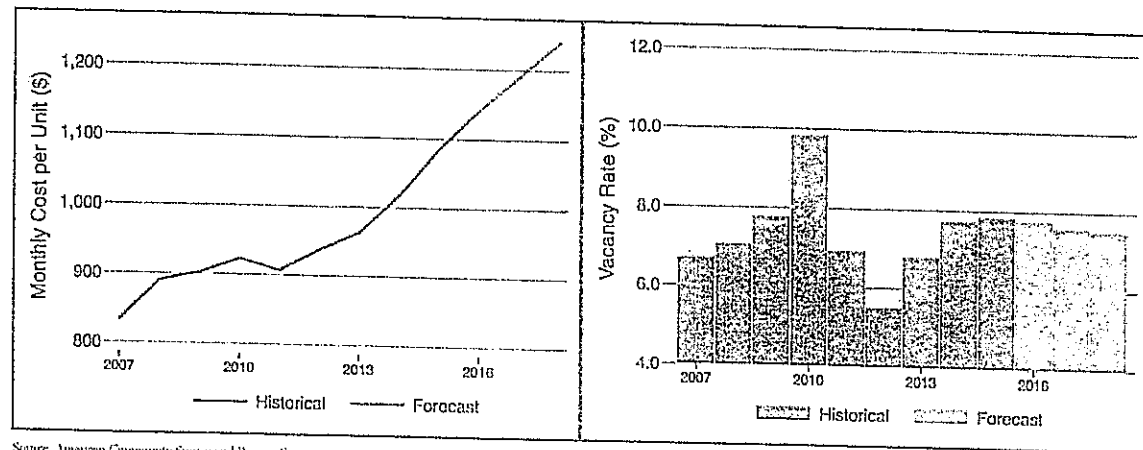
### Coastal Communities-Beverly Hills



Source: American Community Survey and BLS on Economics

Source: American Community Survey and BLS on Economics

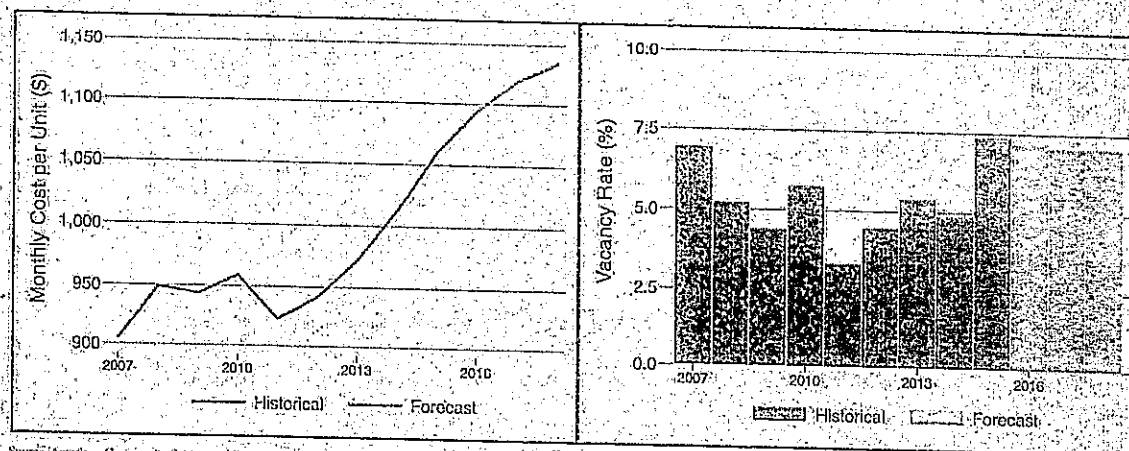
### Downtown Los Angeles



Source: American Community Survey and BLS on Economics

Source: American Community Survey and BLS on Economics

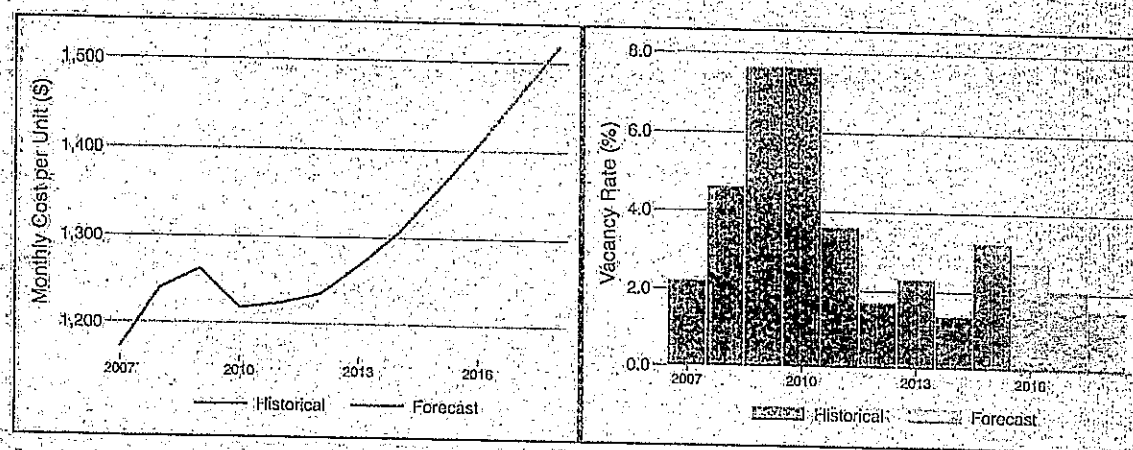
### Koreatown-Mid-City



Source: American Community Survey and Beacon Economics

Source: American Community Survey and Beacon Economics

### Burbank-Glendale



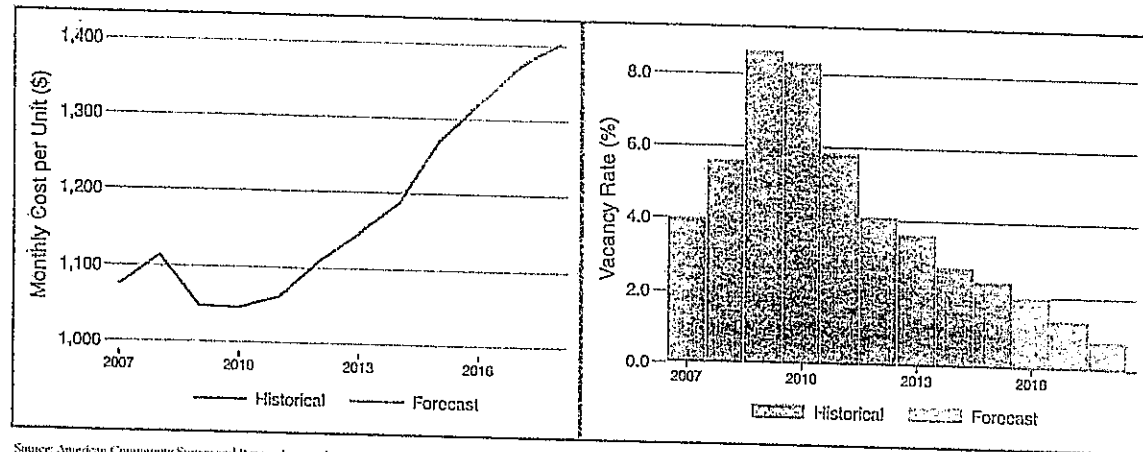
Source: American Community Survey and Beacon Economics

Source: American Community Survey and Beacon Economics

# LOS ANGELES MULTIFAMILY MARKET TRENDS

## SUBMARKETS

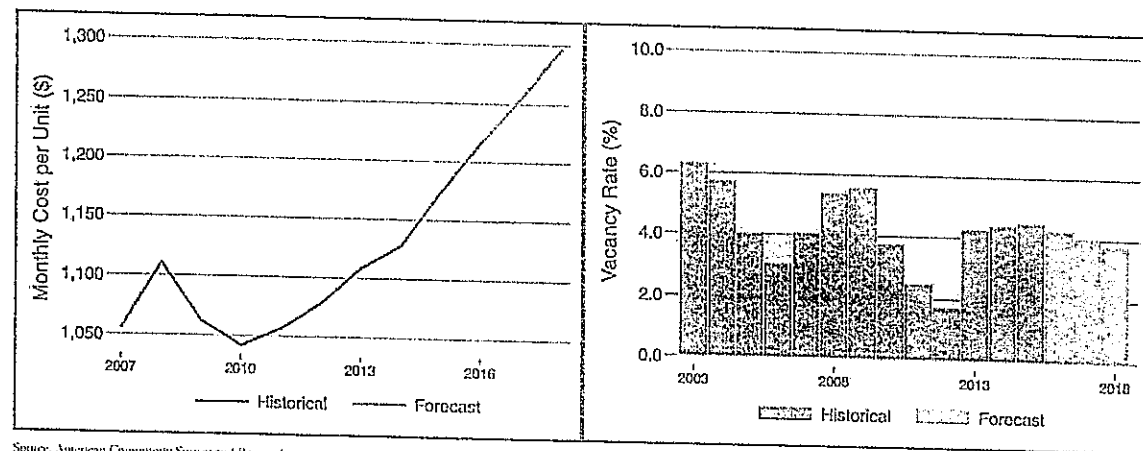
### Long Beach-South Bay



Source: American Community Survey and Beacon Economics

Source: American Community Survey and Beacon Economics

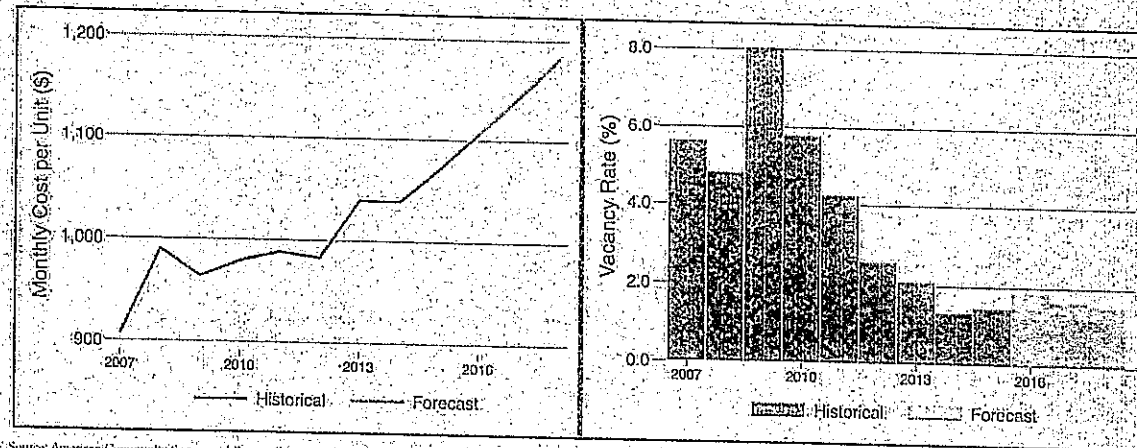
### Southeast Los Angeles



Source: American Community Survey and Beacon Economics

Source: American Community Survey and Beacon Economics

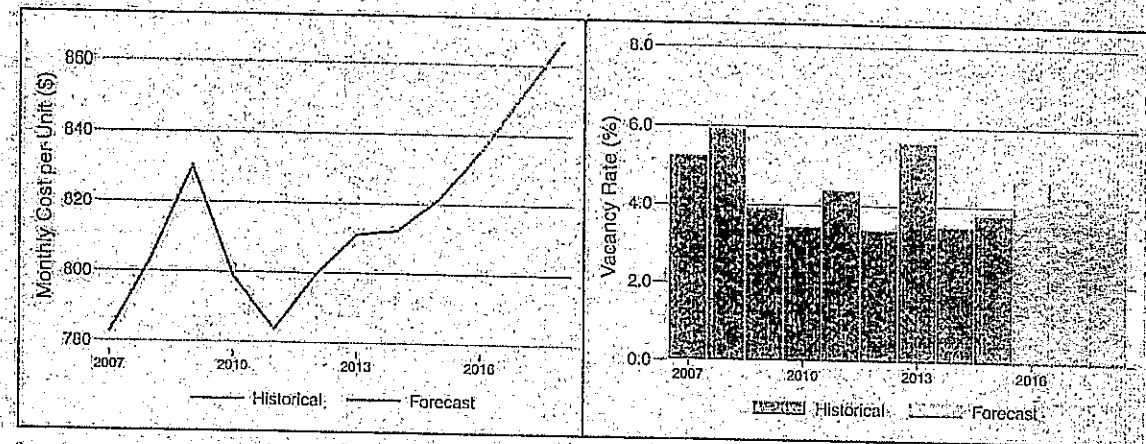
Inglewood-Gardena-Hawthorne



Source: American Community Survey and Beacon Economics

Source: American Community Survey and Beacon Economics

South Los Angeles



Source: American Community Survey and Beacon Economics

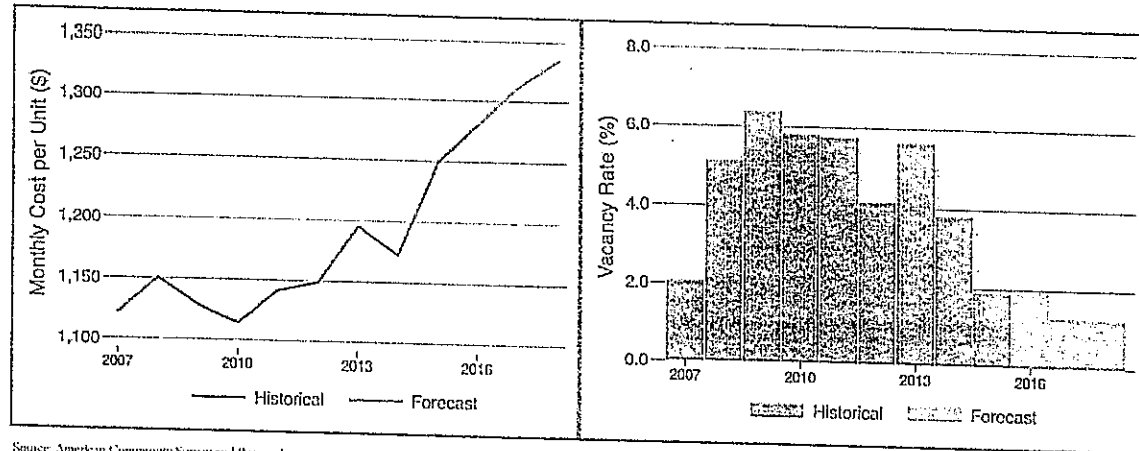
Source: American Community Survey and Beacon Economics



# LOS ANGELES Multifamily MARKET TRENDS

## SUBMARKETS

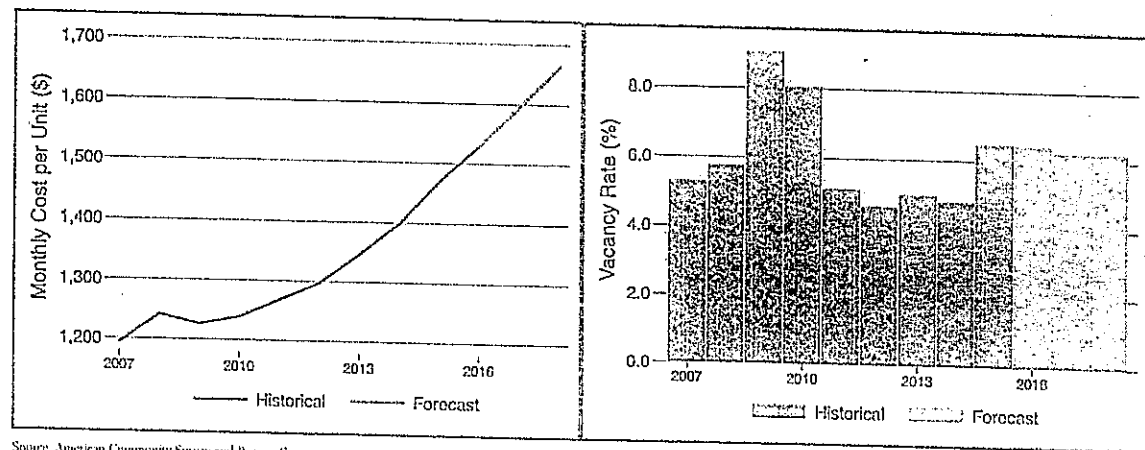
### San Fernando Valley



Source: American Community Survey and Beacon Economics

Source: American Community Survey and Beacon Economics

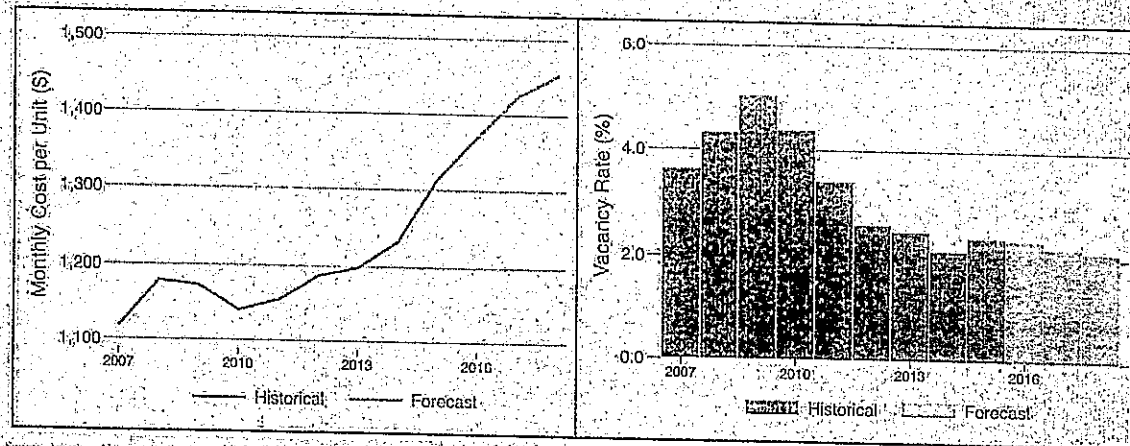
### North Los Angeles



Source: American Community Survey and Beacon Economics

Source: American Community Survey and Beacon Economics

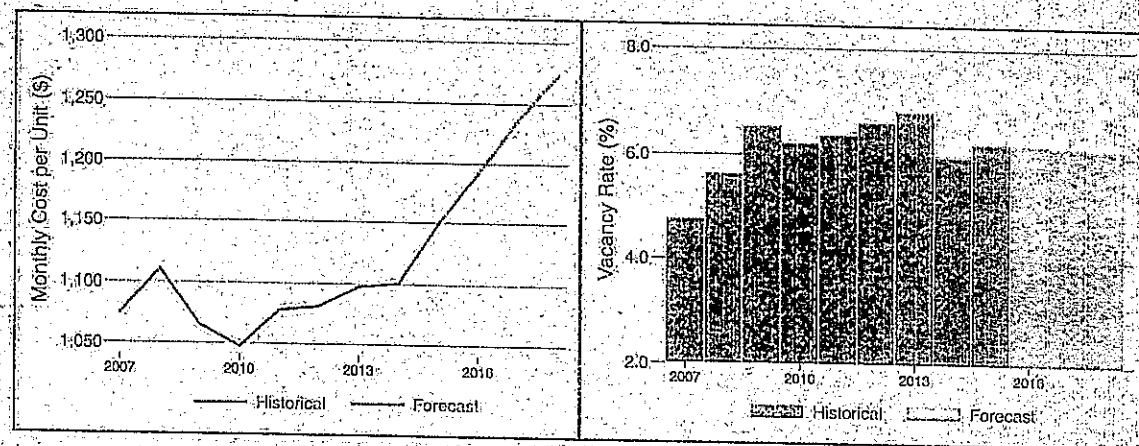
### West San Gabriel Valley



Source: American Community Survey and Beacon Economics

Source: American Community Survey and Beacon Economics

### East San Gabriel Valley



Source: American Community Survey and Beacon Economics

Source: American Community Survey and Beacon Economics

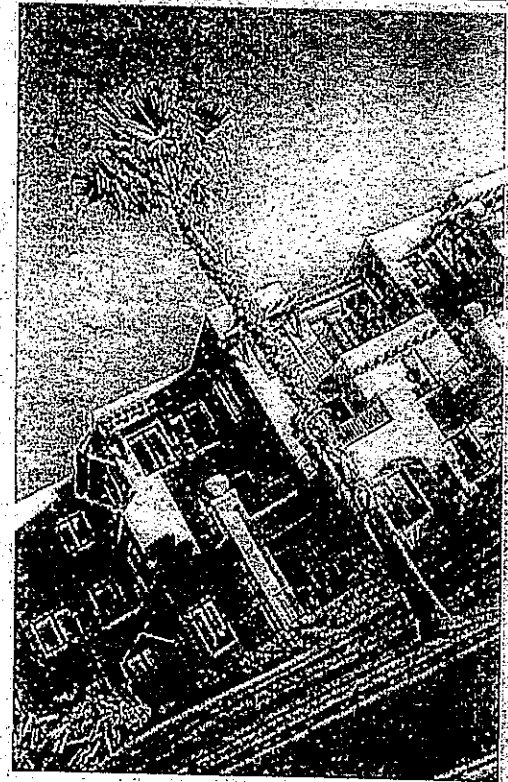
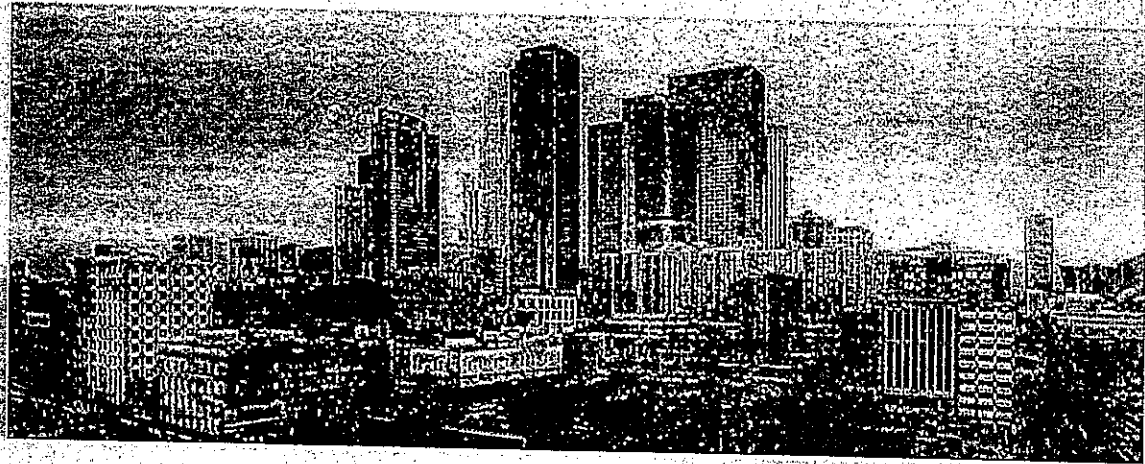
# LOS ANGELES MULTIFAMILY MARKET TRENDS

## SUBMARKETS

### RENTING HOUSEHOLDS AND RENTAL UNITS - SELECTED INDICATORS FOR LOS ANGELES COUNTY AND ITS SUBMARKETS

Market/Submarket (Metro: 1,797,200 Units)	Renter Household Statistics			Rental Units by Size of Structure						Rental Units by Year Built			
	% with Children Present	Average Household Size	Median Household Income	Single Family	2-4 Units	5-9 Units	10-19 Units	20 Units and Up	Total	Before 1970	1970- 1999	2000- 2014	Total
Burbank/Glendale	30%	2.4	\$42,745	17%	14%	18%	18%	33%	100%	53%	41%	7%	100%
Downtown	29%	2.4	\$29,799	11%	19%	8%	9%	53%	100%	67%	22%	10%	100%
Inglewood/Gardena/Hawthorne	45%	2.7	\$35,566	19%	27%	16%	13%	26%	100%	60%	38%	2%	100%
Koreatown/Mid-City	33%	2.5	\$28,647	10%	24%	12%	14%	39%	100%	64%	30%	6%	100%
Coastal Communities/Beverly Hills	17%	1.9	\$55,782	9%	16%	20%	18%	37%	100%	57%	36%	8%	100%
Long Beach/South Bay	38%	2.7	\$43,539	22%	25%	14%	16%	23%	100%	62%	35%	4%	100%
Southeast Los Angeles	49%	3.1	\$42,039	29%	17%	11%	13%	31%	100%	57%	40%	3%	100%
West San Gabriel Valley	37%	2.7	\$42,252	31%	25%	12%	12%	20%	100%	66%	29%	5%	100%
Palmdale/Lancaster	49%	3.1	\$42,653	47%	15%	13%	9%	16%	100%	15%	68%	17%	100%
San Fernando Valley	38%	2.8	\$41,575	20%	10%	9%	13%	48%	100%	44%	47%	8%	100%
East San Gabriel Valley	51%	3.3	\$40,134	39%	24%	9%	9%	19%	100%	57%	37%	6%	100%
South Los Angeles	59%	3.6	\$27,713	39%	34%	12%	7%	9%	100%	73%	22%	6%	100%
Los Angeles County	36%	2.7	\$39,678	22%	20%	13%	13%	31%	100%	58%	36%	7%	100%

SOURCE: American Community Survey 2014



# Economic Study of the Rent Stabilization Ordinance and the Los Angeles Housing Market

2009

Prepared for the  
City of Los Angeles Housing Department



Economic Roundtable



Los Angeles Housing Department  
LAHD

# Economic Study of the Rent Stabilization Ordinance and the Los Angeles Housing Market

2009

Underwritten by the  
City of Los Angeles Housing Department

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## Background of the RSO Study

*"In 1979, the City of Los Angeles adopted the Rent Stabilization Ordinance (RSO) (Chapter XV of the Los Angeles Municipal Code) after finding that there was a shortage of decent, safe, and sanitary housing in the City resulting in a critically low vacancy factor. At that time, the City Council determined that it was necessary and reasonable to regulate rents so as to safe guard tenants from excessive rent increases while at the same time providing landlords with just and reasonable returns from their rental units. The City has not conducted a comprehensive assessment of the RSO since 1993. Due to market fluctuations, rising costs, and other economic factors of the last several years, apartment owners, tenants, and government officials alike have suggested that a new large scale review and economic study of the RSO in the context of the local housing market is necessary to determine if the RSO is still meeting its purpose and whether any amendments should be enacted."* - Excerpt from pg. 3 of the study's Request for Proposals (RFP), released October 2, 2006.

This report has been prepared by the Economic Roundtable RSO study team, which assumes all responsibility for its contents. Data, interpretations and conclusions contained in this report are not necessarily those of any other organization that supported or assisted this project.

This report can be downloaded from the Economic Roundtable web site:  
[www.economicrtf.org](http://www.economicrtf.org)

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# Executive Summary

## CRITICAL TRENDS

### **Decline in Overcrowding**

Between 2000 and 2006, overcrowding trends of the previous 20 years changed direction. Rates of severe overcrowding fell 65 percent from 2000 to 2006, leaving 8 percent of the City's renters in severely overcrowded (more than 1.5 occupants per room) conditions and another 11 percent in overcrowded conditions (more than one occupant per room). This was the result of a growing stock of larger rental units and a small decline in the renter population. Despite this good news overcrowding remains widespread among low-income renters, with 28 percent of those at or below 200 percent of the poverty level living in overcrowded conditions.

### **Increase in Rent Burden**

In 2006, LA renters were less able to afford housing than they were 16 years ago. Census data shows that 58 percent of renters are rent-burdened, paying over 30 percent of their income for rent. The share of residents who are severely rent-burdened, paying over half of their income for rent, increased to 31 percent in 2006.

### **Reduction in Rental Inventory**

In 2000, LA began to emerge from the 1990s housing construction slump and there was an increased pace of both additions and subtractions of rental units from the City's housing inventory. The net outcome from demolition, renovation and new construction of rental properties was a growing inventory of rental housing until 2004. The subsequent spike in condominium conversions resulted in a net loss of rental units by 2006.

### **Low Capitalization Rates** (*low ratio cash flow to purchase price of property*)

A quarter of the rental unit inventory in buildings with five or more units was purchased in 2005 or later. These recent purchasers have much larger debt service loads than longer-term owners, making them vulnerable to minor fluctuations in expenses or the decline in rental income that can be expected as part of the current recession.

### **Housing Construction Costs**

Construction costs typically account for about 60 percent of the cost of building rental housing, and land typically accounts for another 30 percent. Construction and land costs are high in Los Angeles, making it extremely difficult to produce new rental housing at prices that are affordable to most Los Angeles renters. If solutions are to be found, policy-makers must establish a framework that accelerates the production of affordable housing in the City.

Policy recommendations based on study findings are summarized in the following section. The final section of the Executive Summary presents key findings from each chapter.

## POLICY RECOMMENDATIONS

### Rent Stabilization Ordinance (RSO) Strengths and Limitations

The Rent Stabilization Ordinance (RSO) covers 66 percent of LA's inventory of rental units and, when owner-occupied units are included, 40 percent of all housing in the City. The majority of Los Angeles renters are rent-burdened, paying over 30 percent of their income for rent, and roughly a third are severely rent-burdened, paying half or more of their income for rent.

Strengths of the RSO program include that it touches a large segment of households in Los Angeles, most of whom are at the lower end of the income distribution, and protects them against rapid rent increases and arbitrary eviction.

The RSO program is limited in that it does not address the overall scarcity of housing in Los Angeles and the acute scarcity of housing that residents can afford, it provides little rent savings for short-term tenants, and it places administrative burdens on owners.

The purpose of the RSO is to protect tenants from excessive rent increases, while allowing owners a reasonable return on their investments. This balance is difficult to achieve in a rental market with both long-term decline in renter incomes and inflation in housing prices.

### Scope of the RSO

Options for the scope of coverage of the rental market by the Rent Stabilization Ordinance are to retain the current scope, or to reduce the scope, most likely by eliminating coverage of properties with 2 to 4 units. The third conceivable option of expanding the ordinance to include rental units built after 1978 is precluded by state law.

The primary findings from this study that argue in favor of excluding small owners from RSO coverage are that small owners are the least profitable segment of RSO owners, have the weakest grasp of financial issues related to their properties, and sometimes are ill-equipped to deal with the additional paperwork required for complying with the RSO.

The primary finding that argues against excluding small owners from RSO coverage is that 24 percent of all RSO units are held by owners of 4 or less units. In the poorest areas of the City, the share of units held by small owners is even larger – 38 percent in the Harbor region, 42 percent in South LA, and 50 percent East LA. Eliminating these units from RSO coverage would result in rent increases and loss of secure tenure for a significant share of LA renters, most of them in households that already are rent-burdened. A second argument against eliminating RSO coverage of small owners is that four-fifths of RSO properties have been acquired since rent stabilization took effect in Los Angeles, for prices that took into account the effect of the RSO on income and profits.

*It is recommended that the City retain the current scope of coverage by the Rent Stabilization Ordinance and provide technical assistance workshops and other training focused on small owners.*

### City Communication with Renters and Owners

Information provided by both renters and owners shows that many of those affected most directly by the Rent Stabilization Ordinance lack basic information about requirements and



opportunities that are part of the program. A third of renters have incorrect information about, or are unaware of, the RSO status of their unit. Two-thirds of low-income renters are unaware that the RSO limits rent increases and protects against evictions without just cause. Half of owners do not know about the capital improvement passthrough program, and despite their concerns about rent ceilings, 99.9 percent of owners have not sought relief through the just and reasonable rent increase application process.

*It is recommended that the City mail annual letters to each RSO household and property owner, identifying responsibilities, resources and benefits that are part of the program.*

### **Evictions and Tenant Relocation**

Most renters and landlords agree that at-fault tenants who are disruptive, destructive, or do not pay their rent should be evicted. Renters and landlords both express support for making it easier to evict disruptive and destructive tenants.

The other side of this coin is that the City's low vacancy rate and rapid housing inflation during much of this decade was accompanied by a spike in no-fault evictions. Declarations were filed to remove over 20,000 units from the RSO inventory between 2000 and 2007. In mid-2007, the City added housing relocation search services to help tenants in no-fault evictions. The Housing Department referred 274 displaced households to the housing relocation assistance organization, which helped less than one-in-ten households find replacement rental housing.

*It is recommended that the City inform owners that the RSO does not restrict evictions for disruptive or destructive behavior, inform renters about protections against no-fault eviction provided by the RSO, evaluate the delivery of tenant relocation services, and assess whether the level of service funded under the relocation assistance program should be increased.*

### **Loss of Rental Housing Units Due to Condominium Conversions**

Rental vacancy rates for the past eight years have fallen below the 5 percent threshold established in Los Angeles Municipal Code for suspending condominium conversions on residential rental properties of two or more units. The high rent burden for City residents, high levels of overcrowding and low vacancy rates are evidence that affordable rental housing is in short supply. Conditions that warrant denial of approval for condominium conversions have existed in the City for the past eight years.

*It is recommended that the City suspend approval of condominium conversions, monitor rental vacancy rates at the Community Plan Area (CPA) level, and maintain this policy in CPAs with vacancy rates below 5 percent.*

### **Capital Improvement Passthrough Program**

The City's aging RSO inventory requires continued investment in capital improvements, including periodic outlays for major rehabilitation that addresses primary structural, plumbing, electrical or mechanical needs. The City's main program to provide additional revenue to owners for capital improvements is the Capital Improvement Passthrough Program, which allows temporary rent increases to pay for 60 percent of the cost of improvements. In the past 5 years,

only 1 percent of RSO owners, representing 4 percent of units, have applied for this program..

Information from the landlord survey that is relevant to the design of this program includes findings that, when compared to owners of 5 or more units, owners of 1 to 4 units are:

- Less than a third as likely to have used the capital improvement passthrough program
- Less than half as likely to report making a profit on their RSO units
- Only half as likely to increase rents by the annual amount allowed under the RSO

*It is recommended that the City increase the capital improvement passthrough amount to: 75 percent for work that meets current criteria for the passthrough program but does not meet the criteria for primary renovation; 100 percent for systemic structural, plumbing, electrical, or mechanical work that can be done while tenants occupy their units; and 100 percent for either capital improvements or primary improvements for owners whose total RSO ownership, including all properties, is 4 units or less. It is also recommended that the tenant habitability component of the Primary Renovation Program and the process for determining whether a habitability plan is required be simplified and streamlined. And it is recommended that the term of payment for the tenant's share of costs be extended for up to 10 years to keep rent increases below \$25 per month for as many tenants as possible, that the \$55 monthly rent-increase ceiling for the share of capital improvements that can be passed on to tenants be indexed to the Consumer Price Index, and that the cumulative amount of capital improvement passthroughs approved for each property be tracked to ensure that tenants do not receive multiple rent increases that total more than the ceiling amount.*

### **Banking Rent Increases**

RSO tenants experience more frequent rent increases than non-RSO tenants because the current use-it-or-lose-it policy for RSO rent increases adds pressure to increase rents annually in order to avoid losing the prerogative to make an increase. Seven other jurisdictions in California with rent control allow owners to bank rent increases, that is, landlords who do not increase rents by the allowable annual amount in a given year are allowed to make this increase in future years.

Oversight of rent banking requires the rent history information that would be collected under the recommended tracking system for overseeing rent increases. If the rent registry is implemented, it is recommended that rent banking be implemented in the following year.

The option to bank rent increases makes the current 3 percent floor under the annual rent adjustment unnecessary. In years when the housing market is slow and rents are most likely to be banked, the change in the Consumer Price Index typically is less than 3 percent.

*It is recommended that the City allow owners to bank annual rent adjustments banking if the recommended rent registry is implemented, with banked rent adjustments in combination with the annual increase permitted under the RSO not to exceed 10 percent. It is also recommended that the 3 percent floor on annual rent adjustments be eliminated and that the current 8 percent ceiling on annual rent increases be retained.*

### **Joint Code of Responsibility for Landlords and Tenants**

The most widely expressed concern of landlords about their tenants, as well as tenants about their landlords, is that the other party does not reciprocate reasonable and responsible

behavior. This is not a universal problem but it is the most frequently identified problem in landlord-tenant relations.

*It is recommended that the City adopt a Joint Code of Responsibility for Landlords and Tenants as an articulated set of values about civil, reasonable behavior between landlords and tenants and include it in the Landlord-Tenant Handbook.*

### **Systematic Code Enforcement Program (SCEP)**

The Systematic Code Enforcement Program, or SCEP, is the most frequent point of contact between the Housing Department and Los Angeles landlords. The program has been recognized for its success in improving the habitability of rental housing in Los Angeles, but it evokes mixed reactions from property owners.

The two concerns most frequently expressed by owners about SCEP are the need for more consistency in how inspections are conducted and the need for greater tenant accountability for code violations they cause.

*It is recommended that the City enforce the recommended Joint Code of Landlord-Tenant Responsibilities by holding tenants accountable for code violations that they cause. It is also recommended that the City continue training inspectors in standardized procedures for documenting code violations in order to ensure more consistent outcomes from inspections.*

### **Updating Leases**

The RSO prohibits unilaterally changing the leases of tenants in ways that reduce services without corresponding rent reductions. For long-term tenants this means that their original lease can stay in force throughout their entire tenancy, even if the property changes ownership. However, as some tenancies extend, the original lease can become outdated relative to state and local laws, and even contradict them.

*It is recommended that the City inform owners and renters that the RSO does not restrict evictions for nuisance or illegal activities, nor is a declaration of intent to evict required for these evictions if they are not related to illegal drug or gang activity.*

### **Information Needed for Administering the RSO**

Information from the renter survey suggests that a significant minority of owners are imposing unauthorized rent increases. These increases appear to be most prevalent among low-income renters, which is the population most in need of protection by the RSO. Currently, the RSO program does not have information other than what is received through complaints to enable it to monitor rent increases. Building this capacity is important because the core purpose of the Rent Stabilization Ordinance is to protect tenants against excessive rent increases.

*It is recommended that the City expand the yearly registration renewal application to include information about the rent for each unit and whether or not each unit has been vacated and decontrolled in the past year.*

### **Reasonableness of the Annual Rent Increase Allowed Under the RSO Program**

An analysis of the Consumer Price Index and data on increases in apartment operating costs supports the continued use of the Consumer Price Index as a fair and objective benchmark for determining annual allowable rent increases. It protects sitting tenants from excessive rent increases, while at the same time providing apartment owners with annual increases that are reasonable and tied to a commonly used measure of price increases in Los Angeles' economy.

*The CPI annual increase standard fairly balances the interest of renters and owners.*

### **Accuracy of the Methodology Used to Calculate the Annual Rent Adjustment Percentage in Reflecting Actual Changes in Operating Costs**

The Consumer Price Index (CPI) is the best available economic benchmark for setting rent increases. The CPI is the only systematic, market-wide source of data that reflects changes in maintenance and management costs, and net operating income.

*The CPI is the best available measure of an allowance for increases in operating costs.*

### **Recommended Change to the RSO Based on Available Evidence about Financial Outcomes**

The annual rent increase of one percent per year to offset gas and electricity utility increases in master-metered buildings (a total of two percent if both services are provided) should be replaced by periodic analyses of actual changes in costs. The allowance currently used has no connection with and has substantially exceeded the actual cost increases resulting from increases in the cost of providing gas and electricity in master-metered units.

*It is recommended that the City authorize utility increases periodically when significant gas and/or electricity cost increases occur, rather than an unchanging fixed percentage annual increase.*

### **Just and Reasonable Rent Increases**

The reduced level of rent paid by long-term RSO tenants can have a significant impact on small property owners, for whom a single unit provides a quarter to half of total rent revenue. Relief should be available for owners if rent for an RSO unit falls 35 percent or more below the market rate. A 35 percent ceiling on RSO rent gaps is recommended because this is the greatest gap that has been shown to result from the rent adjustment provisions of the Rent Stabilization Ordinance. Gaps that exceed this amount can reasonably be viewed as inconsistent with the RSO objective to fairly balance the interests of landlords and tenants.

*It is recommended that the City inform property owners that Just and Reasonable Rent Increase application process can be used to address extreme disparities in rent levels.*

### **Balancing Population, Housing and Job Growth**

Demographic and economic projections underscore the challenges the City faces in providing housing that meets the needs of its diverse residents. Increasing the supply of housing

is important, but the level of housing affordability may be even more crucial to the wellbeing of the City's residents. It appears that the City is on track to meet the needs of higher-income residents, but will make only modest headway in ensuring adequate housing for lower-income residents, most of whom are severely cost-burdened and often live in overcrowded conditions.

### **Renter and Owner Support for Affordable Housing**

Over 90 percent of renters and 60 percent of owners support City initiatives that will help meet the need of residents for homes they can afford. Renters and owners agree that the housing needs of seniors and families should be prioritized, that it is important to save existing affordable units, that inclusionary zoning is desirable, and that public spending should be increased to subsidize affordable units and create home ownership programs.

### **Recommendations for Affordable Housing**

1. *Include housing that residents can afford as part of market rate development.*
2. *Use housing choice vouchers to increase the revenues generated by affordable rental projects.*
3. *Streamline entitlement processes to reduce carrying costs for affordable housing projects.*
4. *Identify "non-traditional" land that has the capacity to be developed into housing.*
5. *Focus development interest by providing information about parcels that the City is most interested in seeing developed.*
6. *Streamline the condemnation and eminent domain processes for blighted properties to provide incentives for current landowners to either sell their property or clean and redevelop the property in a timely fashion.*
7. *Use public funds to purchase affordable units with covenants on the brink of expiration and to incentivize owners of these units to continue providing their units at affordable rent levels.*
8. *Develop an affordable housing land bank.*
9. *Promote mixed-income and mixed-use projects where internal cash flows create subsidies.*
10. *Establish development fees for residential, commercial and industrial construction projects that increase the demand for affordable housing.*
11. *Link affordable housing developers with the 1,363 RSO owners that reported in the landlord survey that they interested in redeveloping their properties at higher densities with affordable or rent-controlled housing included in the new development.*

### **Fees to Pay for Implementing Recommendations**

Five recommendations that are being made will require additional funding for the Housing Department: 1) technical assistance workshops for small owners, 2) annual educational letters about the RSO to renters and owners, 3) higher level of relocation services (if borne out by an assessment of relocation services), 4) creation of a rent database for all RSO units, and 5) collection and analysis of cost data for gas and electric utilities.

*It is recommended that the City increase the annual rental unit registration fee by the amount necessary to pay for these additional responsibilities.*

## PROFILE OF THE RENTAL MARKET FROM EXISTING DATA

### Major Trends in LA's Rental Housing Market

- Much of the current housing scarcity emerged in the 1980s, a decade when LA's population grew 17 percent but its housing inventory grew only 9 percent – about half of the population growth rate. In the following decade, population growth slowed but the margin of disparity between new residents and new housing remained the same.
- Los Angeles residents rent their homes at about double the national rate.
- The shift toward greater home ownership seen in New York and Chicago may also be seen in Los Angeles in the coming decade as immigrants who arrived in the 1990s continue to make economic gains and are increasingly able to buy homes.
- Since 1997, the increase in rents in the Los Angeles region has been much greater than the increase in other consumer costs.
- Price increases since 1997 for rental housing in the Los Angeles area have been 270 percent greater than increases in all other consumer costs.

### Inventory and Characteristics of LA's Rental Housing Stock

- Los Angeles has 764,197 renter-occupied housing units. This is roughly 60 percent of the City's occupied housing.
- The Rent Stabilization Ordinance (RSO) covers 118,254 rental properties with 638,051 housing units, or two-thirds of LA's rental inventory.
- Seventy-nine percent of the RSO-regulated inventory of rental housing units was purchased by the current owners after the RSO ordinance went into effect.
- Since 1997, the net outcome from demolition, renovation and new construction of rental properties was a growing inventory of rental housing until 2004. The subsequent spike in condominium conversions resulted in a net loss of rental units by 2006.
- Most rental property owners are small landlords. Sixty-nine percent of rental properties in the City of Los Angeles have just one unit and only 3 percent have 20 or more units.
- Two-thirds of all rental units are on properties with 10 or more units, with managers with a sufficiently large scale of operations to apply professional capabilities to managing their properties.

### Characteristics of Renters

- As foreign-born residents become long-term stakeholders in their communities, home ownership rates grow. After 30 years of residency, home ownership rates for foreign-born residents surpassed those of U.S.-born residents.
- In 2006, a quarter of senior householders in Los Angeles were living in poverty and over 40 percent of all senior renters were severely rent burdened.
- In 2006, 35 percent of householders' with disabilities were living in poverty. Forty-five percent of all renters with disabilities were devoting 50 percent or more of their income



to rent and another 27 percent were devoting 30 to 49 percent of their income to rent, making them one of the most vulnerable renter populations in Los Angeles.

### Occupancy Outcomes for Renters

- Rental vacancy rates for the past eight years have fallen below the 5 percent threshold established in Los Angeles Municipal Code (“LAMC”) Section 12.95.2(F)(6) for suspending condominium conversions on residential rental properties of two or more units.
- The high rent burden for City residents, high levels of overcrowding and low vacancy rates are evidence that affordable rental housing is in short supply. Conditions that warrant denial of approval for condominium conversions have existed in the City for the past eight years. Condominium conversions have filled a need for market-rate, owner-occupied housing in the City, but often at the cost of reducing the scarce supply of rent-stabilized housing.
- The geographic distribution of condominium conversions reflects the distribution of household wealth in the City. Citywide, buyers have two and a half times more income than renters, with the incomes of both renters and buyers being highest in West LA and the South Valley.
- Citywide from 2000 to 2006, the net impact of demolitions and new construction was a 15 percent decline in the share of studio apartments and an 11 percent increase in the share of apartments with 2 or more bedrooms in the City’s rental inventory. This made an important contribution to reducing overcrowding.
- Occupant density in studio or 0-bedroom rental units dropped 35 percent and in 1-bedroom units dropped 11 percent between 2000 and 2006. A key factor contributing to this outcome was the recent increase in the typical size of rental units.
- Between 2000 and 2006, overcrowding trends of the previous 20 years changed direction. Rates of severe overcrowding fell 65 percent from 2000 to 2006, leaving 8 percent of the City’s renters in severely overcrowded conditions and 11 percent in overcrowded conditions.
- Overcrowding remains widespread for low-income renters, particularly for those living at or below 200 percent of the poverty level.

### Rent

- Between 2000 and 2006, a new trend may have begun to emerge: the share of “middle income” renters grew by 2 percentage points and the share of poor renters declined 3 percentage points.
- A large income divide still separates owners and renters: in 2006, the median income (measured in 2007 dollars) was \$73,000 for homeowners compared to \$32,000 for renters.
- In 2006, over 30 percent of renter households in the City were severely rent-burdened, paying 50 percent or more of their income for rent. The share of Los Angeles residents who are severely rent-burdened has increased by 23 percent in the last decade and a half.

- In 2006, nearly a quarter of all renters were living below the federal poverty threshold (as defined by federal guidelines) and 40 percent were living at or below 150 percent of the poverty threshold.
- The median rent for RSO tenants is less than the median rent for non-RSO tenants, and the gap in average rents is even greater. In 2006, the median and average differentials were \$113 and \$142, respectively. The rent differential for RSO units appears to have resulted from two factors: 1) the inherent difference between rents for older RSO units and newer non-RSO rental units that exists in the market place, and 2) RSO policies that limit annual rent increases.

### **Conditions in Rental Housing**

- From April 2005 through June 2008, the SCEP inspection program identified an average of 1.5 violations in each of the 757,677 rental units that were inspected throughout the City of Los Angeles.
- The most common SCEP violations are: deteriorated interior walls, inoperable or missing smoke detectors, windows or doors requiring maintenance, and unsafe floor coverings.
- The most frequent code violation, found in 18 percent of Building and Safety notices to comply issued, is for construction work that was done without a permit, often to increase the size and occupant capacity of housing units. The second most frequent type of violation, found in 9 percent of cases, is for garage conversions that were done without a building permit, typically to create rental housing that in some cases was substandard.
- There have been 441 cases from 2002 through early 2008, in which RSO property owners were issued notices by the LA Department of Building and Safety for converting an apartment building or property to another use.
- The number of apartment buildings converted to condominiums has increased annually since 2003, with more than 100 former apartment buildings converted each year since 2005.
- Citywide in Los Angeles, the Census Bureau reported that 3 percent of units lacked complete kitchen facilities and 2 percent lacked complete plumbing facilities.
- There is a direct connection between the income level in a community and the number of substandard dwelling units reported – individuals in substandard units are likely to be extremely poor, disabled and/or linguistically isolated.

## **SURVEY OF RENTERS LIVING IN THE CITY OF LOS ANGELES**

### **Carrying Out the Telephone Survey**

- A random-sample telephone survey of 4,859 renters was completed, providing up-to date information about the attitudes, finances, and experiences of renters.
- The survey achieved a 44.4 percent overall response rate and was conducted in three languages - Spanish, English and Korean.

- Thirty percent of respondents chose to donate the value of their gift card to LA's Affordable Housing Trust Fund.

#### **Benchmarking the Renter Survey against Census Data**

- The renter survey obtained responses from two-thirds as many renter households in LA as the U.S. Census Bureau's 2006 American Community Survey (ACS).
- The types of households that the Census Bureau has the greatest difficulty reaching – low-income renters – are the households from which the renter survey obtained higher representation.

#### **Length of Stay/Tenure**

- Citywide, 70 percent of the renter survey respondents have lived in their current units less than ten years.

#### **Overcrowding**

- There is evidence showing that the overcrowding problem in the City has improved since 2000. Survey data indicates that 28 percent fewer renter households live in severely overcrowded condition than reported by the 2000 Census. The survey, however, found more overcrowding than 2006 Census figures.
- Overcrowding and severe overcrowding are most prevalent in the South LA, East LA and North Valley regions.
- A majority of renter households with 5 or more people live in units with inadequate space. Seventy percent of 5-person households live in overcrowded or severely overcrowded units with 4 rooms or less, and almost 90 percent of households with 6 or more people live in inadequate densities.

#### **Renters' Awareness of Their Unit's RSO Status and RSO functions**

- Thirty-four percent of renters are incorrect about, or unaware of, the RSO status of their unit.
- Only 41 percent of renter survey respondents who say that they speak English "Not well" or "Not at all" are aware that the RSO limits rent increases each year.
- Only 48 percent of renters with household incomes less than \$25,000 per year know that the RSO limits the legal reasons for eviction.

#### **Landlords' Declarations of Intent to Evict Tenants; Tenant Relocation Program**

- There was a surge in Landlord Declarations of Intent to Evict filed with the Housing Department from 2000 onwards, peaking in 2005, counter to the downward trend in overall unlawful detainer cases.
- Evictions related to condominium conversion account for 54 percent of all evictions recorded by the Housing Department.

- East LA and West LA stand out as having disproportionately more cases of evictions during the period from 1998 to 2008.
- The Housing Department had referred 187 no-fault eviction cases to its housing relocation assistance services provider as of mid-May 2008, representing 274 tenant households and at least 532 tenants.

#### Leases and Rental Agreements

- Seventy-one percent of renters have a written lease or rent agreement with their landlord.
- Among survey respondents whose lease is written in English, 77 percent were renters who completed their telephone interview in English, 21 percent in Spanish, and two percent in Korean.

#### Rent

- The rent differential between RSO and non-RSO units ranged from a high of \$500 to virtually no difference
- A little over 60 percent of Los Angeles' households have less than two people contributing to rent payments
- Citywide survey results show 18 percent more severely rent burdened households and 11 percent more rent burdened households than the 2006 Census.
- A majority of renters in Los Angeles say that it is somewhat or very difficult to pay rent.
- Overall, 11 percent of respondents in the City receive some form of rent subsidy
- Sixty-three percent of tenants in RSO units report that their rent increases *every* year. Only 54 percent of their counterparts in non-RSO units report yearly rent increases.
- The 2007-2008 renter survey found that the share (56 percent) of market-rate units with rent increases below the rate of rent inflation is 27 percent larger than the share (44 percent) of RSO units with rent increases that are less than those allowed by the RSO.

#### Excessive or Potentially Unauthorized Rent Increases in RSO Units; Tenant Complaints

- Twenty-seven percent of tenants in RSO units reported current rents that were *above the projected allowable increase* permitted by the RSO.
- Tenants who appear to have received rent increases above the projected allowable increase were those with the lowest starting rents.
- A portion of RSO tenants may well be receiving unauthorized rent increases. Low-income renters are more likely to have rent increases that are above the allowable increase.
- The City of Los Angeles Housing Department (LAHD) receives over 7,000 tenant complaints per year concerning possible violations of the RSO – complaints about illegal rent increases account for a third of these.

### Trajectory of Rent Increases

- Renters who moved into RSO units between 1997 and 2006 received rent increases from their landlords that were on average 15 percent less than the RSO's maximum allowable rent increases.
- Tenants of market-rate units who started renting their units between 2001 and 2005 received rent increases at rates similar to the RSO allowable increase.
- Median RSO rent increases have generally increased at a steady rate slightly below the RSO allowable increase.
- Typical non-RSO tenants have consistently received larger rent increases in comparison to RSO tenants. Additionally, rent increases have generally not kept pace with increases in the CPI and have varied with fluctuations in the economy and rental market.
- Between 1997 and 2006, typical RSO tenants received rent discounts ranging from 2 percent to over 40 percent.
- The size of the RSO rent discount is contingent upon fluctuations in the market that impact the degree to which non-RSO rents increase.

### Tenants' Perception of Rental Conditions

- A plurality of renters in the City of Los Angeles (46 percent) reports their housing units being in "excellent" or "good" condition. Another 43 percent characterize their rental units as being in "fairly good" or "fair" condition.
- The Housing Department's Code Enforcement Unit found a higher rate of violations in the units of renters who described their unit as being in "Fairly Poor" or "Very Poor" condition.
- A majority of renters in the City of Los Angeles say that they are treated either "very well" (courteous and polite - 50 percent) or "somewhat well" (33 percent) by their landlord.
- Three quarters of renters living in the City of Los Angeles are "very likely" or "somewhat likely" to recommend their building to a friend or relative as a good place to live.
- Tenants' most common complaint to LAHD is about illegal rent increases, with complaints about false or deceptive eviction notices being almost as common.

### Renter Perceptions of Affordable Housing

- Over 90 percent of renters in the City believe that is very or somewhat important that Los Angeles create affordable housing.
- Renters ranked 11 potential policy initiatives to provide affordable housing in the City – the only option that did not garner overwhelming support was "let private markets solve housing problems."
- Renters' highest stated priority is to provide affordable rental housing for seniors.
- The second highest priority is informing tenants of their rights and helping them access services.
- Discrimination and unfairness are paramount concerns among renters.

## PROPERTY OWNER SURVEY (*random sample of RSO property owners*)

### Ownership Structure

- Most owners in all size classes have many years of experience in owning and managing residential rental property. Two-thirds have at least ten years of experience. Only 7 percent have two or less years of experience.
- Three-quarters of RSO owners have small holdings, 4 or less units, usually on a single property, with long-term experience (10 or more years) with this scale of ownership – they own one-quarter of RSO units.
- One-quarter of RSO owners have medium or large holdings (5 or more units), long-term ownership experience, and often own multiple properties, some of which are in other cities – they own three-quarters of RSO units.

### Vacancy Rates and Turnover

- The survey interval of November 2007 through April 2008 covered a period of high demand for rental housing. Ninety-six percent of RSO units were occupied, 3 percent were vacant for rent, and 1 percent were vacant for other reasons.
- The point-in-time vacancy rate is low despite the fact that roughly a fifth of units turn over in the course of a year, indicating that owners have not had to wait long to find new renters for vacant RSO units.
- There are fewer turnovers in RSO units than in non-RSO units.

### Long-term Tenants

- Eight percent of RSO units have been occupied by the same tenant for 15 or more years.
- If owners increase rent every year by the amount allowed by the Rent Stabilization Ordinance, rents are unlikely to be more than 35 percent less than market rates. It is probable that any gaps greater than this are the result of other factors, including years in the 1990s when the housing market was depressed and owners did not increase rents, and neighborhoods in which rents have increased more rapidly than the overall LA average.
- A small share of long-term RSO tenants with very low rents appears to have a disproportionate and adverse financial impact on a subpopulation of small property owners. To fairly balance the interests of tenants and owners, as called for by the Rent Stabilization Ordinance, it is reasonable to consider providing some relief for these small owners.

### Finding Tenants and Leasing Units

- Overall, 47 percent of owners use word of mouth to find tenants. Next most frequently, 41 percent of owners use signs on their property.
- Eighty-eight percent of RSO tenants rent their unit with a written lease or rent agreement.



### Financing Capital Improvements

- From January 2003 to April 2008, only 1.3 percent of RSO owners applied to pass through capital improvement costs to their tenants.
- Fifty-six percent of those who had not applied said it was because they had not heard of the program.
- The most widely expressed concern about the Capital Improvement Passthrough Program is that a larger share of the cost for maintaining the basic infrastructure of rent-stabilized housing needs to be shared by tenants.
- Prior to 1989, when the passthrough amount was 100 percent, the amount of investment was 189 percent greater and the number of units upgraded was 218 percent greater than in the following 18 years when the passthrough amount was reduced to 50 percent.

### SCEP Inspections

- Sixty-seven percent of the City's RSO properties and 58 percent of market-rate properties inspected from April 2005 through June 2008 were found to have code violations that required correction.
- An important factor affecting the likelihood of code violations is the age of a property.
- Nearly half of owners (48 percent) say that the SCEP program was either "very helpful for identifying needed maintenance," or "a useful service."
- Owners of properties built in 1967 or later are 2.5 times more likely than owners of properties built in 1966 or earlier to say that SCEP is an "unnecessary expense."
- Owners of properties built in 1960 or earlier are 3.6 times more likely than owners of properties built in 1961 or later to say that SCEP is "very helpful for identifying needed maintenance."
- Owners of 10 or less units are 3.1 times more likely than owners of 11 or more units to say that SCEP is "very helpful for identifying needed maintenance."
- Comments by owners suggest that the preferable approach to strengthening the program is by replicating the best practices of the most knowledgeable and judicious inspectors.
- Owners of older, smaller properties tend to experience SCEP as a useful source of technical assistance for maintaining their properties. Owners of newer, larger properties tend to experience SCEP as an unnecessary intrusion into the management of their properties.
- The two most frequently expressed concerns about SCEP are the need for more consistency in how inspections are conducted and the need for greater tenant accountability for code violations they cause.

### Tenant Accountability and Reliability

- Responses about problems with holding tenants accountable for things that should be their responsibility are almost evenly divided: 48 percent of owners say this is never or rarely a problem; 53 percent say it is sometimes or often a problem.

- Owners of 1 to 4 units report fewer problems with tenant accountability – they were 3 times more likely than owners of 5 or more units to report that holding tenants accountable for maintenance was never an issue.
- Owners who say that tenant accountability is often a problem are nearly twice as likely to have had a complaint filed against them for failure to comply with Rent Stabilization Ordinance regulations as owners who say that this is never an issue.
- Negative attitudes are often reciprocal between owners and tenants. Owners who have more positive views about their tenants appear, in turn, to be viewed more positively by their tenants.
- Among owners of 1 to 4 units an astounding 44 percent of tenants fail to pay their rent on time in an average month. The rate of delinquency goes down as ownership size increases, with owners of 40 or more units reporting an average of 6 percent late payments per month.
- There appears to be no difference between RSO and non-RSO properties in the rate of rent payment delinquencies.

#### Evictions

- Eighteen percent of owners report having evicted tenants for rent delinquency in the past two years.
- The high rent delinquency rates reported by owners of 1 to 4 units appear to be accompanied by high eviction rates; over the course of two years, evictions are reported for 48 percent of their units.
- Eviction rates for delinquent rent drop dramatically as ownership size increases – down to 2 percent for owners of 40 or more units.
- Evictions for rent delinquency are highly correlated with evictions for disruptive behavior, that is, the owners that are filing for evictions for rent delinquency are the same as those that are filing evictions for disruptive behavior.
- Fifty percent of owners of 1 to 4 units report that over the course of two years, evictions for disruptive behavior are initiated for 50 percent of their units. This rate drops to 4 percent for owners of 40 or more units. For all owners it is 13 percent.
- Ninety-three percent of owners have never filed a declaration of intent to evict with the Housing Department, and 3 percent of owners account for 60 percent of all declared evictions.
- Evictions for which a declaration of intent to evict is filed are over-concentrated in West Los Angeles (eviction rate 223 percent of the City average), South Valley (eviction rate 175 percent of the City average), and Central Los Angeles (eviction rate 139 percent of the City average).
- Evictions appear to be concentrated in the areas of the City where rents are highest.
- Seventy-seven percent of owners reported that evicting disruptive tenants is difficult or very difficult.

### **Tenant Costs**

- Citywide, four-fifths of owners do not pass either the registration or the SCEP program fee to tenants.
- Tenants in 63 percent of RSO units pay additional costs for specific utilities or services.
- Electric and gas utilities are the most frequent additional fees, paid by roughly half of tenants. Fifteen percent pay for use of laundry facilities, 7 percent pay for both trash and water utilities, 4 percent pay for parking, and 3 percent for storage.
- Small owners are much less likely to increase their rents than large property owners – rents are increased annually for tenants at 31 percent of properties with 1 to 4 units, compared to 77 percent who can expect annual increases at properties with 40 or more units.
- The likelihood of annual rent increases also varies by region of the City. Rents are raised annually at 52 percent of RSO properties in the Central region of the City compared to only 31 percent of properties in South Los Angeles, and 29 percent of properties in the North San Fernando Valley.

### **Property Maintenance**

- Fifty-seven percent of owners say that all maintenance is handled immediately and preventive maintenance is practiced.
- Two-thirds of RSO units are reported by owners to be maintained at a level that is as good as, or better than, units that are not under rent control, and one-third are reported to have a lower level of maintenance.

### **Reasons for Acquiring RSO Property**

- The most frequently stated reasons for acquiring RSO properties are: income from residential rents, retirement security, and as a residence for self or family members.
- Nineteen percent of owners “fell into” the RSO rental housing market by inheriting the property, acquiring their property prior to the enactment of the RSO, or simply because they did not know their property was under rent control when they purchased it.

### **Debt on RSO Properties**

- Sixty-five percent of the rent-stabilized housing inventory is encumbered by debt.
- The rate of debt-burdened property increases as property size increases – from a low of 60 percent for properties with 1 to 4 units, to 80 percent for properties with 40 or more units.
- Eighty-five percent of the units with a debt burden were financed between 2000 and early 2008. This is the interval when financing has often created debt burdens that exceed rental income by substantial margins.
- Forty-three percent of units in the RSO inventory have been purchased since 2000, and 55 percent of units have debt incurred since 2000, suggesting that 12 percent of the RSO inventory is burdened by debt that is the result of refinancing rather than purchase.

### **Profit and a Reasonable Return on Investment**

- Almost two-thirds of RSO units produced a profit or broke even last year, and slightly over a third had a loss.
- The likelihood of reporting a profit increases along with ownership size. Owners of 1 to 4 units are more likely to report a loss than owners of 5 or more units.
- Less than a third of owners answered that their properties that are not under rent control are more profitable than their properties that are rent stabilized.
- Owners representing over 70 percent of the RSO inventory report that they do not get a reasonable return on their investment from RSO properties.
- Owners representing over three quarters of the RSO inventory say that rent increases do not keep up with operating costs.
- The owner at highest risk of having a loss will have 1 to 4 units, will have purchased the property in 2000 or later, will have acquired the property for a personal residence or to supply affordable housing, will postpone maintenance, and will have more than minimal numbers of tenants delinquent in their rent every month.
- Among all owners citywide, a third (32 percent) say they would still acquire their rent-stabilized property, a plurality (41 percent) say they would not acquire the property, and a quarter (27 percent) are unsure.

### **Providing Affordable Housing**

- Sixty-one percent of owners say that affordable rental housing is somewhat important or very important, demonstrating strong support among these equity holders for meeting housing needs.
- Only 17 percent of owners state that it is somewhat unimportant or not important at all to meet this need.
- Owners express support for a broad range of public sector actions to meet LA's affordable housing needs. The reason for this activist posture heard in a number of focus groups is that many owners believe that a disproportionate share of the citywide responsibility for providing affordable housing is falling on the shoulders of RSO owners.

## **IMPACTS OF THE RENT STABILIZATION ORDINANCE ON THE OUTCOMES OF APARTMENT INVESTMENTS**

### **Rental Units Under the RSO and the Operation of the Rental Housing Market**

- The RSO inventory of units can be divided into thirds: a third are on properties with 4 or less units, a third are in properties with 5 to 19 units, and a third are in properties with 20 or more units.
- Building size is largely a function of the period in which a building was constructed – in

earlier eras, small buildings were the mainstay of rental housing.

- Fifty-one percent of RSO tenants moved into their current unit within the past 5 years, 21 percent 5 to 9 years ago, and 23 percent 10 or more years ago.
- Turnover rates have declined since 2000.
- The rate of turnover in buildings with 2 to 9 dwelling units was a little lower than the rate for buildings with 10 or more units.
- Rates of turnover are a little higher in the newer portions of the Los Angeles stock that are not covered by the RSO than in RSO units.
- From 2000 to 2006, rents increased most in the areas that had the lowest rents in 2000.
- Increases in rents since 2000 are mainly attributable to the increases obtained upon vacancies.

### **Impacts of the Annual Rent Increase Ceilings**

- In the 1980's and since 1999 (but not from 1990 through 1998), the RSO ceilings on annual rent increases have limited rent increases for sitting tenants to levels below market-rate increases in the LA region.
- The annual percentage rent increase allowed under the RSO exceeded or roughly equaled the percentage increase in national rents during 23 of the past 29 years.
- Over the past eight year period, annual rent increases under the RSO exceeded market rent increases in 15 of 23 metropolitan areas in the U.S.

### **Performance of Investments in Multifamily Housing**

- About a quarter of all units in buildings with five or more units have been purchased in 2005 or later. This is very significant because the recent purchasers operate under much larger debt service loads than longer-term owners.
- From 1999 through 2006, apartment sales prices tripled, from an average of \$40,701 to \$127,484.
- In 2007, apartment values decreased by 4 percent.
- The average annual compounded rate of appreciation (compounded annual growth rate or CAGR) from 1999 to 2006 was 15.4 percent. However, over the longer period from 1990 to 2007, the CAGR was 4.7 percent.
- From 2000 to 2005, even an apartment with a fixed net operating income stream increased substantially in value because the market value of an income stream increased because of the decline in capitalization rates for apartment purchases.
- There are significant differences in the price of apartments based on location, size and age, but that the rate of appreciation from 1999 to 2006 has been similar for all apartments regardless of these distinctions.
- It does not appear that the RSO has had a significant impact on the average rate of appreciation of apartment buildings. The rates of appreciation and increases in values are similar among buildings that are covered by the RSO and buildings not covered by the RSO, and higher in the City than in other comparison communities.

- Based on Assessor's data, RSO properties in the City of Los Angeles had the second highest rate of appreciation out of 40 metropolitan regions. Based on CoStar data, the greater Los Angeles area had a rate of appreciation that was exceeded by only 8 of the 40 metropolitan regions in the U.S.
- Apartment values are highly dependent on capitalization rates. If capitalization rates increase by a few percent, a substantial portion of apartment owners could be left with sharply reduced or even negative equities in their buildings that could not be solved by City policies or the market.
- The rate of return on apartment investments is linked to when the investment was made. Owners who purchased prior to about 2003, paid prices for their apartments that are low relative to the market value of their units in early 2008, when sales data was analyzed, and are likely to be low relative to current net operating income levels. These owners have substantial cash flows, unless they have obtained larger mortgages and, thereby, reduced their cash investment. On the other hand, recent purchasers are in a radically different position. A substantial portion of these owners have incurred mortgage obligations that leave little space for cash flow or increases in investments in maintaining and renewing their properties, making them vulnerability to minor fluctuations in expenses or rental income.

## COMPARISON OF LOS ANGELES RENT STABILIZATION ORDINANCE WITH ORDINANCES IN OTHER CALIFORNIA CITIES

### Brief Perspective on Rent Regulations in California

- Currently, 10 jurisdictions in California have apartment rent stabilization ordinances - Berkeley, Beverly Hills, East Palo Alto, Hayward, Los Angeles, Oakland, San Francisco, San Jose, Santa Monica, and West Hollywood.
- The California Legislature passed the Costa-Hawkins Rental Housing Act in July 1995, which provides for vacancy decontrols on rents subject to local rent control ordinances.

### Comparison of Annual Rent Increase Standards

- Currently, most of the municipal rent control ordinances in California tie allowable annual rent increases to the percentage increase in the Consumer Price Index (CPI).
- Questions have been raised about whether the CPI should be used to determine allowable annual rent increases on the basis that it is based on the market basket of goods purchased by an average household, which differs substantially from the basket of expenses associated with operating apartment buildings.
- Under some rent control ordinances, annual apartment operating cost studies have been used to determine allowable annual rent increases, instead of the CPI. However, the outcome of these studies are largely determined by the CPI, because estimates of increases in a substantial portion of apartment operating expenses are based on the CPI, because actual data is unavailable.

- Annual rent increases in cities that authorize a *fixed* percentage annual increase (San Jose, Hayward, and Beverly Hills) have exceeded allowable annual increases under the RSO.

#### **Allowable Rent Increases For Apartment Owners Who Pay For Master Metered Gas And/Or Electricity**

- Under the Los Angeles ordinances, apartment owners who provide master-metered gas and/or electricity are permitted additional annual rent increases of one percent for each of these services that are master-metered.
- In fact, there is no connection between the annual master-metered increase authorized by the Los Angeles RSO and the actual cost increases associated with the provision of master-metered gas and electricity.
- Some of the other jurisdictions with rent control provide apartment owners with additional allowances for master-metered gas and electricity, but link these additional rent increases to an estimate of the average increase in the cost of those utilities or provide for passthroughs of cost increases based on individual building applications.

#### **Comment on Proposals for Lowering the Annual Allowable Increase for Seniors and/or Disabled Persons on Fixed Income**

- There are no provisions in any California rent control law that provide for lower annual rent increases for low-income households, senior or disabled renters.
- Judicial precedent in regard to the constitutionality of rent control provisions that place greater limits on the allowable rent increases of protected classes of tenants has been mixed.
- Rent control provisions that provide for low rent increases for protected classes of tenants (low income, seniors and the disabled) may result in discrimination against these classes in the selection of tenants by apartment owners.

#### **"Banking" Rent Increases**

- Under most rent stabilization ordinances, but not the Los Angeles RSO, apartment owners may "bank" allowable annual rent increases if they are not implemented in the year in which they are permitted.
- Some jurisdictions limit the amount of banked rent increases that can be implemented in a single year and/or place a ceiling on the total amount of increases that can be banked so that tenants who have benefitted from banked increases are not suddenly faced with steep rent increases.

#### **Rent Stabilization Programs - Administration Fees**

- Registration fees vary greatly among the different California cities with rent control laws. Higher fees are in effect in cities that once had vacancy controls (pre-Costa-Hawkins) and still require annual registration of rents and reporting of rents for new tenants.



## HOUSING MARKET DYNAMICS, DEVELOPMENT FINANCING, AND GROWTH TRENDS

### Production Trends for Market-Rate and Affordable Housing Projects

- In the past 5 years, about 23,000 new apartment units have been completed in Los Angeles County, an average of 4,500 apartment units completed per year. The bulk of these units have been produced in Downtown, West Los Angeles, and the San Fernando Valley.
- Housing production in Los Angeles through 2006 was strong; permits were issued for over 4,300 large structures totaling over 100,000 units.
- Due in part to slow production in the 1990s, production of both market rate and affordable housing in the city has not kept pace with the needs associated with the City and region's growing population.
- While the housing market has cooled considerably and now stands far below its historic highs, ownership housing is still far from affordable.
- This lack of affordable ownership product has placed additional upward pressure on rental properties by keeping demand for rental properties strong.

### The Dynamics of Production of Market Rate and Affordable Housing

- The high cost of land in Los Angeles, coupled with basic costs of construction labor and materials, add up to a cost structure such that market-rate rents will greatly exceed a rent level that would be affordable for many families.
- For apartments, capitalization rates have fallen from more than 8.5 percent in 2001 to close to 6 percent in 2006, and have remained near this level until relatively recently.
- Many owners who have assumed mortgages for rental properties during this decade have found that the debt service associated with their property has consumed a larger share of their cash flows than was the case for properties purchased in the preceding decade.
- Los Angeles' housing market surge has altered landowner expectations, resulting in an escalation of prices for land and parcels in previously lower-cost areas that would ordinarily be most conducive for the production of affordable housing on a cost basis.
- Since 2002, new housing building and construction costs have risen by about 23 and 27 percent, respectively, far outpacing the 16 percent rate of inflation in the economy during this time.

### Development Financing

- The market for construction finance is an important determinant of the ultimate costs that a housing developer faces.
- Financing terms that result in lower financing costs might make it possible to achieve affordable minimum rents even in the face of rising construction costs. LA City policy makers can help create more attractive financing options that would reduce the costs of construction.
- During Los Angeles' last housing boom, institutional investors (hedge funds, opportunity funds, and private equity funds) became important players in construction finance,

serving as equity partners on some deals and offering favorable interest rates compared to those offered by commercial banks.

- Institutional investors have largely exited the market for construction finance during the current credit crunch, causing underwriting standards to tighten as commercial banks are left as the primary and dominant construction lender for multifamily projects.
- Tighter underwriting has reduced the pool of creditworthy borrowers, meaning there are fewer developers that will be deemed sufficiently creditworthy to warrant the extension of a construction loan. (The higher standards for creditworthiness are also affecting rental property owners seeking to carry out major renovations or expansions that lead to greater density.)
- Consistent with market rate projects, affordable housing projects faced more expensive construction and permanent debt, with prices rising about one-half of a percentage point in the second half of 2008.
- Financing for affordable housing typically involves the public sector, where subsidies are used to fill the gap between rents set at levels that are affordable for lower-income households and the projects' debt service payment obligations for land purchase and construction property management.
- The recent economic slowdown and credit crunch have had major adverse effects on the public subsidies for development financing, such as the Federal Low-Income Housing Tax Credit (LIHTC) program.
- In California, the adverse trends in finance have outweighed the decline in construction and building costs associated with the weakening housing market. Given that most affordable housing projects are difficult to pencil in the most bullish of market conditions, the rising interest rates coupled with the loss of significant low-cost equity capital is likely to seriously hinder the pace at which these projects are built.

### Policy Options for Producing Market-Rate and Affordable Housing

- *Inclusionary Zoning* – Include housing that residents can afford as part of market rate development. Couple inclusionary zoning with cost offsets such as permit streamlining, density bonuses, parking requirement relief and others to achieve revenue neutral, or near-revenue-neutral, outcomes for developers while adding affordable units.
- *Housing Choice Vouchers* - Use housing choice vouchers (commonly referred to as Section 8 vouchers) to increase the revenues generated by affordable rental projects.
- *Regulatory Relief* - Streamline entitlement or approval processes to reduce the burden of carrying costs for affordable housing projects that are on the margin of profitability.
- *Creative use of "Non-traditional" Land* - Identify "non-traditional" land that has the capacity to be developed into housing. Areas to consider include: a) parking lots, b) blighted properties and c) obsolete industrial land that will not result in the loss of sustainable jobs.
- *Inventory of Developable Parcels* - Create a database of and provide information about parcels that the City is most interested in seeing developed. Use this inventory to focus development interest and identify those communities in which the City will actively support development.

- *Expedite Recycling of Blighted Property* - Streamline the condemnation and eminent domain processes for blighted properties to provide incentives for current landowners to either sell their property or clean and redevelop the property in a timely fashion. In some instances, this can produce new multifamily units (either market rate or affordable); in others, it will enhance the community's character and make it more conducive to housing and other investment.
- *Protect Affordable Units* - Direct public funds to either purchase affordable units with covenants on the brink of expiration or incentivize the owners of these units to continue to provide their units at affordable rent levels.
- *Affordable Housing Land Bank* - Develop an affordable housing land bank that is controlled by either the City or a non-profit whose mission is to provide and preserve affordable housing.
- *Internal Cross-Subsidy* - Promote the development of projects where the subsidy originates from internal cash flows, namely mixed-income and mixed-use projects.
- *Development Fees* - Establish development fees for residential, commercial and industrial construction projects that increase the demand for affordable housing. New development should be partially accountable for the affordable housing needs that are created.
- *Link Property Owners with Affordable Housing Developers* – 1,363 RSO owners reported in the survey that they are definitely interested or might be interested in redeveloping their properties at higher densities with affordable or rent-controlled housing included in the new development. Contact these owners to secure their permission to release their names to affordable housing developers so as to identify a large inventory of sites for potential use by the affordable development community.

# Los Angeles County Strategies to Combat Homelessness

E. CREATE A COORDINATED SYSTEM		
E1 Advocate with Relevant Federal and State Agencies to Streamline Applicable Administrative Processes for SSI and Veterans Benefits	E5 Decriminalization Policy	E12 Enhanced Data Sharing and Tracking
E2 Drug Medi-Cal Organized Delivery System for Substance Use Disorder Treatment Services	E6 Countywide Outreach System	E13 Coordination of Funding for Supportive Housing
E3 Creating Partnerships for Effective Access and Utilization of ACA Services by Persons Experiencing Homelessness	E7 Strengthen the Coordinated Entry System	E14 Enhanced Services for Transition Age Youth
E4 First Responders Training	E8 Enhance the Emergency Shelter System	E15 Homeless Voter Registration and Access to Vital Records
	E9 Discharge Data Tracking System	E16 Affordable Care Act Opportunities
	E10 Regional Coordination of Los Angeles County Housing Authorities	E17 Regional Homelessness Advisory Council and Implementation Coordination
	E11 County Specialist Support Team	

B. SUBSIDIZE HOUSING	
B1 Provide Subsidized Housing to Homeless Disabled Individuals Pursuing SSI	
B2 Expand Interim Assistance Reimbursement to additional County Departments and LAHSA	
B3 Partner with Cities to Expand Rapid Re-Housing	
B4 Facilitate Utilization of Federal Housing Subsidies	
B5 Expand General Relief Housing Subsidies	
B6 Family Reunification Housing Subsidy	
B7 Interim/Bridge Housing for those Exiting Institutions	
B8 Housing Choice Vouchers for Permanent Supportive Housing	

A. PREVENT HOMELESSNESS	
A1 Homeless Prevention Program for Families	
A2 Discharge Planning Guidelines	
A3 Housing Authority Family Reunification Program	
A4 Discharges From Foster Care and Juvenile Probation	

D. PROVIDE CASE MANAGEMENT AND SERVICES	
D1 Model Employment Retention Support Program	
D2 Expand Jail-In Reach	
D3 Supportive Services Standards for Subsidized Housing	
D4 Regional Integrated Re-entry Networks - Homeless Focus	
D5 Support for Homeless Case Managers	
D6 Criminal Record Clearing Project	

C. INCREASE INCOME	
C1 Enhance the CalWORKs Subsidized Employment Program for Homeless Families	
C2 Increase Employment for Homeless Adults by Supporting Social Enterprise	
C3 Expand Targeted Recruitment and Hiring Process to Homeless/Recently Homeless People to Increase Access to County Jobs	
C4 Establish a Countywide SSI Advocacy Program for People Experiencing Homeless or At Risk of Homelessness	
C5 Establish a Countywide Veterans Benefits Advocacy Program for Veterans Experiencing Homelessness or At Risk of Homelessness	
C6 Targeted SSI Advocacy for Inmates	

F. INCREASE AFFORDABLE/HOMELESS HOUSING		
F1 Promote Regional SB 2 Compliance and Implementation	F3 Support Inclusionary Zoning for Affordable Housing Rental Units	F5 Incentive Zoning/Value Capture Strategies
F2 Linkage Fee Nexus Study	F4 Development of Second Dwelling Units Pilot Program	F6 Using Public Land for Homeless Housing