

STUDY SESSION RENT STABILIZATION

September 1, 2015

Introduction

- Issues
- Summary of Strategies
- Background:
 - State Law
 - Market Overview / Housing Data
- Other City Rental Housing Programs
- Policy Options & Implications

Issues to be addressed

- Rapid rise in residential rents in recent years
- Reduction in affordability – impact on family budgets
- Displacement of working families
- Limited rental housing supply

Rent Stabilization Strategies

Other California cities have adopted a range of strategies to manage rent increases and protect renters:

- Enhanced Monitoring and Community Outreach
- Voluntary Programs
- Stand Alone Just Cause for Eviction Ordinance
- Rent Stabilization Ordinance

BACKGROUND

California State Law

- Cities have the authority under the State Constitution and statutes to institute rent stabilization to serve legitimate government purpose.
- Any rent stabilization ordinance must provide landlords a “just and reasonable return” on their investment or will be considered to be an “unconstitutional taking”

California State Law

- For month-to-month leases, landlord required to give advance Notice of Rent Increase 30-60 days depending on the amount of increase and total of rent increases in the prior 12 month period (Civil Code 827(b))
- No specific limit on amount of rent charged under state law unless in connection with a state or federal subsidized program

- **Eviction Notices**
 - 30 or 60-day advance notice for no-fault
 - Three-day notice for at-fault eviction (Code of Civil Procedure Section 1161(2)-(4)) i.e. such as failure to pay rent
- **Retaliatory and Discriminatory Evictions Prohibited** (Code of Civil Procedure Section 1942.5, Fair Housing Act)

California State Law

- Costa-Hawkins Rental Housing Act passed in 1995 exempts the following units from rent control: (California Civil Code Section 1954.50-1954.535)
 - Units with a certificate of occupancy issued after February 1, 1995
 - Single family homes
 - Condominium units sold separately to a purchaser for value

California State Law

- Rent stabilization cannot set the initial rental rate or rent that can be charged once a unit is vacated
- To reduce evictions of tenants some cities have elected to adopt a “Just Cause Eviction” ordinance independently or in addition to a rent stabilization ordinance

- Just Cause Eviction - Must be a legitimate basis for termination of lease
 - Failure to pay rent;
 - Use for unlawful purpose;
 - Violation of lease terms;
 - Owner withdrawing from market or intending to occupy.

Santa Rosa and Sonoma County Housing Market Overview

- Housing stock, age, and tenure
- Housing rents and occupancy
- Housing affordability

Housing Stock & Tenure

- The City of Santa Rosa has a higher share of renters (46.6%) than Sonoma County average (39.9%) .
- Nearly 68% of the City's housing units are single family attached and detached units.
- 28% of the housing units are multi-family, 89% consisting of buildings of three or more units.
- 80% of the City's housing units were built before 2000, indicative of an aging housing stock

Potential Units Subject to Rent Stabilization Estimates

Total units	66,605
Single family attached/detached	45,215
Multi-family	18,808
Other	2,582
Built prior to Feb. 1, 1995	14,640
Affordable housing exempt units	(1,254)
Subject to rent stabilization	13,386

Housing Stock

Units in Structure	City of Santa Rosa	
	Number	% of Total
Single Family (Detached)	39,334	59.1%
Single Family (Attached)	5,876	8.8%
2 Units	2,072	3.1%
3 or 4 Units	3,919	5.9%
5 to 9 Units	3,266	4.9%
10 to 19 Units	3,609	5.4%
20 or More Units	5,941	8.9%
Mobile Home	2,574	3.9%
Other	<u>14</u>	<u>0.0%</u>
Total	66,605	100.0%

Source: U.S. Census Bureau, 2009-2013 5-Year American Community Survey.

Housing Tenure

Tenure	City of Santa Rosa		Sonoma County	
	Occupied Households	% of Total	Occupied Households	% of Total
Owner	33,514	53.4%	111,634	60.1%
Renter	<u>29,251</u>	<u>46.6%</u>	<u>74,026</u>	<u>39.9%</u>
Total	62,765	100.0%	185,660	100.0%

Source: U.S. Census Bureau, 2009-2013 5-Year American Community Survey.

Year Built

Year Built	City of Santa Rosa		Accumulated Percentage
	Number	% of Total	
1939 or Earlier	3,801	5.7%	5.7%
1940 to 1949	3,805	5.7%	11.4%
1950 to 1959	5,135	7.7%	19.1%
1960 to 1969	8,057	12.1%	31.2%
1970 to 1979	15,368	23.1%	54.3%
1980 to 1989	11,874	17.8%	72.1%
1990 to 1999	8,972	13.5%	85.6%
2000 to 2009	9,463	14.2%	99.8%
2010 or Later *	<u>1,459</u>	<u>0.2%</u>	100.0%
Total	67,934	100.0%	

Source: U.S. Census Bureau, 2009-2013 5-Year American Community Survey.

* Actual to date

Rent and Tenure

- Santa Rosa has the third highest average rent in Sonoma County as of the 2nd quarter of 2015, but Sonoma County has the second lowest rents of the nine Bay Area counties.
- In the past year, average rents increased more than 9 percent in Santa Rosa, outpaced only by Petaluma and Rohnert Park.
- In the past 2.5 years, average rents increased more than 20 percent.

Rent and Tenure, continued

- With a vacancy rate of approximately one percent, Santa Rosa's vacancy rate is so low there is not enough available supply to offer meaningful choice in the rental market.
- At 98.6 percent, Sonoma County has the highest occupancy rate of the nine Bay Area counties.

Average Rent City and County

Rent Ranking for Cities in Sonoma County

City	Average Rent
1 Petaluma	\$1,757
2 Rohnert Park	\$1,411
3 Santa Rosa	\$1,359
4 Cotati	\$1,263
5 Sonoma	\$1,159
6 Sebastopol	\$955
7 Cloverdale	\$935
8 Healdsburg	\$933
9 Windsor	\$913

Source: CoStar, 2015Q2

Year-over-year Rent Growth % Rankings

City	Average Rent % Growth
1 Petaluma	15.10%
2 Rohnert Park	10.50%
3 Santa Rosa	9.20%
4 Cotati	6.80%
5 Windsor	5.50%
6 Sebastopol	5.40%
7 Sonoma	4.80%
8 Cloverdale	0.80%
9 Healdsburg	0.60%

Source: CoStar, 2015Q2

Rent Ranking for 9 County Bay Area

County	Average Rent
1 San Francisco	\$2,708
2 San Mateo	\$2,405
3 Santa Clara	\$2,263
4 Marin	\$2,198
5 Alameda	\$1,793
6 Contra Costa	\$1,616
7 Napa	\$1,482
8 Sonoma	\$1,394
9 Solano	\$1,250

Source: CoStar, 2015Q2

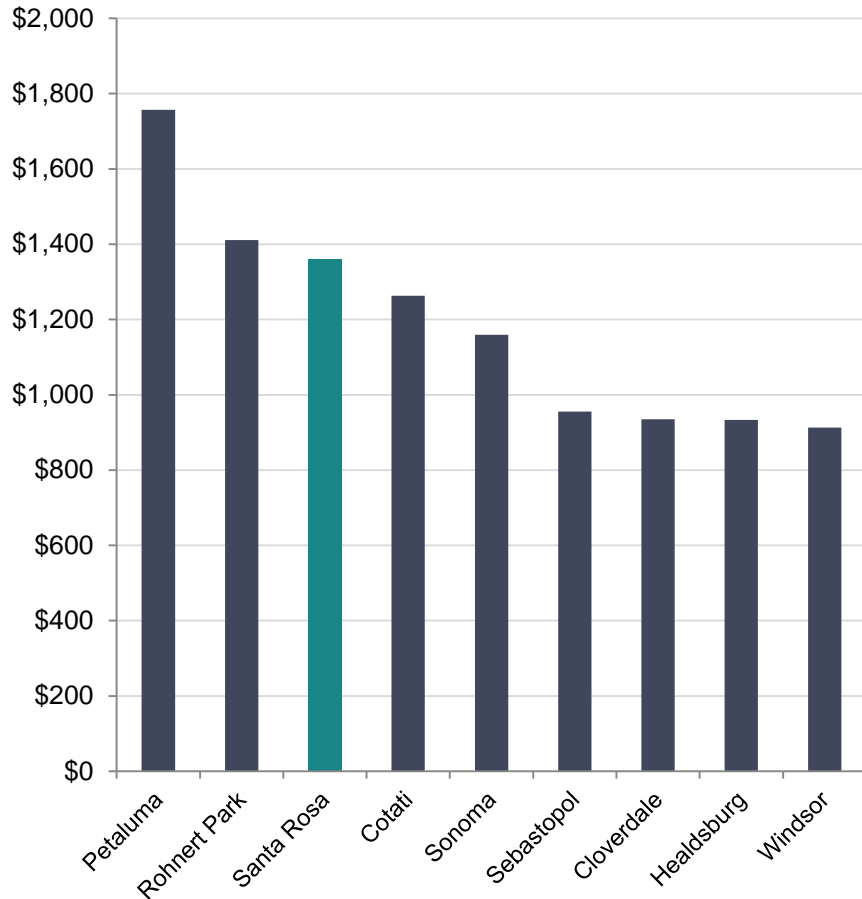
Year-over-year Rent Growth % Ranking for 9 County Bay Area

County	Average Rent % Growth
1 San Mateo	13.5%
2 Alameda	13.2%
3 Contra Costa	12.4%
4 Santa Clara	12.2%
5 San Francisco	10.6%
6 Sonoma	10.1%
7 Solano	10.0%
8 Marin	9.7%
9 Napa	9.2%

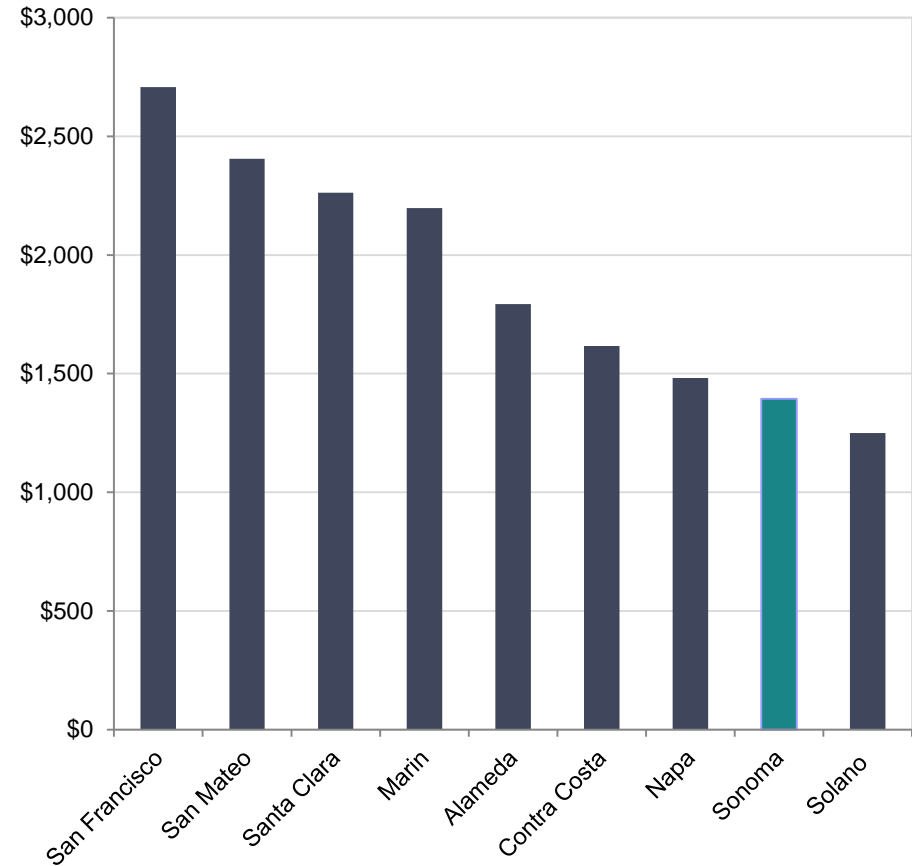
Source: CoStar, 2015Q2

Comparison of Average Rents

Average Rents in Sonoma County



Average Rents in 9 County Bay Area



Source: CoStar, 2015Q2



Sonoma County ranks #1 in occupancy rate

Occupancy Ranking for Cities in Sonoma County

City	Average Occupancy
1 Sebastopol	99.30%
2 Cloverdale	99.30%
3 Santa Rosa	98.90%
4 Healdsburg	98.60%
5 Rohnert Park	98.60%
6 Windsor	98.50%
7 Cotati	98.20%
8 Sonoma	98.10%
9 Petaluma	97.90%

Source: CoStar, 2015Q2

Year-over-year Occupancy Ranking for 9 County Bay Area

County	Average Occupancy
1 Sonoma	98.6%
2 Napa	98.5%
3 Solano	98.2%
4 San Mateo	98.1%
5 Contra Costa	98.0%
6 Santa Clara	97.6%
7 Marin	97.0%
8 San Francisco	96.4%
9 Alameda	95.8%

Source: CoStar, 2015Q2

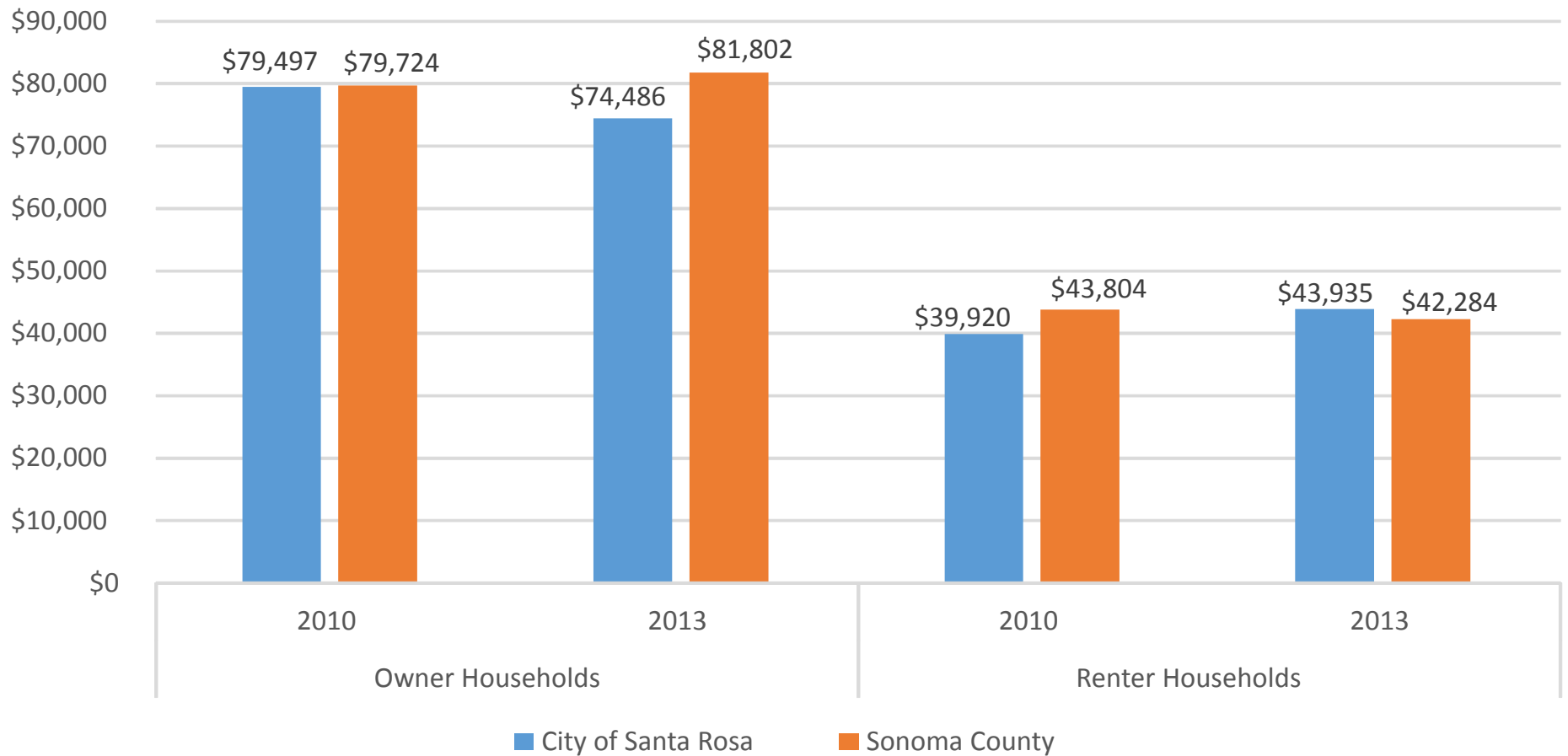
Affordability

- Families that own their house have incomes nearly double that of renters
- Nearly 50% of all households are “overpaying” for housing based on HUD standards
- Lower income families much more likely to be overpaying



Median Household Income, 2010 and 2013

Santa Rosa and Sonoma County
2010 and 2013 Median Household Income





Overpaying Households: Owners and Renters

Household Income	Overpaying Households	Total Households		Overpaying Households as a % within Income Category
		% of Total	Total Households in Income Category	
Less than \$20,000	6,291	21.8%	7,342	85.7%
\$20,000 to \$34,999	7,077	24.5%	8,987	78.7%
\$35,000 to \$49,999	5,422	18.8%	8,613	63.0%
\$50,000 to \$74,999	5,381	18.6%	12,351	43.6%
\$75,000 or More	<u>4,732</u>	<u>16.4%</u>	<u>24,125</u>	19.6%
Total [1]	28,903	100.0%	61,418	47.1%

Note: An overpaying household is a household that pays 30 percent or more of its household income on housing costs.

[1] Totals do not include households with zero or negative income or households with no cash rent arrangements.

RENT STABILIZATION STRATEGIES – OTHER CITIES

Strategies in use by other cities

- Enhanced Monitoring and Community Outreach
- Voluntary Programs – By Owner
- Stand Alone Just Cause for Eviction
- Rent Stabilization

Existing Santa Rosa Programs

- The City provides rent monitoring services for Housing Choice Vouchers; Mobile Home Parks; and deed restricted affordable houses.
- Landlord/tenant issues are handled, under contract by Fair Housing of Sonoma County or in Civil Court.
- Rental Inspection Programs are used in the eight Neighborhood Revitalization Program areas.

Enhanced Monitoring and Community Outreach

Other cities monitor rental housing market

- Rental prices
- Vacancy rates
- Housing Costs as a Percentage of housing income
- Evictions and use of legal services regarding rent/eviction issues

Other cities increase outreach and expand community education efforts

- Prepare outreach materials that inform tenants and landlords of their rights and noticing requirements regarding rent increases and termination or tenancy

Other cities use Mediation/Arbitration Services – Contracts with non-profit organizations

Voluntary Programs

- San Rafael – Fair Rental Practice Owner
- Healdsburg – Rent Stabilization Advisory
- Seeks to gain owners' agreement to follow suggested approach
 - One increase per year with 60-90 day notice
 - Limit increase to 10% per year

Stand Alone Just Cause for Eviction Ordinance

- A just cause for eviction ordinance would provide additional protection for tenants to avoid eviction solely for purpose of raising rent.
- Cannot conflict with the summary nature of eviction procedures under state law.
- Increases noticing requirements – landlords must state reason for eviction
- May also require the provision of relocation assistance.

Rent Stabilization

- Under current State law, cities can adopt rent stabilization ordinances that limit rent increases on rental properties built before 1995.
- Rent increases typically limited to an index (e.g. CPI) and those necessary to recoup cost of major improvements

Rent Stabilization

- A rent stabilization ordinance would require that there be a due process opportunity for landlords to apply for rent adjustments to insure that they receive a just and reasonable return.
- The number of Administrative proceedings can be reduced by authorizing annual increases based on percentage of CPI and procedure to request additional increase if landlord can justify

Rent Stabilization Programs

Only a small number of California's 500 cities use rent stabilization

Cities that have adopted Rent Stabilization and/or Just Cause for Eviction Ordinance:

Beverly Hills (1978), San Jose (1979), Los Angeles (1979), San Francisco (1979), Santa Monica (1979), Oakland (1980), Palm Springs (1980), Hayward (1983/2003), West Hollywood (1984), Berkeley (1986), East Palo Alto (1988/2010), Los Gatos (1998/2004), Richmond (2015)

Most Recent Adoption: Richmond, California

- Rent Stabilization – Just Cause for Eviction adopted August 5, 2015
- Annual Increase: 100% Consumer Price Index
- One increase per year
- Rent Board – General administration – Rent adjustments
 - Initial member appointed – Permanent elected Nov. 2016
- Funded by administrative fee charged to landlords

Examples of Rent Stabilization Programs

- Santa Monica and Richmond provide comparable examples of rent stabilization programs
- Substantial policy-making and administrative efforts involved
- Funding policy and administrative efforts typically derived from fees charged to rental property owners

Staffing Example - Richmond

Services Provided:

- Enhanced Monitoring and Community Education
- Enhanced Rental Inspection
- Just Cause for Eviction
- Rent Control

Staff Level: 7-11

Budget: up to \$2,245,200

Two consultant contracts – necessary staff, program design procedures, Nexus study – fee to support program

Staffing Example - Santa Monica

Services Provided:

- Rent Control Board
- General Counsel / staff
- Public Information
- Hearing Department
- Administrative Support

Staff Level: 25.90

Budget: \$4,755,170

Revenue Source – Santa Monica

- Registration Fees 26,335 units
- Annual Registration Fee \$174.96/unit
- Fee Revenue \$4,613,572
- Less projected refund 14,000
- Net fees \$4,599,572

Questions / Comments