



# City of Culver City

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## Staff Report

File #: 20-1042, Version: 1

Item #: A-1.

### CC - (1) Policy Discussion Regarding a Potential Permanent Rent Control and Tenant Protections Program; and (2) Direction to the City Manager as Deemed Appropriate.

Meeting Date: June 11, 2020

Contact Person/Dept: Jesse Mays/City Manager's Office  
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Fiscal Impact: Yes  No

General Fund: Yes  No

Public Hearing:  Action Item:  Attachments:

Commission Action Required: Yes  No  Date:

**Public Notification:** Citywide Mailing to all Culver City Residents (06/04/2020); Publication of Public Notices in the Culver City News (06/04/2020); Committee on Homelessness (06/04/2020); Landlord Tenant Mediation Board (06/04/2020); Protect Culver City Renters (06/04/2020); Protect Culver City (06/04/2020); Apartment Association of Greater Los Angeles (06/04/2020); California Apartment Association (06/04/2020); BAE Urban Economics (06/04/2020)(E-Mail) Meetings and Agendas - City Council (06/04/2020); Housing Issues (06/04/2020); Housing Authority (06/04/2020)

**Department Approval:** John Nachbar (06/04/2020)  
Sol Blumenfeld (06/03/2020)

### RECOMMENDATION

Staff recommends the City Council discuss policy considerations regarding a potential permanent rent control and tenant protections program; and (2) direct the City Manager as Deemed Appropriate.

### BACKGROUND

On June 24, 2019, City Council directed staff to return on August 12, 2019 with an urgency ordinance establishing interim rent control measures modeled after the Los Angeles County Temporary Rent Stabilization Ordinance, which would include, but not be limited to, a rent increase cap; just cause

and no fault eviction provisions; a process for landlords to petition for relief from the rent increase cap in certain circumstances; a rental registry; and relocation assistance benefits. City Council further directed that the interim rent control measures should be based on a study of the Culver City housing market and interim rent cap ordinances in surrounding jurisdictions.

At its August 12, 2019 meeting, the Council adopted an urgency ordinance (Ordinance No. 2019-011) establishing interim rent control measures for a 12-month period (Attachment 1), which took effect immediately. During the 12-month Interim Rent Control Ordinance (IRCO) period, City Council directed City staff to further study and analyze a permanent rent control and tenant protections program.

In addition to the policies set forth in the adopted IRCO, City Council directed staff to further review and study the following policy considerations for possible inclusion in a permanent program:

- Remodeling and Renovations qualifying as No Fault grounds for an eviction;
- Means tested relocation assistance based on long-term tenancy, senior, disability and low-income status of the tenant;
- Potential exemption for “Mom and Pop” small scale single holding landlords, including when the landlord lives on-site; and
- Requirement of landlord approval for additional adult tenants in occupied units.

### **BAE Urban Economic Long-Term Rent Control Study**

Pursuant to City Council direction, after soliciting three proposals from three qualified consultants, staff retained BAE Urban Economics (BAE) to conduct a rental housing market study, research rent cap urgency ordinances and prepare financial models of Culver City multifamily rental properties. In accordance with this direction, BAE prepared a *Temporary Rent Cap and Relocation Assistance Policies Study* which was presented at the August 12, 2019 Council meeting and helped to inform the City Council’s decision making for the IRCO.

The City continued its engagement with BAE Urban Economics in September 2019 to develop a Long-Term Rent Control Policies Study (BAE Study) (Attachment 2). BAE built upon its prior Temporary Rent Cap and Relocation Assistance Policies Study in order to help the City better understand the Culver City rental market, the impacts of the IRCO, the possible impacts of a future permanent rent control and tenant protections program, and options for specific policy decisions associated with a permanent rent control and tenant protections program.

This report builds upon the analysis that BAE conducted for the interim ordinance and seeks to help City officials and local stakeholders critically evaluate the potential program designs and policy considerations of a permanent rent control and tenant protections program. The report is broken down into the following chapters.

- **Rental Market and Demographic Analysis** - BAE evaluated Culver City’s existing rental housing inventory, the demographic makeup of its renter households, as well as recent trends in the local multifamily market.
- **Analysis of Program Design** - BAE surveyed permanent rent control policies and programs in five other Los Angeles County jurisdictions: Beverly Hills, the City of Los Angeles, Los

Angeles County, Santa Monica, and West Hollywood.

- **Tenant Protection Policies** - Reviews issues of habitability, tenant anti-harassment, evictions, relocation, and tenant buy-out procedures.
- **Cost Recovery Pass-Through Scenarios** - Examines various options where property owners are eligible to recapture a portion of specified property improvement costs over a specified period.
- **Program Administration** - Key considerations, including the creation of a rent registry, budgets and staffing, board and commission oversight, and other issues.

## **Community Outreach and Engagement**

### *Public Notification*

The City developed an extensive communications program to inform the community of the IRCO and solicit public input on a potential permanent rent control and tenant protections program. The program included a dedicated webpage, an animated video, social media advertisements, Google Display Network advertisements, newspaper ads, and three mailers. An eye-catching graphic representing the diverse nature of Culver City's rental community was created to provide visual continuity. More details on these communications can be found in Attachment 3. A public notice of the June 11, 2020 special meeting was transmitted on both May 21 and June 4, 2020 to subscribers of the "Housing Issues" GovDelivery email list. In addition, an email blast was sent to local housing developers, supportive service providers, the Committee on Homelessness, the Landlord Tenant Mediation Board, the Apartment Association of Greater Los Angeles (AAGLA), the California Apartment Association (CAA), Protect Culver City and Protect Culver City Renters on June 4, 2020.

### *Webpage/Email/Hotline*

An Interim Rent Control Measures webpage was created that included Frequently Asked Questions (FAQs) based on real life questions posed to staff. The webpage, FAQs and interim ordinance were translated in Spanish. The webpage also included graphics that helped landlords and tenants understand the IRCO.

A dedicated email address and IRCO hotline telephone number were setup for the community to communicate with staff regarding questions and concerns surrounding the IRCO. Since August 12, 2019 Housing and the City Attorney's Office have responded to over 5,000 emails and close to 2,400 telephone calls regarding the IRCO.

### *Tenant and Landlord "Coffee Dates"*

To facilitate a more intimate, direct interface with property owners and tenants, City staff hosted "coffee dates" with small gatherings of a half dozen or less of tenants, small scale Mom and Pop property owners, and large- scale property owners. These coffees were to create a candid exchange between staff, tenants and owners and their personal experience under the IRCO program.

The coffee date with tenants was held on February 20, 2020. Five tenants attended with an average residency of five years. The main issues the tenants communicated to staff were matters of landlord intimidation and harassment to vacate units, difficulty of obtaining relocation assistance as prescribed under IRCO, and landlord abuse of no fault grounds to evict tenants for purposes of recovering possession of the unit for property owner or family member use.

A coffee date with small scale Mom and Pop property owners was held February 27, 2020. A total of six property owners participated. A representative from the Apartment Association of Greater Los Angeles (AAGLA) also attended and helped to invite the participating property owners. Most of the property owners in attendance own one multifamily property of six units or fewer with 50% of the owners living on-site. The average length of ownership was 10 years. Many of the property owners expressed they purchased the property as a nest egg for retirement with most of the property owners still maintaining employment to help cover costs. The main issue expressed by the Mom and Pop owners was the inability to cover cost in the event of an unforeseen event. Another concern was the ability to evict tenants. The Mom and Pop property owners favored the inclusion of a provision under AB 1482 that would allow the cancellation of a lease after a 12-month probationary period. The property owners also expressed the financial burden caused by the relocation assistance provision under the IRCO. The consensus of these owners was relocation assistance should be means tested and based on the income of the tenant.

The coffee date with the large-scale property owners was held on March 11, 2020. This meeting was held virtually due to the start of the public health pandemic. A representative from the California Apartment Association (CAA) identified four property owners with holdings of over 20 units. The average ownership was over 10 years. The major concern with this group of property owners was the ability to generate enough rent to cover costs associated with property maintenance and receiving a fair rate of return. They all felt the City should adopt AB 1482 and follow the Consumer Price Index (CPI). The matter of the ability to enter into buy-out agreements with tenants was also broached during this meeting.

Vice-Mayor (then Council Member) Fisch and Council Member Small also hosted a meeting with both small and large-scale property owners on February 3, 2020. The general theme among the property owners participating in this meeting was to encourage the City to adopt AB1482. A strong interest in the provision of a 12- month probationary period prior to providing tenant eviction protections was also expressed during this meeting.

### **IRCO Staffing and Administration**

On December 9, 2019, the City Council approved a budget amendment to support the implementation of the IRCO with staffing and administrative expenditures. Detailed below are key elements of the administration of the IRCO.

#### ***Rent Registry***

The IRCO requires each landlord to register with the City each rental unit, and each unit to be issued a registration certificate, by May 31, 2020. This process gathered data which the City can use to

better understand the Culver City rental marketplace. At its regular meeting of December 9, 2019 Council approved a budget amendment to engage a consultant, HdL, to implement and manage a residential rental registration process as well as to implement an education and compliance program which will increase the percentage of landlords who register. To date, 1,694 landlords have registered 5,169 rental units. This equates to 68% of the estimated 7,555 total rental units in Culver City.

### *Staffing*

In addition to the Housing Programs Supervisor and the Housing Programs Administrator assisting to implement the IRCO, City Council approved the hiring of a temporary Occupancy Specialist position within the Housing Division in order to assist with the implementation of the IRCO. The Occupancy Specialist receives phone calls, conducts intake of all documents, develops a case file for landlord/tenant petitions, mails requested documents, documents all interaction through the IRCO calls matrix, and escalates complaints and petitions to the Housing Programs Administrator and the Housing Program Supervisor.

### *Petitions & Hearing Officer*

Staff developed a petition process for landlords to petition the City if they believed they could not receive a fair return on their property due to the IRCO. The IRCO requires the Community Development Director to designate a Hearing Officer to conduct hearings related to petitions from landlords. IRCO states the Hearing Officer shall conduct fair and impartial adjudication hearings on petitions for relief from the IRCO and petitions for noncompliance related to the IRCO. The City engaged Sherri Ross as the outside consultant to conduct hearing related to IRCO. Ms. Ross has prior hearing officer experience and possesses substantial legal and financial expertise to serve in this role. Only two Petitions for Relief for IRCO have been submitted. Each was deemed incomplete. To date, the Housing has not received any completed application and no hearings have been requested or performed.

### *Rental Fair Return Analysis Consulting*

Pursuant to the provisions of the IRCO, the City needs to analyze any petition submitted by a landlord who claims that the IRCO prevents him or her from receiving a fair return. The City's analysis will be presented to the Hearing Officer along with the landlord's petition in order to assist the Hearing Officer in evaluating the petition. The Hearing Officer will issue the final decision whether to accept, modify, or reject the petition. The City engaged a local property management consultant, Heather Lonsdale, to provide the analysis of petition for fair rate of return. As discussed above, only two Petitions for Relief have been submitted and each was deemed incomplete.

### *Translation Services*

To assure inclusivity, staff works with Language Line to translate IRCO-related materials into

Spanish. Several translations related to the IRCO have been produced over the last year.

### *Bet Tzedek Leal Services*

Since the passage of the IRCO earlier this year, the Housing Division has experienced an increase in the number of questions and concerns from both landlords and tenants about tenant/landlord rights and responsibilities under California law and Federal Fair Housing law. The City engaged Bet Tzedek, a private, non-profit organization offering a variety of services in Los Angeles County including housing discrimination complaint investigation, landlord-tenant counseling, and fair housing education and outreach.

Bet Tzedek offers a dedicated, off-site staff person to connect Culver City residents and landlords to resources and to engage in public education through the distribution of literature and hosting workshops. Bet Tzedek also provides services to the cities of Beverly Hills and West Hollywood.

Landlords or tenants are referred to Bet Tzedek if the complaint is beyond the scope of the IRCO. This typically involves matters of landlord/tenant relations and Fair Housing Law. Housing staff has referred 30 tenants to Bet Tzedek for issues regarding landlord harassment and landlord/tenant relations.

### *Status of Service*

The vast majority of disputes under IRCO are resolved expeditiously by Housing Division staff. Most matters and disputes are dealt with by follow up phone calls or letters to both the tenant and the landlord. In the instances where City staff has to intervene for compliance, notices are transmitted to both parties detailing the violation and the remedy for compliance. To date, the City Attorney's Office has worked with Housing Division staff to transmit 15 compliance notices. The majority of these notices involved unlawful evictions. In all cases when a compliance letter was transmitted, the matter was resolved.

Detailed below are the statistics of other compliance interactions. To date, staff has assisted in the facilitation of four tenant households receiving relocation assistance and the protection of three long-term elderly households from losing their units under IRCO. A total of seven property owners have inquired about Petitions for Relief under IRCO, and two submitted petitions. Of the submitted petitions, both were deemed incomplete and neither has subsequently submitted sufficient information to process their petitions.

## **DISCUSSION**

The Long-Term Rent Control Study presents BAE's key research findings on Culver City's rental market which include housing stock, demographic data, and affordability metrics. The study also highlights some of the key policy considerations and program design components that have been implemented by other peer jurisdictions with respect to their own permanent rent control and tenant protection programs.

Next, the study outlines the findings from landlord interviews that BAE conducted in Spring 2020 as a follow-up to the IRCO. This includes property owner feedback regarding the IRCO, as well as potential program design elements for the City's consideration based on local experience.

Lastly, based on the BAE Study, landlord interviews and coffee dates with tenants, small- scale Mom and Pop property owners and large-scale property owners, a list of key policy considerations are included in the Study for consideration and direction by the City Council.

Due to the length of the BAE Study and the volume of information, key findings are discussed below. To assist in guiding the discussion, the page number of where more complete information can be located is indicated under each section.

#### **Demographic Analysis** (*BAE Study Pages 3-11*)

- Owner households currently comprise the majority of households in Culver City, but by a slim margin: 51.1 percent of households were owner-occupied in 2019, while 48.3 percent of households were renter occupied.
- The median length of renter tenancy is slightly shorter in Culver City than countywide. Among Culver City renter householders, 26.1 percent moved into their unit in 2015 or later, compared to 22.1 percent of householders countywide. Renter householders who initiated their tenancy before 2000, meanwhile, comprise about 11 percent of total renters in Culver City, and 12 percent in the county.
- A significant proportion of Culver City renters are considered to be excessively burdened by their housing costs. Forty-three percent of Culver City renter households were moderately or severely cost-burdened (paying more than 30 percent or 50 percent of household income) during the most recent available data period from 2012-2016. Of the over 3,500 cost-burdened households, more than half were severely cost-burdened.

#### **Rental Market Inventory** (*BAE Study Pages 12-17*)

- The American Community Survey (ACS) estimates that the Culver City inventory of renter-occupied units totaled 7,555 in the 2014-2018 period. Single-family rentals comprised about one-fifth of the inventory, while duplexes, triplexes, and fourplexes contributed another approximately 20 percent of units.
- An estimated minimum of 2,064 renter-occupied units are exempt from rent control under Costa-Hawkins. These include all renter-occupied single-family units, as well as any units constructed in 2000 or later. Some of the single-family units might not be exempt if they were built before 1995 and share their property with another unit, such as an accessory dwelling unit.
- Culver City's rental inventory is characterized by small- and mid-sized multifamily buildings dating to the mid-20th Century. Nearly 40 percent of units were constructed before 1960, and over 70 percent were built pre-1980.

#### **Rental Market Analysis** (*BAE Study Pages 18-20*)

- Between the first quarters of 2011 and 2020, the average asking monthly rent in the City

increased from \$1,785 to \$2,580, a growth of 44.5 percent, according to CoStar.

- Average asking rents grew at an average annual rate of 4.2 percent over that period, though year-to-year growth reached as high as 8.8 percent and 6.3 percent in the middle of the decade.
- Multifamily vacancy rates have been remarkably consistent over the decade, staying within a narrow three to five percent range.

### **Program Design Considerations (*BAE Study Pages 21-36*)**

- To explore permanent rent control and tenant protections program design options for the City, BAE surveyed permanent rent control policies and programs in five other jurisdictions: Beverly Hills, the City of Los Angeles, Los Angeles County, Santa Monica, and West Hollywood.
- These “comparison jurisdictions” generally take similar approaches with respect to defining their “covered rental units,” in large part due to the provisions of Costa-Hawkins. This includes exempting single-family dwellings, condominiums, townhomes, hotels and motels, and other defined uses. It also prohibits the inclusion of any rental unit that was constructed after 1995.
- Jurisdictions differ slightly with respect to exemptions from the provisions of their respective programs. Common “occupancy-based” exemptions include units that are occupied by a close relative, units that are occupied by a Section 8 voucher holder, or small buildings (e.g., duplexes and triplexes) that are owner-occupied.

### **Annual Rent Adjustments**

- All comparison jurisdictions define a clear process by which “annual rent adjustments” are calculated each year and base their “annual rent adjustments” in part on the annual change in the Consumer Price Index (CPI) between a defined twelve-month period as outlined in the enabling legislation.
- In Santa Monica and West Hollywood, only a fraction (75 percent) of the annual change in CPI can be used to inform annual rent adjustments.
- In the cities of Los Angeles and Beverly Hills, the full change in CPI can be used to inform annual rent adjustments. In addition, a minimum “floor” for annual rent adjustments is set at three percent, irrespective of the observed twelve-month change in CPI.

### **Rent Adjustment Petitions - Landlord**

- All surveyed peer jurisdictions allow some form of landlord petition, including the annual rent adjustment.
- Under the “Fair and Reasonable Return” standard, landlord petitions must demonstrate that

the rent ordinance will prevent them from receiving a “fair and reasonable return.” Also referred to as “Net Operating Income (NOI) testing,” this “Fair Return Standard” is typically analyzed by comparing the property’s NOI from a “base year” to the current year, and is a method used in West Hollywood and Santa Monica.

- In contrast to jurisdictions that require “NOI testing” for rent adjustments, landlord petitions may also take the form of a cost recovery pass-through mechanism. In this case, property owners can pass along the cost of certain capital improvements to their tenants without having to demonstrate financial hardship.

### **Tenant Protection Policies (BAE Study Pages 37-40)**

- Most comparison jurisdictions have tenant protection laws, such as just-cause evictions and anti-harassment, that apply to all renters, and not only renters who live in rent-controlled units.
- West Hollywood, Santa Monica, the City of Los Angeles, and the County of Los Angeles all include voluntary buy-out programs for rent control tenants. Beverly Hills’, Culver City’s Interim Ordinance, and AB1482 do not include voluntary buy-out policies.
- Typical No Fault eviction policies include when a landlord seeks to permanently remove the unit from the rental housing market; move into the unit, move a relative into the unit, or move a building manager into the unit; plans to demolish and/or significantly remodel a unit; or is required to comply with a government or court order.
- Comparison jurisdictions usually require mandatory relocation assistance for No Fault Evictions, although with differing formulas. Some, such as West Hollywood and Santa Monica, also require that landlords pay higher amounts of relocation assistance to long-term and/or low-income tenants, seniors aged 62 and older, people who are disabled, or families with minor dependent children.

### **Cost Recovery Pass-Through Analysis (BAE Study Pages 41-53)**

- Under cost recovery pass-through programs, property owners are eligible to recapture a portion of certain property improvement costs over a specified period, without any dedicated “NOI testing”. This method provides a clear financial incentive for the property owner to undertake building improvements.
- Each jurisdiction tailors its cost recovery program to meet its policy goals. In cities such as Beverly Hills, landlords are encouraged to invest in improvements via a simple cost recovery formula. In West Hollywood and Santa Monica, however, pass-throughs are only to the extent needed to provide a fair and reasonable return.

Three pass-through scenarios are evaluated in BAE Study and represent a wide spectrum of potential program design options.

- A 100 percent recovery option permits a landlord to fully pass on costs to tenants. While a

100 percent cost-recovery program maximizes the incentive for landlords to participate, the program may result in excessive rent increase for tenants. For a “mid-sized” project costing approximately \$9,000 per unit, for example, the calculated monthly pass-through translates into \$152 per month over a five-year amortization period, which is equivalent to a 10.6 percent increase for a tenant paying the average rent for a prototypical building (\$1,434 per month in a building with six units or fewer).

- A 50 percent cost-recovery approach reduces the pass-through amount by half, and can be tailored to further benefit the tenant by increasing the amortization period from five to ten years. For the same project described above, the calculated monthly pass-through translates into \$38 per month over a ten-year amortization period, which is equivalent to a 2.6 percent increase for a tenant paying the rent in a prototypical building.
- A hybrid model that blends elements favorable to both property owners and tenants might include a 50 percent cost-recovery option, but with a shorter amortization period of five years. In this case, the calculated monthly pass-through would translate into a temporary surcharge of \$76 per month, or 5.2 percent of the base rent.

### **Landlord Interviews** (*BAE Study Section v-vii*)

Besides market research and analysis and comparison of peer jurisdictions, BAE research included direct input from local landlords. The findings from landlord interviews that BAE conducted are detailed below. A total of seven property owners participated in these interviews. Topics discussed include the property owners’ experience under the Interim Ordinance, possible alignment and/or redundancy with AB 1482, as well as additional program design considerations based on the unique context of Culver City’s local housing market.

Detailed below are key interview findings. A more complete outline of the Landlord Interviews is located under Section v-vii of the BAE Study.

#### *Alignment with AB 1482*

- All landlords interviewed by BAE suggested that the City of Culver City look to AB 1482 for guidance on establishing tenant protections and allowable rent increases, as opposed to a more tailored permanent citywide ordinance.
- Allowable rent increases under AB 1482 are significantly higher than those allowed under both the Interim Ordinance as well as by comparative jurisdictions. AB 1482 defines a jurisdiction’s allowable rent increase by measuring “the percentage change from April 1 of the prior year to April 1 of the current year” in the Consumer Price Index for the local region. Based on the most currently available change in relevant CPI (0.7 percent from April 2019 to April 2020), this would set the City’s allowable rent increase at 5.7 percent initially.
- Landlords also cited a permanent ordinance’s potentially high administration costs as another reason to advocate for AB 1482 alignment. This assumes AB 1482’s provisions would require less ongoing reporting and administrative overhead.

- Similarly, property owners expressed concern that a permanent ordinance would be duplicative in light of a statewide law, and that it could potentially lead to conflicting interpretations.

#### *Unintended Consequences of a Permanent Ordinance*

- Interviewees voiced concern that the establishment of a permanent ordinance might prompt more landlords to withdraw their units from the rental market pursuant to the Ellis Act. This may be particularly true for owners who self-manage their properties, as well as those less equipped to handle the ongoing requirements of a permanent ordinance.
- Some landlords indicated that the establishment of a permanent ordinance would make them less willing to enter into long-term leases with renters who had lower incomes and credit scores, thus defeating one intent of a permanent ordinance.
- Other property owners suggested that the quality of the City's rental building stock would deteriorate if provisions were not put in place that allowed for capital improvement and other cost pass-throughs.
- Local property owners who also own properties in cities with permanent ordinances such as Los Angeles reported less turnover in their rent-controlled units on average than in their Culver City units. This allows for fewer opportunities to make needed improvements upon vacancy of a unit.

#### *Recommendations and Suggestions for Program Design*

- All property owners supported the inclusion of a pass-through option for capital and/or legally-mandated improvements if a permanent ordinance is approved.
- A significant number of property owners expressed concern about the lack of "means-testing" that can accompany permanent ordinances. Support for a permanent ordinance would be stronger, they argue, if it were crafted to apply to eligible renters (e.g., those earning 80 percent of Area Median Income or other benchmark) as opposed to all renters citywide.
- Other suggestions for a more tailored approach included exempting properties of a certain unit size from a permanent ordinance. For example, the Interim Study found that annual rent growth for larger buildings (e.g., 51 or more units) was markedly higher than for smaller buildings (e.g., six units or fewer).
- Some landlords advocated for the inclusion of debt service (including mortgage interest and principal payments) to be included as an operating expense for the purposes of calculating Net Operating Income (NOI). It should be noted that none of the comparison jurisdictions, however, allow this approach.
- The former Rental Assistance Program (RAP) was cited by several landlords as a program that yielded tangible benefits by preventing the displacement of low-income renters. Some

landlords also advocated for additional funding to continue such programs, including the establishment of a Linkage Fee.

### **Peer Jurisdiction Comparison** (*BAE Study Pages 21-40*)

To better understand the range of policy design options and administrative considerations that shape existing rent control and tenant protection programs, BAE researched rent control policies and programs in 5 other Los Angeles County jurisdictions:

- City of Beverly Hills
- City of Los Angeles
- County of Los Angeles
- City of Santa Monica
- City of West Hollywood

BAE, in consultation with Culver City staff, selected these jurisdictions because they are local yet represent a diversity of population sizes, administrative capacities, and approaches to structuring and administering rent control. Four of the jurisdictions have over 35 years of rent control experience and offer valuable practical insights on a range of topics, from the treatment of capital improvements to database management. The jurisdiction with a newer program, Los Angeles County, provides a fresh perspective on the policy design choices and administrative challenges specific to building out a new program.

BAE carefully reviewed each jurisdiction's relevant municipal code or charter sections, as well as any pertinent regulations and guidelines. To supplement this information, BAE conducted phone interviews with senior program management in all comparison jurisdictions except Beverly Hills.

In addition to the programs in other jurisdictions, BAE also analyzed a California law, the Tenant Protection Act of 2019 (AB 1482). This law introduced statewide maximum rent increases and eviction protections.

For the analysis of capital improvement pass-through policy options only, the BAE Study includes an additional jurisdiction, the City and County of San Francisco. San Francisco's policy is included because it incorporates some potentially desirable elements that the other comparison jurisdictions do not have in their policies.

### **Permanent Rent Control and Tenant Protection Policy Considerations**

If the City Council determines to enact a permanent rent control and tenant protections program, then there are both broad and specific policy decisions that would need to be considered for program implementation. As the City Council deliberates and takes into consideration the key findings of the BAE Study, BAE landlord interviews, peer jurisdiction comparison review and information gathered by staff from direct interaction with landlords and tenants, the City Council may want to consider policies

detailed below in the structuring of the permanent program.

**Adoption of AB1482** - AB 1482, also known as the California Tenant Protection Act, is a statewide law that went into effect on January 1, 2020. The law requires a landlord to have “just cause” prior to terminating a tenancy, and limits annual rent increases to no more than 5 percent above the local change in Consumer Price Index (CPI), or 10 percent (whichever is lower).

**Means -Tested Relocation Assistance** - Comparison jurisdictions usually require mandatory relocation assistance for No Fault Evictions. Some, such as West Hollywood and Santa Monica, also require that landlords pay higher amounts of relocation assistance to long-term and/or low-income tenants, seniors aged 62 and older, people who are disabled, or families with minor dependent children.

**Substantial Remodeling and Renovation as an allowable No Fault Eviction** - Substantially remodeling a unit is typically an allowable No Fault Eviction for landlords. But, if the landlord does not end up substantially remodeling the unit, the evicted tenant may have the right to return to the unit or to sue for civil remedies. A jurisdiction may place time frames within which the construction must be completed, and define substantial remodeling with minimum dollar amounts.

**Voluntary Buy-Out (“Cash for Keys”)** - A voluntary buy-out policy allows tenants to voluntarily move out of their unit for an agreed amount of financial compensation from the landlord. Voluntary buy-out policies are optional for tenants, and many of the peer jurisdictions studied allow them

**New Adult Tenant in an Occupied Unit** - The IRCO is silent on whether or not a landlord can require rental applications, establish screening criteria (e.g., sex offender background checks, credit checks), and require lease agreements from prospective new tenants moving into the apartment of an existing rent control tenant who will remain in the unit. Nor does the IRCO indicate whether the rent can be increased, and by what increment, when a new adult tenant moves in. Policy options include requiring landlord approval of all unrelated new tenants, deferring to the lease, and potentially allowing for rent increases for new adult tenants. For example, the City of Los Angeles allows for up to a 10 percent increase for new adults and new minor dependent children after the first.

**Tenant 12-month Probationary “Look Period”** - A provision under AB1482 allows for a 12 month “Look Period” or trial period that allows for the cessation of a lease agreement under an allowable no fault eviction if the landlord/tenant relationship is untenable at the conclusion of the trial period.

**Cost Recovery Pass-Through Options** - Property owners to are eligible to recapture a portion of certain property improvement costs over a specified period, *without* any dedicated Net Operating Income (NOI) testing. This method provides a clear financial incentive for the property owner to undertake building improvements, and is used by jurisdictions such as San Francisco, Los Angeles, and Beverly Hills. The percentage of the allowable portion of cost to be recovered (or passed through to the tenant) is a local policy decision.

**Owner -Performed Labor** - Most comparison jurisdictions do allow for owner-performed labor to be included when processing a pass-through application, provided certain guidelines are followed.

## FISCAL ANALYSIS

Cost is an important consideration when designing a permanent rent control and tenant protections

program. If the existing interim rent control and tenant protections program was made permanent, it would be expected to cost approximately \$450,000 annually, including the cost of staff time and consultants. Additional program features (such as property inspections, a rent control board, etc.) would add additional costs. A scaled-down program (such as adoption of AB1482), would reduce costs, although not entirely. The annual cost of a program similar to the existing IRCO could increase by an estimated \$100,000 should a significant number of landlords petition for rent increases. This cost projection also assumes that existing Housing Division staff will continue to dedicate a significant portion of their time on the program, which reduces the amount of time they have to spend on other programs. The cost of the program could increase by an additional \$100,000 to \$200,000 should an additional staff member be required to administer the program

Depending on the total cost of the program, the City Council could approve new fees that could raise revenue to cover a significant portion of the cost of the program through a per-unit cost-recovery fee charged annually to the landlord. Most cities with rent control charge a per-unit fee to register rental units, and allow landlords to pass-through 50% of the registration fee to tenants. For example, Santa Monica charges an annual fee of \$198/unit, and West Hollywood's annual fee is \$144/unit. Based on Census estimates, there are approximately 7,555 rental units in Culver City. Of those, 5,169 units have been registered with the City. A fee of \$88/unit in Culver City charged to each of the 5,169 registered units would raise approximately \$450,000 annually. City Council would have to consider the economic impact on a new fee that would result in additional costs to landlords and possibly tenants.

As noted in the BAE report (p. 56), other nearby jurisdictions have significantly higher costs for their rent control programs. Santa Monica and West Hollywood have annual rent control budgets of \$4.75 million and \$2.2 million respectively. Both communities have more rental units than Culver City (27,445 in Santa Monica and 16,895 in West Hollywood compared to estimated 7,555 in Culver City).

## **ATTACHMENTS**

1. 2020-06-11\_ATT 2\_BAE Urban Economic Long Term Study, including Policy Matrix
2. 2020-06-11\_ATT 3\_Communications Summary
3. 2020-06-11\_ATT 1\_Ordinance No. 2019-011

## **MOTION**

That the City Council:

1. Discuss policy considerations regarding a potential permanent rent control and tenant protections program;
2. Provide direction to the City Manager as deemed appropriate.