



# City of Culver City

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## Staff Report

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**CC - PUBLIC HEARING: Adoption of an Urgency Ordinance Establishing Interim Rent Control Measures for a Period of 12-Months (Including, but not Limited to a Four Percent (4%) Rent Increase Cap on Monthly Rents in Effect on June 11, 2019, a Petition Process, For Cause and No Fault Eviction Provisions, Relocation Assistance, and Rental Registry Requirements).**

**Meeting Date:** August 12, 2019

**Contact Person/Dept:** Tevis Barnes/Community Development Department  
Sol Blumenfeld/Community Development Department  
Heather Baker/City Attorney

**Phone Number:** (310) 253-5782

**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 (08/08/19); Publication of Public Notices in the Culver City News and Culver City Observer (07/11/19, 07/18/19, 07/25/19, 08/01/19 and 08/08/19); Email Notice to Housing Developers; Supportive Service Providers, Committee on Homelessness; Landlord Tenant Mediation Board, and the Apartment Association of Greater Los Angeles (07/11/19)

**Department Approval:** Sol Blumenfeld, Community Development Director (08/07/19)

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### RECOMMENDATION

Staff recommends the City Council adopt an Urgency Ordinance establishing interim rent control measures for a period of 12-months (including, but not limited to a four percent (4%) rent increase cap on monthly rents in effect on June 11, 2019, a petition process, for cause and no fault eviction provisions, relocation assistance, and rental registry requirements)

### PROCEDURE

1. Mayor seeks a motion from the City Council to receive and file the affidavits of publication and posting of notices, and correspondence received in response to the public hearing notices;

- and,
2. Mayor calls for a staff report, and the City Council Members may pose questions to staff as desired; and,
  3. Mayor seeks a motion to open the public hearing; and,
  4. Mayor seeks motion to close the public hearing after all public testimony has been presented; and,
  5. The City Council discusses the item and arrives at its decision.

## **BACKGROUND**

On June 24, 2019, the 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 (Attachment 1). 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.

## **DISCUSSION**

### *Rental Market and Rent Cap 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* (Attachment 2), as discussed further below.

### *Rental Market Analysis*

BAE evaluated the existing conditions of Culver City's rental housing market to examine factors such as current asking rents, average rent increases over time, the age and size of the multifamily housing stock, vacancy trends, and other standard metrics of real estate market conditions for multifamily properties constructed prior to February 1, 1995 consistent with the requirements of the Costa-Hawkins Rental Housing Act.

### *Findings Related to BAE Market Analysis Research*

- Culver City's overall multifamily housing stock consists of approximately 3,437 units across 258 properties, according to CoStar. <sup>1</sup>
  
- Within this subset of properties, approximately 2,894 units are both non-rent restricted *and* were constructed prior to February 1, 1995. This indicates that approximately 84 percent of

multifamily properties could legally be subject to an interim rent cap or “Cap Eligible” <sup>2</sup>

- Multifamily Rents for this Cap Eligible subset have risen at an annual rate of 3.9 percent since 2010. Rents have risen at an ever faster annual rate of 4.7 percent over the past three years.
- Annual rent increases among Cap Eligible properties vary significantly by building size. In buildings with six units or fewer, rents have risen by 2.5 percent over the past three years. In buildings with more than 50 units, rents have risen by 5.8 percent annually over the same time period.
- Rents have risen even faster over the past three years. From 2016 to 2019, rents increased at a rate of 4.7 percent per year, or 14.8 percent
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- One-bedroom units have experienced the greatest increase in rents since 2010, rising at an annual rate of 4.8 percent.
- Three-bedroom units experienced the slowest rates of rental rate growth at 2.4 percent per year.
- Across all eligible unit types and sizes, asking rents were \$2,210 per month in the Second Quarter 2019, with a vacancy rate of 3.7 percent. This represents an increase of 4.4 percent from the same period in 2018, when asking rents were \$2,116. (BAE Report Table 1)
- Over the past year, rents in buildings with more than 50 units grew at a rate of 6.1 percent per year, while rents in all other building sizes grew at an annual rate of less than two percent, as shown in BAE report Table 4 and summarized below:

	<b>1-year 2018-2019</b>	<b>3-year 2016-2019</b>	<b>5-year 2010-2019</b>
4 units or fewer	1.8%	2.7%	2.4%
6 units or fewer	1.3%	2.5%	2.5%
7-50 units	1.6%	2.9%	2.7%
51 or more units	6.1%	5.8%	4.7%

Note: Periods depicted above utilize data from the second quarter of each respective year.

Other Jurisdictions Rent Cap Policies

BAE researched temporary rent moratorium policies for five local jurisdictions as summarized in the table below:

Peer Jurisdiction	Policies	Rent Cap %	Rent Cap Status
Alameda	1,3,5,6	8%	Expired
Glendale	1,3,4,5,6	5%	Expired
Inglewood	1,5,6	5%	Expired
LA County (Unincorporated)	1,3,4,5,6	3%	In Extension Period
Santa Cruz	1,3,4,5,6	2%	Expired

Notes:

- (1) Adopted “just cause” evictions if the landlord can show a just cause for eviction to include nonpayment of rent, tenant refusal to allow access to the unit, tenant permitting to exist a nuisance and permitting criminal activity.
- (2) Adopted “right to lease policies is a requirement that landlords offer tenants a written 6 month or 12 month lease with an option to renew for additional 6 or 12 months, where the rental rate and any increases during the term are set in the agreement.
- (3) Landlord Petition for release from the rent cap due to the necessity to address major capital improvements or deferred maintenance.
- (4) Violation Fines will be imposed on any landlord who fails to adhere to the provisions of the Rent Freeze Urgency Ordinance. Fines will be imposed on a daily basis until compliance.
- (5) Exemptions include dwelling units that has a certificate of occupancy issued after February 1, 1995, single family homes, condominiums and townhomes, units under a Section 8 Housing Assistance Payment Agreement, and Accessory Dwelling Units.
- (6) Fair, Just and Reasonable Return is the expected percentage of profit on an investment
- (7) Relocation Assistance is required to be paid by the landlord to tenants being evicted through no fault of their own.

Other Jurisdictions Relocation Assistance Programs

BAE researched options for a Relocation Assistance Programs adopted during or immediately following adoption of rent cap freezes. The relocation assistance is based upon rental security deposits and moving expenses. Some cities have limited the cap to a not-to-exceed amount to avoid a windfall in relocations. In addition, the impacts to the property owner could be minimized if the owner applies the tenant security deposit. The relocation programs in several jurisdictions as summarized below:

Jurisdiction	Policies Adopted	Relocation Payment	Adopted w/Urgency Ordinance Rent Cap
Glendale	1,2,4,5,6,7	3x Current Rent	No
Inglewood	2,3,6,8,9	3x Average Rent	No

Long Beach	N/A	2 Months' Rent	No
Pasadena	1,2,3	2 1/2 Monthly FMR	No

**Notes:**

- (1) Low Income Household
- (2) Long-term Tenant Provision
- (3) Senior/Disabled/Minor Provision
- (4) Smaller Property Provision
- (5) Landlord Banking Provision (Allows landlords to "bank" an increase if they do not increase from the previous year.)
- (6) Just Cause Eviction Provision
- (7) Right to Lease Provision
- (8) Renter Mediation/Arbitration
- (9) Landlord Petition for Relief

**BAE Financial Modeling**

BAE prepared cash flow analysis models that replicate a landlord's real estate operating pro-forma, to analyze the extent to which cost trends for local operating expenses (e.g., local utilities, property taxes, insurance, etc.) could be covered by the allowable rent cap utilizing data from a number of sources, including the National Apartment Association (NAA) Survey of Operating Expenses and interviews with local landlords.

Working with staff on the modeling assumptions, BAE then applied the cash flow model to three scenarios designed to cover the range of multifamily product in Culver City (small, medium and large rental apartment complexes) to broadly understand the impacts of a temporary rent cap on owner profit.

In summary, BAE's financial models indicate:

- Small multifamily prototypes have smaller profit margins due to higher operating expense ratios.
- As long as allowable rent increases equal or exceed increases in operating expenses, net operating income (NOI) will increase each year over the holding period for small, medium, and large multifamily rental property prototypes. Even though this may put a cap on rent increases, therefore restricting increases in net operating income (NOI), it would still allow landlords the potential to increase their NOI and profitability from their current baseline.
- Based on a variety of industry sources and local research, the annual rate of apartment operating cost escalation is estimated at approximately 2.8 percent per year.
- If the allowable rent cap is equal to or greater than the actual increase in operating expenses, this would allow property owners to maintain or improve the profitability of their projects over time, regardless of their individual circumstances, such as the price paid for their properties, level of debt service, tax situation, etc.
- The City Council of Culver City will need to make a policy decision regarding the rent increase level that would broadly provide for owners to make a just and reasonable return on their

multifamily rental properties while simultaneously protecting renters from unaffordable rent increases. At the minimum, BAE recommends allowing for a rent increase that is equal to the anticipated level of operating expense increase for multifamily rental properties over the next 12 months that interim regulations are anticipated to be in effect. This will allow the opportunity for property owners to achieve modest increases in profitability as compared to baseline (i.e., current year) conditions.

- To the extent that a rent cap would allow owners to raise rents in excess of the rate of increase for operating expenses, this will increase owner profitability. For example, if expenses increase 2.8 percent per year and rents increase five percent per year for four years, owner profitability would increase about 33 to 35 percent from the Base Year, for the prototypes studied.
- Considering the increasing profit potential mentioned in the prior bullet, and considering that most other jurisdictions that adopted rent caps limited increases to five percent or less per year, BAE recommends that the City of Culver City consider a temporary rent cap that is no more than five percent.
- BAE further suggests that the City consider a temporary rent cap which is not less than 2.8 percent or greater, which is the estimated annual operating expense increase, and which would still allow property owners a minimal increase in profitability over baseline levels.
- If the City Council is concerned about the potential for owners' operating expenses to increase during the interim ordinance period by more than 2.8 percent, the City Council could conservatively choose a rent cap somewhat greater than 2.8 percent, but not more than five percent, which would provide a buffer against unexpectedly high operating expense increases in the short-term.
- It is important to keep in mind that this analysis evaluates potential short-term (i.e., 12-month) restrictions on rent increases, while the City studies whether to enact more permanent regulations based on further analysis. Thus, operating impacts to owners and tenants from interim regulations would be limited to the changes in operating expenses and rents that might occur in the next 12 months.
- It is also anticipated that interim regulations would include provisions for "hardship" reviews that would allow for case-by-case appeals from individual property owners whose special circumstances may create exceptions to the above findings.

### Exemptions for Accessory Dwelling Units, Mobilehomes and Section 8 Housing

Although accessory dwelling units (ADUs), Section 8 housing and mobilehomes could be eligible for a rent cap, including these types of units may conflict with the goal of producing affordable housing. The development of ADUs has been identified by the State as a method to produce affordable housing units. The City has recently adopted an ADU ordinance in compliance with State law. Furthermore, the City Council recently approved the Housing Division work plan that includes an affordable ADU program intended to provide grants to subsidize rental rates to specifically produce workforce and low and moderate income level ADU rental units. That program will be considered by

City Council for implementation this year.

Mobilehomes provide a similar role in providing affordable housing and the City's Section 8 housing program has operated for many years providing rental subsidies intended to increase affordable housing by reducing the price of market rate housing. The City Council may want to consider the extent to which a rent cap burdens the production of ADUs, impacts mobile homes and reduces the amount of Section 8 rental housing available, given that they all provide necessary affordable housing and/or increase the overall housing supply thereby reducing the pressure on housing affordability.

### Summary of Proposed Rent Cap Urgency Ordinance Provisions

The following provides a summary of the draft rent cap interim ordinance provisions:

- Four percent (4%) rent cap for "covered rental units". This recommendation is based on City Council's direction (which was 3% or another percentage that could be supported by the data/findings), as well the findings in the BAE report suggesting a rent cap somewhat greater than 2.8 percent, but not more than 5 percent, which would provide a buffer against unexpectedly high operating expense increases during the interim period. Based on the foregoing, four percent (4%) seemed to achieve the City Council's goal of providing tenant protection, while also providing a fair and reasonable return for a landlord.
- Reference (or retroactive) date of June 11, 2019. The interim ordinance establishes a reference date of June 11, 2019 for the purpose of establishing the baseline rent from which the annual increase may be assessed during the 12-month interim period. June 11, 2019 was selected as the reference date, as it is the earliest confirmed date when notice of upcoming City Council discussion of a rent cap was made widely available to the public.
- For Cause and No Fault Eviction Provisions. These provisions will apply regardless of the date the Notice of Termination is served on the Tenant, provided the Tenant has not yet vacated the property.
- Relocation assistance for No Fault terminations. These provisions will apply regardless of the date the Notice of Termination is served on the tenant, provided the tenant has not yet vacated the property.
- Additional protections for long-term, senior and disabled tenants, as well as terminally ill tenants.
- Landlord petition process if there is a need to exceed rent cap.
- Tenant petition process for a landlord's noncompliance with the interim ordinance.
- Administrative fines for landlords for violations of the interim ordinance.

### Community Outreach/Engagement

Extensive public outreach was conducted to inform the community of the proposed interim ordinance. A citywide mailing was transmitted on July 15, 2019. Half page public notices were placed in the July 11<sup>th</sup>, July 18<sup>th</sup>, July 25<sup>th</sup>, August 1<sup>st</sup> and August 8<sup>th</sup>, 2019 Culver City News and Culver City Observer. An email blast was sent to local housing developers, supportive service providers, the Committee on Homelessness, the Landlord Tenant Mediation Board, and the Apartment Association of Greater Los Angeles (AAGLA) on July 11<sup>th</sup>, 2019. Over 120 speaker cards submitted at the June 24<sup>th</sup>, 2019 Council Meeting were input into GovDelivery System and a public notice was transmitted on August 11<sup>th</sup>, 2019 to GovDelivery subscribers included those who submitted speaker cards at the June 24<sup>th</sup> Council Meeting.

A Rent Freeze webpage was created including Frequently Asked Questions based on real life questions posed to staff. The webpage and FAQs were translated in Spanish, Tagalog, Arabic and Farsi.

Housing and City Attorney staff have responded to close to 100 telephone calls and emails regarding the City Council's direction at the June 24<sup>th</sup> meeting. Housing and City Attorney staff have also directly met with representatives for the Apartment Association of Greater Los Angeles, the California Apartment Association and Protect Culver City Renters.

## **FISCAL ANALYSIS**

Administration of the Interim Urgency Ordinance and any potential new rental control measures will require added staff and include new operational costs that will be further researched and presented to City Council during the 12-month interim period.

## **ATTACHMENTS**

1. Proposed Urgency Ordinance
2. *BAE Temporary Rent Cap and Relocation Assistance Policies Study*

## **MOTION**

That the City Council:

1. Adopt an Urgency Ordinance establishing interim rent control measures for a period of 12-months (including, but not limited to a four percent (4%) rent increase cap on monthly rents in effect on June 11, 2019, a petition process, for cause and no fault eviction provisions, relocation assistance, and rental registry requirements).



**NOTES**

1. CoStar provides a comprehensive real estate research platform for vacancy, rents, sales, comps and tenants for commercial and residential properties.
2. Properties potentially subject to a rental cap or “Cap Eligible” are those multifamily properties that were constructed prior to February 1, 1995.