bae urban economics

Temporary Rent Cap and Relocation Assistance Policies Study - Final

Prepared for the City of Culver City

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INTRODUCTION

To understand the potential policy elements and economic impacts of a short-term and temporary rent freeze in the City of Culver City, the City commissioned BAE Urban Economics, Inc. (BAE) to conduct a rental housing market study, research rent cap urgency ordinances and relocation assistance programs in other jurisdictions, and prepare financial models of multifamily rental property operations.

For the **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 multifamily stock, vacancy trends, and other standard metrics of real estate market conditions. Because the Costa-Hawkins Act Rental Housing Act (1995) limits local government from establishing rent caps for buildings constructed February 1, 1995, as well as for single-family homes, condominiums and newly constructed apartments, the Rental Market Study isolates the pre-1995 portion of Culver City's multifamily rental portfolio for deeper analysis.

The **Rent Cap Urgency Ordinances Research** identifies urgency ordinances in California that established first-time and temporary rent moratoriums for five local jurisdictions: City of Glendale, City of Inglewood, Unincorporated Los Angeles County, City of Santa Cruz, and City of Alameda. BAE reviewed the original ordinances and any amendments for each jurisdiction, plus explanatory websites and publications. This study compares the policy elements of each urgency ordinance and describes any subsequent permanent policies that are in place. While conducting this research, BAE determined that just cause evictions and right-to-lease policies are generally implemented in conjunction with, or as a result of, temporary rent moratoriums. This report also describes each policy's connection to temporary rent moratoriums and/or long-term rent control.

Additionally, BAE researched **Options for a Relocation Assistance Program**. This study describes the components of relocation assistance programs operated by peer jurisdictions. In some cases, such programs were created as a result of temporary rent moratoria and, in other cases, the relocation assistance program provisions were updated following temporary rent moratoria. BAE identified six cities in Los Angeles County for the study: Beverly Hills, Glendale, Inglewood, Long Beach, Los Angeles, and Pasadena.

For the **Financial Modeling**, BAE prepared a cash flow analysis that replicates a landlord's real estate operating pro-forma, with a specific focus on analyzing 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. In addition to collecting operating expense information from a sampling of local multifamily rental property owners, BAE also culled data from a number of sources, including the National Apartment Association (NAA) Survey of Operating Expenses, and the Urban Land Institute. The model incorporates replacement reserves, ensuring that property owners have the ability to contribute a recommended fixed percentage of gross revenue towards capital improvements. Using information gleaned from the Rental Market Analysis, BAE applied the cash flow model to three scenarios designed to cover the range of multifamily product in Culver City (small/medium/large rental apartment complexes) to broadly understand the impacts of a temporary rent cap on owner profit. BAE worked in conjunction with City staff to determine the three scenarios to test with financial models.

Financial profitability is calculated on the basis of net operating income before interest, taxes, depreciation, and mortgage amortization. This provides the clearest indication of real estate profitability, providing comparability across projects of varying types, which can have widely varying individual situations with respect to financing, owner tax situation, and other considerations unique to each property. The identification of impacts on net operating income illustrates how the potential rent restrictions would affect the operating cash flow that the property owners would receive, regardless of these individual situations.

Next Steps

This analysis is intended to support the City in developing an interim ordinance, with the intention of further study during the interim period to determine whether a permanent program is warranted. This may include analysis of factors such as impacts on properties whose owners carry varying levels of debt on their properties, properties that were purchased more recently (at higher prices) versus properties that have been held under the same ownership for longer periods of time resulting in different owner cost structures, evaluation of how long-term regulations could make allowances for properties requiring large capital investments (e.g., capital renovations and repairs) and other factors that may be identified as relevant.

Limiting Conditions

This study presents an assessment of current and potential rent cap policies and multifamily operating pro-formas, based on the identified data sources. It has been prepared to inform stakeholders on potential policies related to the City of Culver City. Because of the limitations of the scope of this study, available data including any errors by data providers, and the methodologies used, along with the uncertainty inherent in long-term versus short-term projections, actual development performance may vary from what is presented here. Real estate conditions are dynamic and the analysis and findings presented in this study are subject to change at any time after the publication of this study, based on changes due to macroeconomic conditions at the national and regional level; changes in legislation, regulations, and public policy actions; and decisions by developers, investors, firms, lenders, and other parties that may impact local market conditions and development potential.

KEY FINDINGS

Rental Market Analysis

- Culver City's overall multifamily housing stock consists of approximately 3,437 units across 258 properties, according to CoStar.

- 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 units could legally be subject to an interim rent cap ("Cap Eligible" sample)

- Multifamily Rents for this "Cap Eligible" subset have risen at an annual rate of 3.9 percent since 2010. Overall market 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.

- Taken together, properties with six units or fewer comprise nearly 60 percent of Culver City's total building inventory, but only 22 percent of total multifamily units

Rent Cap Urgency Ordinances

- Temporary rent caps (e.g. rent moratoria) ranged from two percent to eight percent within any 12-month period.

- The temporary rent cap policies were in effect for periods ranging from 60 to 376 days.

- All of the temporary rent cap ordinances included tenant protections, specifically just cause eviction policies and sometimes additional protections.

- Urgency ordinances were applicable only to rental units built before February 1, 1995 and, therefore, not subject to Costa-Hawkins.

- Three out of the five urgency ordinances have expired, resulting in long-term policies related to rent or relocation assistance.

Rental Assistance Programs

- The requirement for landlords to pay relocation assistance is triggered by rent increases, and/or by various no fault evictions.

- Policies either mandate relocation assistance to all tenants or only for low-/moderate-income tenants.

- Policies can include boosts in rental assistance amounts for households that are low-income, long-term, or that include senior, disabled, or minor tenants.

- Policies can include provisions to reduce mandated relocation assistance payments for units in smaller buildings or for “Mom and Pop” owners.

Financial Modeling

- 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.

RENTAL MARKET ANALYSIS

Introduction

For the **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 multifamily stock, vacancy trends, and other standard metrics of real estate market conditions.

Ultimately, the goal of the Rental Market Analysis is to identify which subsets of renters (and rental stock) have been more exposed to rent increases and tight vacancies locally, in order to more effectively target any potential interim freeze.

Data for the Rental Market Analysis were drawn primarily from CoStar, a comprehensive real estate data source that provides current rent and vacancy trends. CoStar provides rental data up to Q2 2019, which is more current than one-year supplemental estimates from the 2017 American Community Survey (ACS). CoStar also has the ability to isolate multifamily projects built prior to 1995, which constitutes the inventory that would not be subject to Costa Hawkins restrictions on any form of rent control.

Methodology

The first step of the Rental Market Analysis was to isolate the sample of multifamily product in Culver City that could legally be subject to an interim or longer-term rent cap, namely, market rate, non-rent-restricted multifamily properties constructed prior to February 1, 1995.

After pulling the initial dataset from CoStar, BAE worked with Culver City housing staff to identify properties not previously identified as being rent-restricted to further refine the sample. This included deed-restricted and government-owned 100 percent affordable housing buildings, for which rents were not included in the market analysis.

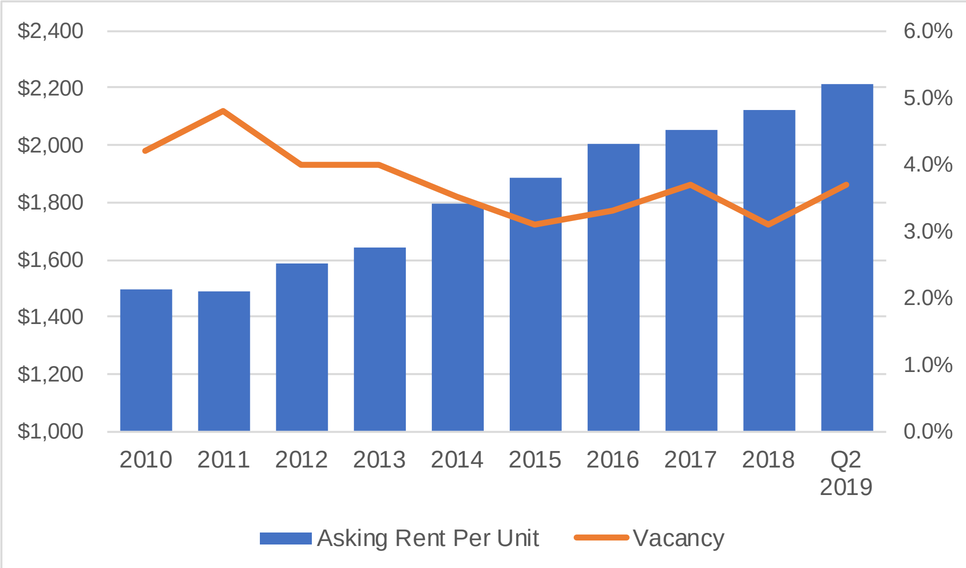
Finally, BAE re-pulled the data to run analysis on the sample of multifamily properties in Culver City that could legally be subject to the interim rent cap. This subset is referred to in the following analysis as "Cap Eligible Properties"

Multifamily Trend Data for Cap Eligible Properties

Current Asking Rents

Across all unit types and sizes in the Cap Eligible subset, asking rents were $2,210/month in Q2 2019, with a vacancy rate of 3.7 percent (Table 1). This represents an increase of 4.4 percent from the same period in 2018, when asking rents were $2,116.

Table 1: Asking Rents and Vacancy Rates for Cap Eligible Multifamily Properties in Culver City, 2010-2019



Rent Growth Over Time

Within the Cap Eligible Property subset, growth in asking rents has been fairly consistent over the past one-, three-, and nine-year time periods. Rents have risen at a rate of 3.9 percent per year going back to 2010, for a cumulative increase of approximately 41.2 percent (Table 2).

Table 2: Annual Rent Growth for Cap Eligible Properties by Time Period, All Unit Sizes, 2010-2019

	1-year 2018-2019	3-year 2016-2019	9-year 2010-2019
Annual Growth	4.4%	4.7%	3.9%
Total Growth		14.8%	41.2%

Note:
Time periods above utilize data from the second quarter of each respective year.

Sources: CoStar, 2019; BAE, 2019.

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. Over the past year, rents have risen by 4.4 percent.

Rent Growth by Unit Size

One-bedroom units have experienced the greatest increase in rents since 2010, rising at an annual rate of 4.8 percent. Three-bedroom units, meanwhile, experienced the slowest rates of growth, rising 2.4 percent per year.

Table 3: Annual Rent Growth for Cap Eligible Properties by Unit Size, 2010-2019

	1-year 2018-2019	3-year 2016-2019	9-year 2010-2019
Studio	-1.4%	2.0%	3.4%
1br	5.7%	4.1%	4.8%
2br	3.9%	5.7%	3.5%
3br	5.0%	2.7%	2.4%
All Sizes	4.4%	4.7%	3.9%

Note:
Time periods above utilize data from the second quarter of each respective year.

Sources: CoStar, 2019; BAE, 2019.

Rent Growth by Building Size

There is a noticeable discrepancy in rent growth between buildings with 50 or less units and 51 or more units. 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 Table 4.

Table 4: Annual Rent Growth for Cap Eligible Properties by Building Size, 2010-2019

	2018-2019	2016-2019	2010-2019
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:
Time periods above utilize data from the second quarter of each respective year.

Sources: CoStar, 2019; BAE, 2019.

Sales, Transfer, and Refinance Activity Among Cap Eligible Properties

According to an analysis of the Cap Eligible Property dataset, approximately 14 out of 239 multifamily properties in Culver City were flagged by CoStar as having been sold, transferred, or refinanced over the most recent 12 month period (Table 5). This number represents approximately 5.8 percent of total building inventory in the Cap Eligible dataset.

Over the most recent nine-year period, meanwhile, approximately 37.6 percent of Cap Eligible properties were flagged by CoStar as having been sold, transferred, or refinanced.

Table 5: Cap Eligible Properties Sold, Transferred, or Refinanced, 2010-2019

	1-year 2018-2019 (a)	3-year 2016-2019	9-year 2010-2019
Total Buildings (#)	14	33	91
Share of Inventory (%)	5.8%	13.6%	37.6%

Note:
(a) Time periods utilize data from second quarter of each respective year.

Sources: CoStar, 2019; BAE, 2019.

RENT CAP URGENCY ORDINANCES

To understand potential interim rent cap policies and the financial impact of rent caps on various building types, BAE researched recent temporary rent moratoria in five California peer jurisdictions, and prepared a financial model of small, medium and large rental buildings.

Peer Jurisdictions Temporary Rent Moratoria

The peer jurisdictions that are analyzed in this portion of the study are:

- City of Glendale
- City of Inglewood
- Unincorporated Los Angeles County
- City of Santa Cruz
- City of Alameda

All of the jurisdictions studied implemented temporary rent caps via urgency ordinances citing the health, safety and welfare of residents. Table 5 below provides a summary of the five moratoriums, narratives on each program are provided in this report section, and Appendix A: Rent Cap Urgency Ordinances Comparison offers a detailed information. The maximum allowable rent increase ranges from two to eight percent over any 12-month period. Lengths varied from 60 to 406 days. Three of the five jurisdictions' temporary rent moratoria have expired, with the City of Inglewood and unincorporated Los Angeles County policies currently in effect. The remaining jurisdictions have implemented permanent programs for renter protection, relocation assistance, and/or rent control.

Table 6: Summary of Temporary Rent Moratoria

	Maximum Rent Increase	Rent Increase Allowed Over	Length of Urgency Ordinance	Status of Urgency Ordinance
City of Glendale	Five Percent	12 months	60 days	Expired
City of Inglewood	Five Percent	12 months	284 days	In Extension Period
Los Angeles County	Three Percent	12 months	406 days	In Extension Period
City of Alameda	Eight Percent	12 Months	147 days	Expired
City of Santa Cruz	Two Percent (1)	12 Months	Approximately seven months	Expired

Notes
(1) Tied to CPI; noted as 65 percent of CPI.
(2) Pro-rated.

Source: BAE, 2019

Commonalities amongst the policies included limiting allowable rent increases to once per 12-month period, no limits on initial rents, just cause eviction provisions, and procedures for landlords to submit appeals or request waivers from the rent caps in order to obtain just and reasonable returns.

In all cases, the temporary rent cap policies applied to rentals built before February 1, 2019 and therefore not subject to Costa-Hawkins, and typically for properties with a minimum of two units. The temporary rent cap policies consistently excluded post-1995 rental subject to Costa-Hawkins; units that are government controlled, regulated, or subsidized; temporary housing with less than 30 days occupancy (such as hostels or hotels); single-family homes; condominiums, townhomes, and other subdivided properties; convents and monasteries; homes for the aged such as convalescent homes; student dormitories; commercial units; hospitals, extended care facilities, and other health care facilities.

City of Glendale

The City of Glendale's *Temporary Moratorium on Certain Residential Rent Increases Ordinance* was in effect for 60 days from December 27, 2018 to February 27, 2019 and **established a temporary cap on rent increase to no more than five percent annually.** The moratorium established a base rent date of September 18, 2018 such that allowable rent increases were calculated using the rent in effect on that date for existing tenants or, for new tenants thereafter, the initial rent of the unit.

Renter Protections Included: A Just Cause Eviction policy was included in the temporary rent moratorium. While additional renter protections were not included in the temporary moratorium, the Glendale City Council directed staff to prepare right-to-lease and relocation assistance policies for future consideration.

Resulting Policy: Subsequently, in March 2019, Glendale instituted a Renters Rights Program that includes three renter protection policies: 1) Rental Assistance Program associated with rent increases; 2) Just Cause Evictions policy; and 3) Right-to-Lease policy (check).

City of Inglewood

The City of Inglewood's *Temporary Moratorium Housing Protection Ordinance* was effective on March 5, 2019 and has been extended twice, ending on December 14, 2019 for a total of 284 days. **Annual rental increases are temporarily capped to one in a twelve-month period not exceeding five percent.** The moratorium establishes the current base rent as charged on March 5, 2019.

Renter Protections Included: A Just Cause Evictions provision was included in the moratorium policy, wherein evictions were only allowed for failure to pay rent during the moratorium, engaging in drug dealing, or unlawfully using drugs, and using premises for an unlawful purpose.

Resulting Policy: There is no permanent policy in place at this time. The moratorium extension is in effect through December 14, 2019. The Inglewood City Council is actively considering the permanent policies. On June 18, 2019, the Council reviewed a *Housing Protection Initiative* that permanently limits any increases of more than five percent annually, but in certain cases allows eight percent annually depending on whether landlord kept the rents low (80 percent of city's median rate) or whether the landlord makes more than $10,000 in improvements. The proposed permanent policy includes just cause evictions and mandatory relocation assistance.

Unincorporated Los Angeles County

The County of Los Angeles' *Temporary Rent Stabilization Ordinance* for unincorporated Los Angeles County was initially effective as of December 20, 2018 through June 18, 2019 for a total of 180 days. In April 2019, the Ordinance was amended and extended through December 31, 2019. The amended Ordinance **temporarily prohibits rent increases in excess of three percent** from a base rent established on September 11, 2018 and allows only one rent increase over any 12-month period.

Renter Protections Included: The ordinance allows "For Cause Termination" and "No Fault Termination" as the only two allowable forms of eviction. "For Cause Termination" is defined as non-payment of rent, violations of material rental agreement terms, tenant refusal of landlord written request for access to the unit, or tenant's use of the unit to create a nuisance or conduct illegal activity. "No Fault Termination" is defined as the landlord's imminent demolition of the unit or removal of the unit from the residential rental market, and if the landlord seeks possession of the unit for a relative to reside there within three months and for a minimum of 12 months.

Separate from rent increases, Los Angeles County's temporary rent moratorium includes a provision that allows property owners with 50 or fewer rental units to pass on the direct cost of the Measure W parcel tax to renters.

Resulting Policy: No specific policy known at this time. The temporary ordinance is in effect through December 31, 2019.

City of Alameda

The City of Alameda's *Temporary Moratorium on Certain Residential Rent Increases and on Evictions from all Residential Rental Units Except for Just Cause Evictions* was in effect from November 5, 2015 through March 31, 2016. During this period, **rent increases were temporarily limited to eight percent in a 12-month period.**

Renter Protections Included: As the ordinance's title suggests, provisions for just cause evictions were included in the temporary moratorium. A few months prior to the moratorium, the City of Alameda passed two related policies: Rent Review Ordinance No. 3142 to establish noticing and rent review hearing procedures and a Rent Review Advisory Committee Ordinance No. 3148 which codified policies associated with this community board's activities.

Resulting Policy: The City of Alameda implemented permanent rent control in 2016. Rent Stabilization Ordinance No. 3148 was effective March 31, 2016 and the sunset date is December 31, 2019 unless approved to continue by City Council. The Ordinance allows only one rent increase in any 12-month period at no more than five percent. A mandatory review takes place for any rent increase in excess of five percent, binding for all multi-unit properties built before Feb. 1995, and advisory for single-family homes, condos, and multi-unit properties built after Feb. 1995.

City of Santa Cruz

The City of Santa Cruz's *Interim Emergency "Rent Freeze" Ordinance* (No. 2018-03) allowed **rent increases up to two percent over a 12-month period** during the moratorium period. The Rent Freeze was in effect from February 13, 2018 and expired upon the City Council's certification of the November 2018 election results when a rent stabilization measure (Measure M) was not approved by the voters.

Renter Protections Included: The temporary rent freeze included provisions only allowing just cause evictions during the policy period.

Resulting Policy: Measure M failed at the polls in November 2018. Subsequently, City Council adopted a Large Rent Increase Relocation Fee on November 27, 2018 and a Just Cause Eviction Moratorium on January 8, 2018.

Description of Temporary Rent Cap Policy Components

The following section provides brief descriptions of various policy components that BAE found in its temporary rent cap research. The purpose of this summary is to provide an overview of the options that the City of Culver City could consider in establishing a temporary rent moratorium.

- **Rent**
    - **Maximum Allowable Rent Increase:** Establish a maximum allowable rent increase by percentage over a stated period of time.
    - **Maximum Number of Rent Increases:** Limit the number of times a landlord can raise the rent over a certain period. The rent cap programs studied set a percentage increase over any 12-month period plus, in some cases, over multi-year periods.

- **Rent Increase Definition:** Specify that if a landlord adds utility, service, or amenity charges to rent from year-to-year (such as trash or parking charges), that the added charges are included in the calculation of the rent increase.
- **Notice of Rent Increase to Tenant:** Require that landlords provide 30-day, 60-day or 90-day notice of rent increases to tenants and establish the required notice content. In some cases, a longer notice period is required for rent increases that exceed the local rent cap tied to mandatory relocation payments.
- **Similar Lease:** Require that, if a tenant is required to sign a new lease for the same unit, the terms and conditions must remain similar to the previous lease.
- **Just and Reasonable Rent**: State the local jurisdiction's policies which form the basis for tenant and landlord waiver and appeals.

- **Right-to Lease**
    - Require that the initial leases must be six or 12-month terms.
    - Require a new 12-month lease be provided to the tenant when the landlord changes lease terms, including rent increases.
    - Establish the number of days (30, 60, 90) that a modified lease must be provided to the tenant in advance of the effective date of the new terms.

- **Just Cause Evictions:** Name and define allowable no-fault evictions in the local jurisdiction. All of the jurisdictions BAE studied that passed either rent cap or relocation assistance legislation incorporated Just Cause Evictions policies into the legislation.
    - **Protections for Seniors, People with Disabilities, and Households with Minors:** Establish that certain no-fault evictions that would typically be allowable under the jurisdiction's Just Cause Eviction policies are not allowable for tenant households that include seniors, people with disabilities, and households with minors.

- **Relocation Assistance:** Establish a percent rent increase threshold that, if exceeded, requires landlords to pay relocation fees if the tenant moves due to the higher housing payment. May also establish or amend relocation assistance provided to tenants who must move due to substantial rehabilitation or the landlord/landlord family member moving into the unit.

- **Single-Year Thresholds:** Set a one-year rent increase percentage that, if exceeded and the tenant moves due to the higher housing payment, requires the landlord to pay relocation assistance. Multi-year thresholds that set a two or three-year combined rent increase percentage that triggers relocation assistance were not identified in relocation assistance associated with temporary rent cap policies but were found in permanent ones.
- **'Long-Term Tenant' Relocation Assistance Levels:** Require higher amounts of relocation assistance for tenants who have resided in a unit more than three to five years.
- **'Low-Income Tenant' Relocation Assistance Levels:** Require higher amounts of relocation assistance for tenants who qualify as low-income. Amount of assistance may vary depending on whether a household is extremely-low, very-low, or low income.
- **Timing and Form of Relocation Assistance Payments:** Require landlords to pay relocation assistance within a certain timeframe and in a specific form (for instance, via an escrow account).
- **Alternative Permanent Housing Option:** Allow landlord and tenant to offer equivalent alternative permanent housing arrangements.
- **Notice of Relocation Assistance to Tenant:** Require landlords to provide the relocation assistance notice during a certain time frame and mandate minimal notice content.
- **Noticing of Relocation Assistance Program:** Require that landlords include relocation assistance program information in the lease or provide a stand-alone notice to tenants.

- Administration
  - **Rent Base Date:** Set a 'lookback' date, prior to the policy passage date, when the rent amount is considered the base from which increases can be calculated.
  - **Unit Registration:** Require landlords to register units and the current rent with the local jurisdiction. This requirement is typically incorporated into long-term rent control policies rather than temporary rent moratoriums.
  - **Notice of Rent Increase to Local Jurisdiction:** Require landlords to provide the jurisdiction with a copy of the rent increase notice within a certain timeframe.
  - **Notice of Relocation Assistance to Local Jurisdiction**: Require landlords to provide the jurisdiction with a copy of the relocation assistance notice within a certain timeframe.

- **Fines:** Charge fines to landlords for violations of the policies.

- Policy Exceptions
  - **Owner and Building Types:** Define the buildings and ownership types that are excepted from the policies. For instance, excepting owners of only one apartment building, apartment buildings with less than two units, affordable housing, or buildings built after the Costa-Hawkins decision.
  - **Review and Appeals:** Describes the review and appeal process for complaints and waiver requests. May include establishing or amending activities of a local Rent Review Board.
  - **Waivers:** Define circumstances under which a landlord would be allowed to raise rents above the established caps to obtain a 'just and reasonable rent'.
    - **Capital Improvements:** Outline a process for landlords to request rent increases above the established rent cap for necessary capital improvements. Some policies specify the industry standard replacement cycles for such improvements.
    - **Deferred Maintenance:** Indicate that if capital improvements are the result of landlord deferred maintenance, that the waiver may not be approved.

RELOCATION ASSISTANCE PROGRAMS

This section describes five Los Angeles County cities with Relocation Assistance Programs that connect specific levels of landlord rent increases to mandatory tenant relocation payments if the rent increases results in the tenant moving from the unit.

The Los Angeles County cities analyzed in this portion of the study are:

- City of Glendale
- City of Inglewood (proposed)
- City of Long Beach
- City of Pasadena

This group of cities was selected because, similar to the City of Culver City, they are not jurisdictions with long-term rent control policies. For the purpose of comparing policy components, BAE has included information on relocation assistance for the rent-controlled cities of Beverly Hills and Los Angeles in the Relocation Assistance Programs Chart provided as Appendix B.

Similarities for the profiled Relocation Assistance Programs listed above include:

- Program documents cite local displacement due to large rent increases as a reason why the relocation assistance policy or amended policy was established;
- Applicable only to rental units built before February 1, 1995 and, therefore, not subject to Costa-Hawkins;
- Relocation assistance is only available for tenants in good standing;
- A noticed rent increase amount, ranging from three percent to ten percent, triggers the landlord's requirement to pay relocation assistance if the tenant moves;
- Common program exceptions that allow for landlord or landlord's relative moving into a unit and government action resulting in the need to relocate tenants; and
- Additional provisions for increased assistance are also common, specifically for low-income households, long-term renters, seniors, households with minors, or tenants with disabilities.

Policy variations existed on the topic of relocation fee tied to rent increases, fines for non-compliance, exceptions for small building owners, exceptions for capital improvements, and applicability to all tenants versus only low-income tenants.

Cities Without Long-Term Rent Control

City of Long Beach
Citing housing displacement due to large increases in rent that tenants are unable to pay, or substantial rehabilitation of units that necessitate vacation, with tenants bearing the full costs of relocation, the City of Long Beach revised its Tenant Relocation Assistance policies earlier this year. Effective August 1, 2019, the City of Long Beach Municipal Code Chapter 8.97 relating to Tenant Relocation Assistance now includes provisions that require that relocation assistance be paid to tenants who receive certain rent increases and for named non-cause terminations.

Relocation Payment Circumstances: 1) Tenant receives notice of rent increase of ten percent or more in any 12-month period and tenant does not provide landlord with notice of intent to stay; or 2) Tenant receives notice to terminate tenancy due to landlord's rehabilitation of the unit; 3) Tenant receives a notice of non-renewal or notice to vacate from the landlord.

Relocation Payment Amount and Timing: Amount equal to two months of respective payment standard by number of bedrooms averaged across all Long Beach ZIP Codes in the then-current Payment Standards/Small Area Fair Market Rents published by the Housing Authority of the City of Long Beach, but not to exceed $4,500. One half of the relocation payment is due to tenant within 10 to 24 days of notice receipt, and the second half is due within five days of tenant vacating the unit.

Exemptions: Unit received certificate of occupancy after February 1, 1995; landlord or landlord's relative seek to move into the unit; unit is subject to rental affordability restrictions; government order to vacate the building; landlord occupies a unit in the building as his or her primary residence; landlord owns only one residential housing complex in Long Beach that consists of exactly four units.

City of Glendale
Following its 60-day *Temporary Moratorium on Certain Residential Rent Increases* the City of Glendale implemented a set of policies under the Rental Rights Program. Effective March 14, 2019, the primary components of the program are Right-to-Lease, Relocation Assistance, and Just Cause Eviction.

Relocation Payment Circumstances: Rent increases over seven percent in any 12-month period trigger mandatory relocation assistance. Glendale does allow owners to "bank" years without rent increases, or with rent increases below the maximum, and apply them in future years.

Relocation Payment Amount and Timing: Glendale's relocation assistance levels are broken down into categories for three to four-unit buildings versus buildings with five or more units, and for households earning above or below 130 percent of Area Median Income (AMI). Tenants of three to four-unit buildings receive a relocation assistance payment of three to six times current rent. Tenants living in buildings of five or more units receive relocation assistance payments of three times the proposed rent if the household earns more than 130 percent of AMI. If the household income falls below 130 percent of AMI, then the household relocation assistance payment is three to six times the proposed rent, depending on number of years occupied.

Exemptions: Applies to buildings with three or more units.

City of Pasadena

The City of Pasadena adopted a Tenant Protection Ordinance in 2004 and amended the ordinance in 2017 and, most recently, in July 2019. Tenant Relocation Assistance policies are included in the ordinance and the 2019 updates requires assistance be paid to tenants noticed with certain rent increases under new owners.

Relocation Payment Circumstances: Pasadena specifies five circumstances under which a tenant, in good standing with a household income under 140 percent of Los Angeles County Median Income, qualifies for relocation assistance: 1) Demolition; 2) Change in ownership in the last 18 months and a notice of: a) tenancy termination; b) eviction, and/or c) rent increase that exceeds five percent plus change in CPI over 12 months prior to rent increase date; 3) Permanent removal of the unit from the rental market; 4) Occupancy by landlord or landlord family; or 5) Government order to vacate.

Relocation Payment Amount and Timing: Relocation allowance is two and a half times the monthly Fair Market Rent for Pasadena, published by HUD. Currently the amount ranges from $2,173 to $6,603, based on the number of bedrooms in the unit. Landlords are also required to pay moving expenses of $1,338 for all-adult households and $4,033 for households with dependents, seniors, or persons with disabilities. Lastly, long-term tenants receive additional assistance of ten percent per year for each year past the tenth anniversary of tenancy for no more than 200 percent of the assistance base amount.

Exemptions: Board and care and state licensed facilities, unlawful rental housing agreements, tenant physical damage to unit rendering it not habitable, uninhabitable due to earthquake or natural disaster, single-family homes, condominiums.

City of Inglewood

The City of Inglewood does not currently operate a relocation assistance program or policy. The City is included in this analysis because the Housing Protection Initiative under consideration by City Council on June 18, 2019 includes proposed relocation assistance policies. As a part of the development of these policies, the City hosts an online survey for residents to submit their rent increases and notices.

Relocation Payment Circumstances: The proposed policy would require relocation assistance for: 1) Permanent withdrawal of a unit from the rental market; 2) Landlord or landlord's relative moves into the unit; and 3) Broader rent control provisions that would cap rent increases separately from the relocation assistance program.

Relocation Payment Amount and Timing: Relocation assistance would be set at three times the Inglewood average rent as published on RENTCAfe's website. Currently the initial rent rate would be set at $1,770 resulting in a Base Relocation Fee of $5,310. Tenants with five to ten years tenure would receive an additional $1,000 and tenants with ten or more years of residency or who are senior, disabled, or a with minor in the household would receive an additional $2,000. Like Glendale, half of the assistance amount payment would be required five days after the notice, and the second half would be paid five days after the tenant vacates the unit.

Exemptions: Not specified.

FINANCIAL MODELING

The Financial Model approach utilizes a cash flow analysis that replicates a landlord's real estate operating pro-forma, with a specific focus on analyzing the extent to which prevailing increases in local operating expenses (e.g., local utilities, property taxes, insurance, etc.) could be covered by the allowable rent cap.

Operating expense data were pulled from a number of sources, including the National Apartment Association (NAA) Survey of Operating Expenses (2018); case studies from the Urban Land Institute (ULI); interviews with landlords operating in Culver City; and project-specific data furnished by the Culver City Housing Division.

Due to a wide variation in potential leveraging, this model does not incorporate a property's ongoing mortgage payment, as mortgages are not typically classified under the category of operating expenses. By focusing on the impacts of limitations on rent increases net operating income before interest, taxes, depreciation, and amortization, this analysis provides an assessment of impacts on project profitability that is comparable across project types, without regard to financing arrangements, owner tax situations, and other variables which can vary widely from property to property and which are not related to the fundamental profit-earning potential of a real estate asset.

Step One: Operating Expense Summary Components

To begin the Financial Model approach, BAE first determined the four broad categories that comprise the majority of operating expenses for multifamily properties in Culver City.
These include:

- *Property Taxes*

Due to limitations on annual tax increases imposed by Proposition 13, long-time property owners reported a relatively low share of property tax outlays as a percentage of total operating expenses. While more recent property owners report a significantly higher tax outlay as a percentage of operating expenses, property taxes do not rise more than two percent per year in California, making this a relatively predictable component in a landlord's annual operating pro-forma.

- *Utilities*

In most cases, landlords reported that their multifamily units were individually metered, with tenants paying their pro rata share of gas and electricity. Landlords reported paying for a building's water, as well as waste pick up and electricity for common areas. Information concerning utility expenses was derived from Golden State Water Company as well as refuse collection fee rate information provided by the City of Culver City.

- *Insurance*

While nearly all landlords interviewed reported costs associated with their blanket building insurance premiums, not all Culver City landlords reported carrying earthquake insurance. Further variability in insurance premiums was introduced based on the length of policy, as well as the size and condition of the multifamily building.

- *Maintenance and Repairs*

Landlords reported a wide range of ongoing maintenance needs in their rental properties, from emergency plumbing repairs and pest mitigation to clearing drains and gutters. Weekly landscaping, gardening, and common area cleaning is also included in this category.

It should be noted that more extensive improvements such as roof and HVAC replacements are not typically included in the regular maintenance category, but as part of a capital expenditure reserve.

- *Other Expenses*

Property Management. Landlords with smaller multifamily buildings (e.g., six units and elow) indicated that they are generally self-managed and did not rely on an outside management company. Owners of mid-to-large sized properties, meanwhile, often retain an outside vendor to handle issues such as tenant disputes and filling vacancies for a fee, typically expressed as a percentage of gross rental revenue.

Reserve for Replacement. To help cover the cost of major capital expenditures, property owners contribute a fixed percentage of gross rental revenue to be placed in a reserve fund. While the required percentage can vary depending on the condition of the property and the "useful life" of its major components, a Reserve Study can help identify any major components that are subject to deterioration over a given time period (e.g., thirty years), as well as provide a Funding Plan that illustrates the effects of various levels of reserve contributions versus anticipated reserve expenditures.

Step Two: Prototype Selection for Cash Flow Analysis

Next, BAE assembled a series of building prototypes designed to cover the broadest range of Cap Eligible properties in Culver City. These prototypes are broken down into the following categories:

- *Small Prototype*

  The "Small Prototype" represents multifamily properties containing six or fewer units. Six-plexes are the most common-sized multifamily building within Culver City, with 282 units spread across 47 buildings. Taken together, properties with six units or fewer comprise nearly 60 percent of Culver City's total building inventory, but only 22 percent of total multifamily units.

- ***Medium Prototype***
  The "Medium Prototype" represents multifamily properties that range from seven to fifty units. These mid-sized properties comprise nearly 40 percent of Culver City's total multifamily residential building inventory, as well as 38 percent of total multifamily units. The Median Prototype also includes the *average*-sized multifamily property in Culver City, which is twelve units.

- ***Large Prototype***
  The "Large Prototype" represents multifamily properties in Culver City with more than 50 units. While these larger properties comprise only seven buildings total, they represent approximately 35 percent of total multifamily units.

Step Three: Vet Expense and Escalation Assumptions

BAE interviewed a number of property owners in Culver City who would be affected by the potential rent cap, asking detailed questions such as the number of properties owned and length of ownership; size and age of properties in their portfolio; whether the properties were managed in-house or by an outside vendor; how their properties were metered for utilities; an itemization of annual operating expenses and how they have increased over time; recent outlays for capital improvements; planned outlays for capital improvements; and other pertinent information.

To corroborate the interviews, BAE also reviewed industry data from the National Apartment Association (NAA) Survey of Operating Expenses (2018); case studies from the Urban Land Institute (ULI); and also incorporated information from BAE's experience with similar analyses for projects in California.

Next, BAE synthesized the data sources to arrive at an estimate of the overall "share" that each category of operating expenses represents (Table 7).

Under this approach, property taxes are estimated to comprise the largest share of operating expenses overall (50 percent); followed by maintenance and administration (32 percent); utilities (11 percent); and insurance (seven percent).

Table 7: Estimated Operating Expense Share by Category and Source

	Culver Blended (a)	NAA (b)	ULI (c)	Combined Average
Maintenance/Admin	12%	47%	36%	**32%**
Real Estate Taxes	60%	42%	47%	**50%**
Insurance	11%	4%	7%	**7%**
Utilities	17%	6%	9%	**11%**

Notes:
(a) Based on interviews w/ local landlords and data furnished by CC Housing Division.
(b) For properties with 50 or more units, more than 20 years old, NAA.
(c) ULI Professional Real Estate Development, Third Edition.

Sources: National Apartment Association Survey of Income and Expenses, 2018; Urban Land Institute, 2018; Interviews with local Culver City landlords; BAE, 2019.

Finally, to estimate the annual increase in operating expenses for Cap Eligible properties in Culver City, BAE applied the pro-rata share of each operating expense category to that category's estimated annual growth rate (Table 8).

Table 8: Estimated Growth in Operating Expenses, All Categories

	Estimated Share of OpEx	Estimated Annual Increase
Real Estate Taxes (a)	50%	2.0%
Maintenance/Admin (b)	32%	3.3%
Utilities (c)	11%	4.9%
Insurance (b)	7%	3.3%
Weighted Average Annual OpEx Increase		**2.8%**

Notes:
(a) Under Prop 13, all real property has a restricted rate of increase on assessments of no more than 2% each year.
(b) In absence of reliable metrics, assumes Los Angeles Area CPI-U inflation rate of 3.3% from June 2018 to June 2019.
(c) Based on published rate increases for utilities paid by landlord.

This method yields an estimated weighted average growth rate of 2.8 percent annually for operating expenses for the short term, which coincides with the anticipated 12-month duration of the interim ordinance that the City is contemplating. All cash flows below assume an annual operating expense escalation of 2.8 percent per year. Although the City expects the interim ordinance to be in place for a maximum of 12 months, the pro-formas project income and expense escalation out four years, to illustrate the impact that restrictions on rental rate increases could have on profitability over a period of time.

Key Findings – Financial Analysis by Prototype

Table 9 summarizes the pro-forma results for each of the three prototype projects, under two different sets of assumptions. The upper part of Table 9 projects changes in net operating income assuming that operating expenses escalate 2.8 percent per year and that rents are also allowed to increase by the same amount. The more detailed pro-forma projections for the Small, Medium, and Large complex prototypes under the assumption of 2.8 percent operating expense increase and 2.8 percent rent increase appear on pages that follow as Tables 10 through 12, respectively. The lower part of Table 8 includes the results of a sensitivity analysis that projects changes in net operating income if expenses increase 2.8 percent per year but rents are allowed to increase by 5.0 percent per year.

First, the summary table indicates how gross profits before debt service are affected by variations in the overall share of operating expenses for each prototype. For example, the Small Prototype faces a higher operating expense ratio than the Medium and Large Prototypes, which results in a lower gross profit percentage before debt service (42.5 percent versus 44.5 percent and 46.5 percent, respectively).

Second, the summary information indicates that for all three prototypes, as long as allowable rent increases are equal to or greater than the rate of increase for operating expenses, the owner's gross profitability will increase above the baseline (i.e., existing conditions) level throughout the holding period. Regardless of an individual owner's situation with regard to profitability in the base year, mortgage debt service requirements (or lack thereof), tax considerations, or other factors, the project owners would have the potential to realize increased net operating income. This increased net operating income would then be available to be allocated cover debt service, capital replacements, taxes, etc., according to each project's individual circumstances.

Comparison between the upper and lower parts of Table 9 shows that as the differential between rent increases and operating expenses grows, the increased rent levels contribute to substantial increases in project net operating income and profitability over time. In BAE's experience, financial feasibility analysis conducted for prospective real estate development projects or for acquisition of existing real estate assets by developers, investors, and lenders rarely assumes that anticipated long-term rental income increases will exceed long-term operating expense increases by more than one to two percent per year, if at all. Conservative investment underwriting indicates that an investment makes financial sense if the project can achieve reasonable profitability with these factors more or less equalizing over time, and investment "upside" would be realized when expense increases can be held to lower than anticipated levels and/or if rents increase at rates greater than expected. Based on this, an interim rent cap ordinance that allows rent increases to keep pace with, or slightly exceed the rate of expense increases should not interfere with reasonable investment backed decisions made when owners of property that would be subject to the regulations decided to purchase their property.

It can be expected that there will be exceptions to the preceding general findings and observations. For that reason, it is expected that the City will incorporate provisions to allow case-by-case review and potential modifications of the regulations for property owners for whom the regulations would cause a demonstrable financial hardship, due to no fault of their own.

Table 9: Gross Profit and NOI Increase by Prototype

	Base Year Gross Profit before Debt Service (a)	Base Year Net Operating Income	Year Four Net Operating Income	NOI Increase from Base Year
Assumes 2.8% annual increase in Operating Expenses; 2.8% annual increase in Rent:				
Small Prototype	42.5%	$41,686	$46,555	11.7%
Medium Prototype	44.5%	$167,600	$187,174	11.7%
Large Prototype	46.5%	$1,026,952	$1,146,892	11.7%
Assumes 2.8% annual increase in Operating Expenses; 5.0% annual increase in Rent:				
Small Prototype	42.5%	$41,686	$56,237	34.9%
Medium Prototype	44.5%	$167,600	$224,355	33.9%
Large Prototype	46.5%	$1,026,952	$1,365,027	32.9%

Notes:
(a) Gross profit is calculated as Net Operating Income divided by Effective Gross Income.

Source: BAE, 2019.

Small Prototype Analysis

Table 10 estimates the annual Net Operating Income for a prototypical, six-unit multifamily property in Culver City.

To estimate this prototype's Potential Gross Income (PGI), BAE first analyzed rental data for all Cap Eligible properties with six units or less. Based on this sample, asking rents were estimated to approximately $1,434 per month as of Q2 2019, with a vacancy rate of 3.7 percent. After accounting for a long-term vacancy rate of five percent, Effective Gross Income (EGI) for this prototype was estimated to be $98,086 in the "Base Year".

While data from the National Apartment Association Survey of Income and Expenses indicate that operating expenses generally comprise approximately 37 percent of EGI, the dataset is for properties with fifty or more units. Based on interviews with local landlords, as well as accounting for the fact that smaller properties do not benefit from operational economies of scale, this analysis assumes a more robust ratio of forty percent.

Change in Net Operating Income

The analysis shows that if this pattern of operating expense and rent increases, both at 2.8 percent per year, continued for four years, the owner's annual net operating income in Year 4 would be $4,869 greater than in the base year, for an increase of about 11.7 percent.

Table 10: Cash Flow Analysis for Small Multifamily Prototype

		Base Year	Year 1	Year 2	Year 3	Year 4
Potential Gross Income (a)		**$103,248**	**$106,139**	**$109,111**	**$112,166**	**$115,307**
Vacancy (b)	*5.0%*	($5,162)	($5,307)	($5,456)	($5,608)	($5,765)
Effective Gross Income (EGI)		**$98,086**	**$100,832**	**$103,655**	**$106,558**	**$109,541**
Operating Expenses (c)	**40%**	($39,234)	($40,333)	($41,462)	($42,623)	($43,817)
Management Fee (d)	3%	($2,452)	($2,521)	($2,591)	($2,664)	($2,739)
Replacement Reserves (e)	15%	($14,713)	($15,125)	($15,548)	($15,984)	($16,431)
Net Operating Income (NOI)		**$41,686**	**$42,854**	**$44,053**	**$45,287**	**$46,555**
NOI Increase Over Base Year			$1,167	$2,367	$3,601	$4,869
Gross Profit (f)		42.5%				
Expense Inflation	2.80%					
Rent Escalation	2.80%					

Notes:

(a) For 6-unit property, based on monthly rents in average-sized units for Market Rate, pre-1995 Culver City MF properties (6 units and under).

(b) Actual vacancy for this subset was 3.7 percent as of Q2 2019; vacancy rate adjusted upwards to reflect a long-term equilibrium of five percent.

(c) Operating Expense Ratio adjusted upwards to reflect the older age of 6-unit-and-under subset (built 1954).

(d) Many Culver City landlords reported self-managing smaller properties, assumes a nominal percentage towards management/admin.

(e) Assumes higher replacement reserves to account for potential deferred maintenance on older properties.

(f) Does not include debt service payment.

Sources: National Apartment Association Survey of Income and Expenses, 2018; Culver City Proposed Refuse Collection Fee, 2017; Golden State Water Company, 2018; CoStar, 2019; Interviews with local Culver City landlords; BAE, 2019.

Medium Prototype Analysis

Potential Gross Income and Vacancy

Asking rents for the Medium Prototype were estimated to be approximately $2,065 per month as of Q2 2019, with a vacancy rate of 2.9 percent. After accounting for a long-term vacancy rate of five percent, Effective Gross Income (EGI) for this prototype was estimated to be $376,656 in the "Base Year".

Operating Expenses as a percentage of EGI and Reserves

Operating Expenses for this prototype were estimated to be approximately 34 percent of EGI, a lower percentage overall than the Small Prototype. This prototype also incorporates a manager's unit, as an onsite manage is required for properties with 16 units or more (Cal Code of Regulations, Title 25, section 42).

Change in Net Operating Income

The analysis shows that if this pattern of operating expense and rent increases, both at 2.8 percent per year, continued for four years, the owner's annual net operating income in Year 4 would be $19,574 greater than in the base year, for an increase of about 11.7 percent.

Table 11: Cash Flow Analysis for Medium Multifamily Prototype

		Base Year	Year 1	Year 2	Year 3	Year 4
Potential Gross Income (a)		**$396,480**	**$407,581**	**$418,994**	**$430,726**	**$442,786**
Vacancy (b)	*5.0%*	($19,824)	($20,379)	($20,950)	($21,536)	($22,139)
Effective Gross Income (EGI)		**$376,656**	**$387,202**	**$398,044**	**$409,189**	**$420,647**
Operating Expenses (c)	**34%**	($127,778)	($131,356)	($135,034)	($138,815)	($142,702)
Management Fee	5%	($18,833)	($19,360)	($19,902)	($20,459)	($21,032)
Replacement Reserves	10%	($37,666)	($38,720)	($39,804)	($40,919)	($42,065)
Manager's Unit (onsite)		($24,780)	($25,474)	($26,187)	($26,920)	($27,674)
NOI		**$167,600**	**$172,292**	**$177,117**	**$182,076**	**$187,174**
NOI Increase Over Base Year			$4,693	$9,517	$14,476	$19,574
Gross Profit		44.5%	44.5%	44.5%	44.5%	44.5%
Expense Inflation	2.80%					
Rent Escalation	2.80%					

Notes:

(a) For 16-unit property, based on monthly rents in average-sized units for Market Rate, pre-1995 Culver City MF properties (7-50 units).

(b) Actual vacancy for this subset was 2.9 percent as of Q2 2019; vacancy rate has been adjusted upwards to reflect the required presence of onsite manager for properties with 16 units or more (Cal Code of Regulations, Title 25, section 42).

(c) Operating Expense and Management Ratio derived from samples from Urban Land Institute (ULI).

(d) Does not include debt service payment.

Sources: National Apartment Association Survey of Income and Expenses, 2018; Urban Land Institute, 2018; CoStar, 2019; Interviews with local Culver City landlords; BAE, 2019.

Large Prototype Analysis

Potential Gross Income and Vacancy

Asking rents for the Large Prototype were estimated to be approximately $2,423 per month as of Q2 2019, with a vacancy rate of 4.7 percent. After accounting for a long-term vacancy rate of five percent, Effective Gross Income (EGI) for this prototype was estimated to be $2,209,887 in the "Base Year".

Operating Expenses as a percentage of EGI and Reserves

Operating Expenses for this prototype were estimated to be approximately 36 percent of EGI, a slightly higher percentage overall than the Medium Prototype due to salaries associated with full-time management employees.

Change in Net Operating Income

The analysis shows that if this pattern of operating expense and rent increases, both at 2.8 percent per year, continued for four years, the owner's annual net operating income in Year 4 would be $119,940 greater than in the base year, for an increase of about 11.7 percent.

Table 12: Cash Flow Analysis for Large Multifamily Prototype

		Base Year	Year 1	Year 2	Year 3	Year 4
Potential Gross Income (a)		**$2,326,080**	**$2,391,210**	**$2,458,164**	**$2,526,993**	**$2,597,749**
Vacancy (b)	*5.00%*	($116,304)	($119,561)	($122,908)	($126,350)	($129,887)
Effective Gross Income (EGI)		**$2,209,776**	**$2,271,650**	**$2,335,256**	**$2,400,643**	**$2,467,861**
Operating Expenses (c)	**36%**	($795,519)	($817,794)	($840,692)	($864,232)	($888,430)
Management Fee	7.5%	($166,327)	($170,984)	($175,772)	($180,694)	($185,753)
Replacement Reserves	10%	($220,978)	($227,165)	($233,526)	($240,064)	($246,786)
NOI		**$1,026,952**	**$1,055,706**	**$1,085,266**	**$1,115,654**	**$1,146,892**
NOI Increase Over Base Year			$28,755	$58,314	$88,702	$119,940
Gross Profit (d)		46.5%	46.5%	46.5%	46.5%	46.5%
Expense Inflation	2.80%					
Rent Escalation	2.80%					

Notes:
(a) For an 80-unit property, based on monthly rents in avg-sized units for Market Rate, pre-1995 CC MF properties (51 units and above).
(b) Actual vacancy for this subset was 4.7 percent as of Q2 2019; vacancy rate has been adjusted upwards to reflect a long-term equilibrium.
(c) Operating Expense and Fee Ratios derived from NAA sample for garden-style apartments over 20 years old (50+ units).
(d) Does not include debt service payment.

Sources: National Apartment Association Survey of Income and Expenses, 2018; Urban Land Institute, 2018; CoStar, 2019; Interviews with local Culver City landlords; BAE, 2019.

KEY CONSIDERATIONS

While studying long-term rent cap and relocation assistance policy options, the short-term policies available to the City of Culver City are to:

- Not create a temporary rent cap or renter protection policies;
- Establish a temporary rent increase moratorium and/or renter protection policies; or
- Decide the long-term policy now.

The challenge for Culver City will be to allow ample time for appropriate research while balancing the need for both renter and landlord predictability regarding the rental market.

The profiled **Rent Cap Urgency Ordinances** indicate that temporary rent caps ranging between two and eight percent, although mostly five percent, have been recently implemented in California. To ensure that rent cap policies do not influence a spike in no-fault evictions, all of the cities that implemented temporary rent moratoria added just cause evictions provisions to the ordinances.

Relocation Assistance Programs can be coupled with short or long-term rent cap policies, or can be stand-alone policies in lieu of rent caps. Culver City will want to determine whether a relocation assistance program would serve all tenants or be targeted to low- and moderate-income tenants. An income-targeted program would require more staff oversight, including conducting household income verifications. Additionally, Culver City will want to decide if additional assistance would be provided to long-term households, and/or households with members who are seniors, disabled, or minors.

The **Rental Market Study** indicated that small multifamily buildings are less prone to larger rent increases while the **Financial Modeling** indicates that small multifamily prototypes have smaller profit margins due to higher operating expense ratios. Additionally, the City will also want to consider how to implement a cost pass-through program for multifamily earthquake retrofits prior to any mandate.

APPENDIX A: RENT CAP URGENCY ORDINANCES COMPARISON

	City of Glendale	City of Inglewood	Unincorporated Los Angeles County	City of Santa Cruz	City of Alameda
Status of Urgency Ordinance	Expired	Expired	In Extension Period	Expired	Expired
Maximum Rent Increase	Five Percent	Five Percent	Three Percent	Two Percent (1)	Eight Percent
Over Period of	12 months; pro-rated	Inglewood Second Ext Moratorium	12 months	12 Months	12 Months
Maximum # Rent Increases	Did not specify	One Per 12-Month Period	One per 12-Month Period	Did not specify	Did not specify
Ordinance Period	60 Days	Initially 45 Days; Extended to 104 Days	Initially 180 Days; Extended to 376 Days	Approx. Seven Months	Initially 65 days; First extension 60 days; Second extension 22 days
Ordinance Commence Date	December 27, 2018 to	March 5, 2019 to	December 20, 2018	February 13, 2018	November 5, 2015
Ordinance Expiration Date	February 27, 2019	June 17, 2019	December 31, 2019	Cert. of November 2018 Election Results	January 5, 2016
Base Rent Date	September 18, 2018	March 5, 2019	September 11, 2018	February 13, 2018	November 5, 2015
Just Cause Eviction	Yes	Yes	Yes	Yes	Yes
Right-to-Lease	No; Staff directed to prepare	No	No	No	No
Relocation Assistance	No; Staff directed to prepare	No	No	No	No
Renter Mediation/Arbitration	No	Under consideration	Yes	Yes	No
Fair/Just & Reasonable Return Mentioned	Yes	Yes	Yes	Yes	Yes
Landlord Petition for Relief	Yes	See above	Yes	Yes	Yes
Violation Fines	Yes; Unspecified	Not Stated	Up to $1,000 per violation	Up to $4,000	Not stated
Other Provisions	Initial rent not regulated		Initial rent not regulated	Initial rent not regulated	
Exemptions for Housing Types	Certificate of Occupancy after February 1, 1995 Government Controlled, Regulated or Subsidized Less than 30 Days Occupancy Hospital Convent/Monastery Extended Medical Care Facility Asylum Nonprofit Home for Aged Higher Education Dorms Single-Family Homes & ADUs Condominiums/Townhomes	Constructed on or after February 1, 1995 Costa-Hawkins Exempted Government Controlled, Regulated or Subsidized Less than 30 Days Occupancy Hospital Housing Care Facilities Dorms Convents Alienable from Title of Another Unit such as Single Family Homes, Condominimums, Townhomes	Certificate of Occupancy after February 1, 1995 Single Family Homes Condominiums Subdivided Properties	Certificate of Occupancy after February 1, 1995 SFRs, condos, and townhouses that are separately owned Short-term rentals Hospitals, convents, residential care facilities, dorms, and other group homes Government-Owned Housing Section 8 Housing, and other units subsidized by the State/ Federal Law	Constructed after February 1, 1995 Costa-Hawkins exempted Single Family Homes Condominiums/Townhomes Government-Owned Housing Other controlled and regulated housing Temporary housing less than 30 days (hotels) Commercial Units Hospitals Convents/Monasteries Extended Care Facilities Convalescent Homes Student Dorms
Ordinance Numbers	Ord. 5919	Ord. 19-07	Ord. 2018-0045	Ord. 2018-03	Ord. 3140, Amended Ord. 3143

	City of Glendale	City of Inglewood	Unincorporated Los Angeles County	City of Santa Cruz	City of Alameda
Concurrent/Subsequent Policies	All New Policies Under *Rental Rights Program* Ord. 5922 Effective March 14, 2019 *Right to Lease* Must provide 12-month lease at initial occupancy and at time of rent increase. (March 14, 2019) *Relocation Assistance* For more than seven percent over 12-month period (March 14, 2019) *Just Cause Evictions* (March 14, 2019)	Rent Control Ordinance (June 12, 2019) Second reading pending		*Large Rent Increase Relocation Fee, Rev. MC* Adopted November 27, 2019 *Just Cause for Tenant* Evictions (Ord. 2019-01) Adopted January 8, 2019	*Rent Review Ordinance no. 3141* Adopted September 2, 2015 Established noticing and rent review hearing procedures *Rent Review Advisory Committee Ordinance no. 3142* Adopted September 1, 2015 formalized policies *Rent Stabilization Ordinance no. 3148* Adopted March 31, 2016 Sunset December 31, 2019 Unless Council continues Relocation & Cash for Keys Just Cause Ordinance no. 3244 June 4, 2019
Additional Information	*Banking Provisions* Landlords can save unused rent increases and apply in the future under certain limits	City hosts online survey re: resident rent increases Dept Consumer and Business Affairs oversees complaints	Decrease in services interpreted as rent increase	Rent Control Ballot Measure M Failed in November 2019	

Notes

(1) Tied to CPI; noted as 65 percent of CPI

APPENDIX B: RELOCATION ASSISTANCE PROGRAMS CHART

	City of Glendale	City of Long Beach	City of Pasadena	City of Inglewood
Status of Rent Control	No Rent Control	No Rent Control	No Rent Control	Temporary Moratorium
Relocation Assistance Program Effective Date	As part of the Rental Rights Program Effective March 14, 2019		Tenant Protection Ordinance adopted 2004 Amended in 2017 and July 2019	As part of the Housing Protection Initiative Ordinance 19-13 First reading June 18, 2019 Second reading date?
Tenancy		In good standing Living in unit at least one year		Minimum tenancy of 720 consecutive days or 24 months (whichever is shorter).
Relocation Payment Circumstances	Rent increase over seven percent in any 12-month period	Rent increase over ten percent in any 12-month period	Tenant in good standing and household income does not exceed 140 percent LA County Area Median Income then allowance triggered by: 1) Demolition; 2) Change in ownership in past 18 months and notice of: a) tenancy termination, b) eviction, and/or c) rent increase exceeds five percent plus percent change in CPI over 12 months prior to rent increase date; 3) Permanent removal of unit from rental market; 4) Occupancy by landlord or landlord family; or 5) Government order to vacate	Permanent withdrawal of unit from rental market Landlord or landlord relative move-in No rent cap connection to relocation due to implementation of rent control cap of five percent increase per 12-month period.
Relocation Payment Amount	Three-times current rent for three to four unit bldg. Five or more units break down by above and below 130 percent area median income (AMI). Above 130 percent AMI is paid three times proposed rent. Below 130 percent AMI is paid three to six times proposed rent depending on years occupied.	Equal to two months rent standard across Long Beach zip codes not to exceed $4,500.	Alloance is two and a half times monthly Fair Market Rent published by HUD. Currently ranges from $2,173 to $6,603 based on number of bedrooms in the unit. Plus the Moving Expense Allowance at $1,338 for all-adult households or $4,033 for households with dependents seniors, or persons with disabilities. Long-term tenants receive additional ten percent per year for each year past the tenth anniversary of tenancy for no more than 200 percent of the base amounts.	Three times Inglewood average rent as published on RENTCafe website. Initial rent is set at $1,770 resulting in a Base Relocation Fee of $5,310. Tenants five to ten years additional $1,000 Tenants ten or more years additional $2,000 Disabled, minor, senior tenants additional $2,000
Relocation Payment Timing	Half within five business days of tenant notice to move and half within five days of tenant vacating the unit.	Half within 10-25 days and half within five days of tenant vacating the unit.	Not stated	Half within five business days of tenant notice to move and half within five days of tenant vacating the unit.
Low-Income Household Provisions	Yes	No	Yes	No
Long-Term Tenant Provisions	Yes	No	Yes	Yes
Senior/Disabled/Minor Provisions		No	Yes	Yes
Smaller Property Provisions	Yes		No	No
Landlord Banking Provisions	Yes	No	No	No
Just Cause Eviction Provisions	Yes - just cause evictions have different relocation assistance levels (lower)		No	Yes
Right-to-Lease Provisions	Yes - 12 month lease 90-days prior to the increase		No	No
Renter Mediation/Arbitration			No	Yes
Landlord Petition for Relief			No	Yes - for capital improvements

	City of Glendale	City of Long Beach	City of Pasadena	City of Inglewood
Program Fees			No	Not stated
Violation Fines		Up to $1,000	Civil penalty of $500	Unspecified
Other Provisions	Failure to provide notice of relocation rights voids future rent increases	Require Relocation Payment information in leases	Landlords required to provide tenants with multi-lingual one-page landlord/tenant rights information sheet prepared by the City of Pasadena Housing Department. Tenants must provide certain documentation for the City to determine program eligibility . Includes provisions for student, faculty and staff living at educational instutions housing more than 365 days after discontinuing affiliation.	Relocation assistance is part of many policies implemented within the Housing Protection Initiative
Exemptions		Certificate of Occupancy after February 1, 1995 Landlord or relative move-in Affordable, restricted unit Goverment order to vacate Landlord owns only one rental building that consists of four units	Board and care facilities and other state licensed care facilities Unlawful rental housing agreements Tenant physical damange to unit such that unit is not habitable. Inhabitable unit due to earthquake or natural disaster. Single-Family Homes Condominimums	
Additional Information	All new policies under "Rental Rights Program" Ord. 5922 Effective March 14, 2019		Relocation allowances shall automatically increase annually with changes in HUD FMRs and the moving allowances by CPI Tenant Protection policies include temporary relocation.	City hosts online survey re: resident rent increases

Relocation Assistance Programs

	City of Beverly Hills	City of Los Angeles
Status of Rent Control	Rent Control	Rent Control
Relocation Assistance Program Effective Date	Amended existing relocation policy with an urgency ordinance on February 21, 2017 Was there a subsequent one?	
Tenancy		
Relocation Payment Circumstances	Rent increase shall not exceed the greater of three percent of the rent or percentage increase in the CPI	Not-at -Fault Evictions including: 1) Landlord or relative move-in 2) Demolition or removal from the rental market 3) Primary renovation for habitability 4) Compliance with government agency 5) HUD seeks to recover possession of unit 6) Eviction due to residential hotel conversion and demolition 7) Landlord converting to affordable 8) Landlord demolishes for condominim, co-op, hotel, commercial use
Relocation Payment Amount	Studio @ $6,193; 1 BR @ $9,148 and 2 BR or more @ $12,394 Households including senior, disabled person, or a minor receive additional relocation fee of $2,000	Ranges from $8,500 to $21,200 Varies due length of tenancy income level and senior/disabled Amounts are lower for Mom and Pop landlords
Relocation Payment Timing	When tenant vacates the unit	Within 15 days of the service of written eviction notice
Low-Income Household Provisions	No	Yes
Long-Term Tenant Provisions	No	Yes - Three or more years
Senior/Disabled/Minor Provisions	Yes	Yes
Smaller Property Provisions	No	Yes
Landlord Banking Provisions	No	No
Just Cause Eviction Provisions		Yes -- in RSO policies
Right-to-Lease Provisions	No	
Renter Mediation/Arbitration	Yes	Yes
Landlord Petition for Relief	Yes	

	City of Beverly Hills	City of Los Angeles
Program Fees	For broader Rent Control program?	Yes - Range from $25 to $767
Violation Fines	Yes	
Other Provisions	Some provisions for payment to be placed in escrow Landlord option to relocate the tenant to a comparable replacement unit and only pay actual costs of tenant relocation. Extensive definition of just and reasonable return that uses 2016 base year.	Mom and Pop properties of four units or less and ownership of no more than four units and no waivers in the past three years can request reducted relocation fees for any eligibile relative for whom the landlord is recovering possession of the unit. Option to pay fees via escrow account
Exemptions		
Additional Information	Relocation allowances shall automatically increase annually with changes in HUD FMRs and the moving allowances by CPI 2017 ordinance also mandated unit and unit rent registration with the City.,	Rent Control Ballot Measure M Failed in November 2019