PROPOSED RENT STABILIZATION ORDINANCE

City of Salinas

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  - Who does Rent Stabilization affect?
  - California Rent Stabilization
  - Local effects
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- Key Questions and Findings
- Overall Conclusions and Recommendations

INTRODUCTION TO RENT STABILIZATION

Rent stabilization protects tenants from unaffordable rent increases while providing landlords a reasonable return on investment through a maximum annual rent increase

ONLY applies to the following residential units:

- Multifamily Rental dwelling units
- Must be built BEFORE February 1, 1995
- Remodeled residential units converted from space long dedicated to residential

The following residential units are EXEMPT:

- Single-family rentals
- Condominium rentals
- Multifamily dwelling units built AFTER February 1, 1995
- Newly constructed dwelling units
- Government Subsidized Affordable Units

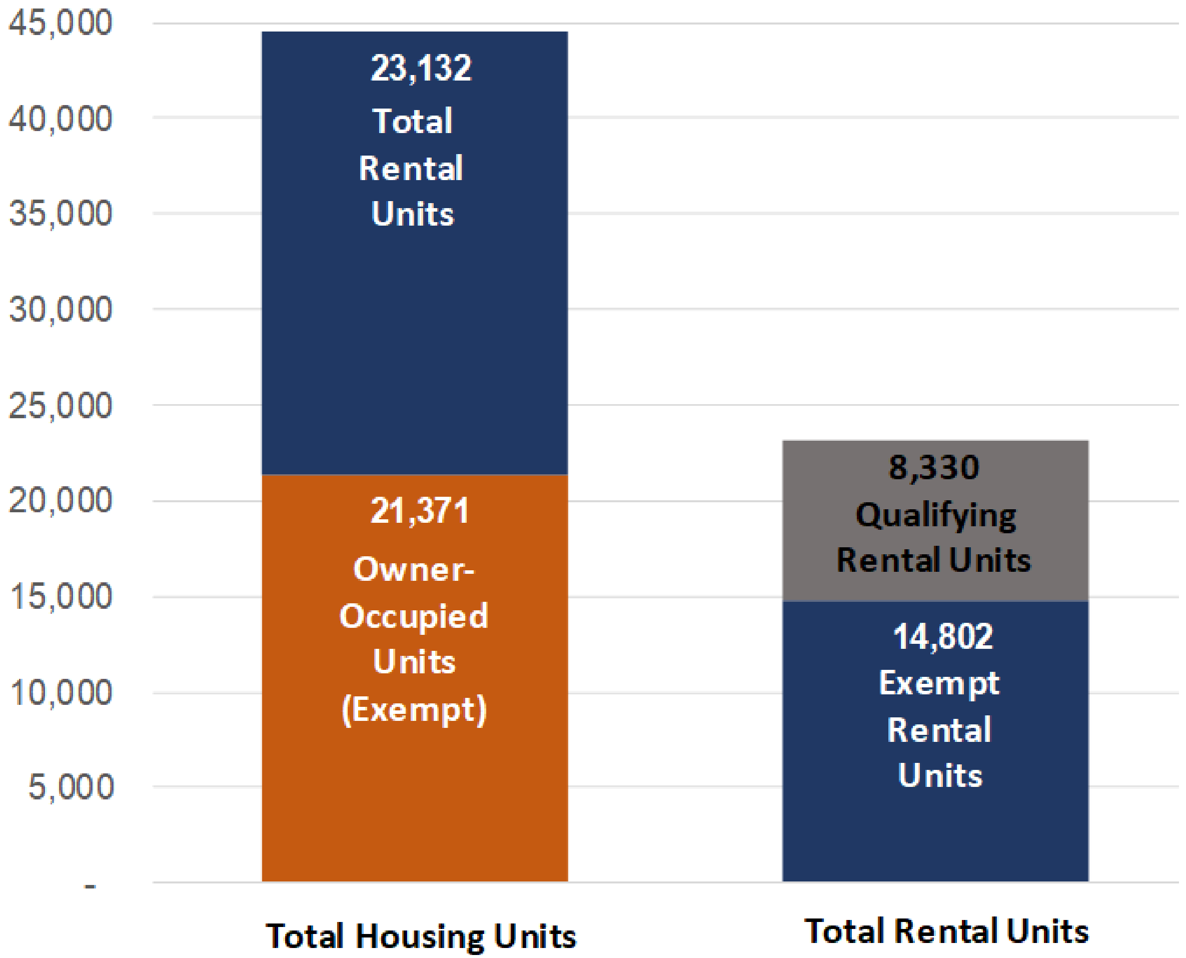
STATE LAW

COSTA-HAWKINS (THE RENTAL HOUSING AND CALIFORNIA TENANT PROTECTION ACTS)

- Statewide policy adopted in 1995 and amended in 2018:
  - Caps rent increases at the lesser of 5% plus the increase in regional consumer price index (CPI) OR 10%
  - Local jurisdictions can enact a rent increase cap but are limited to the unit types listed on the previous slide
  - Subject to vacancy decontrol, which allows landlords to set the rent back up to a market rate for new tenants
- Statewide ballot initiative for November 2024 would repeal Costa-Hawkins
  - Local ordinance must clearly state which units are exempt and provide vacancy decontrol for landlords, if not
    - The City's rent stabilization policy would apply to all rentals
    - Landlords would not be able to bring a vacated unit back up to market rent

LOCAL HOUSING INVENTORY

CITY OF SALINAS HOUSING SUPPLY



- 52% of housing supply comprises rental units
- 18.7% of housing units qualify for Rent Stabilization

POTENTIAL PROS AND CONS

The empirical evidence dispels many of the concerns listed below

Positive Outcomes

- Housing stability:
  - Reduced displacement of racial minorities
  - Reduced worker turnover.
  - Improved educational outcomes.
  - Reduced demand for social services.
- Increased discretionary income to potentially help boost the local economy.
- Protecting communities of color from historical housing cost burdens.
- Increased income equality.

Concerns

- Reduced rental unit supply.
- Reduced residential mobility.
- Reduced property value.
- Decreased revenue leading to property disinvestment.
- Inflated rent as an effect of vacancy decontrol.

LITERATURE REVIEW

KEY FINDINGS ON RENT STABILIZATION

EMPIRICAL EVIDENCE

- Tenants in rent-stabilized apartments have longer tenures and are less likely to move than renters in non-rent stabilized units.
- Moderate rent stabilization policies with exemptions for new construction find little to no effect on new housing supply.
- May generate a minimal shift toward for-sale housing.
- While rent control does not directly decrease income inequality, the benefits of housing, rental expenditure, and neighborhood stability are much more impactful for low-income households.

KEY FINDINGS ON RENT STABILIZATION

EMPIRICAL EVIDENCE

- Moderate rent stabilization policies allowing for vacancy decontrol and allowances for capital improvements have been shown to have little to no effect on property values.
- Moderate rent stabilization policies which allow landlords a return on investments in building improvement do not depress the amount of building maintenance.
- Positive impacts:
  - Sales tax
  - Workforce benefits
  - Educational benefits
  - Decreased demand for social services
  - Neighborhood and community

KEY QUESTION #1

WHAT SOCIOECONOMIC AND REAL ESTATE TRENDS LED CITY OFFICIALS TO CONSIDER IMPLEMENTING A RENT STABILIZATION POLICY?

RENTER-OCCUPIED HOUSEHOLDS IN SALINAS

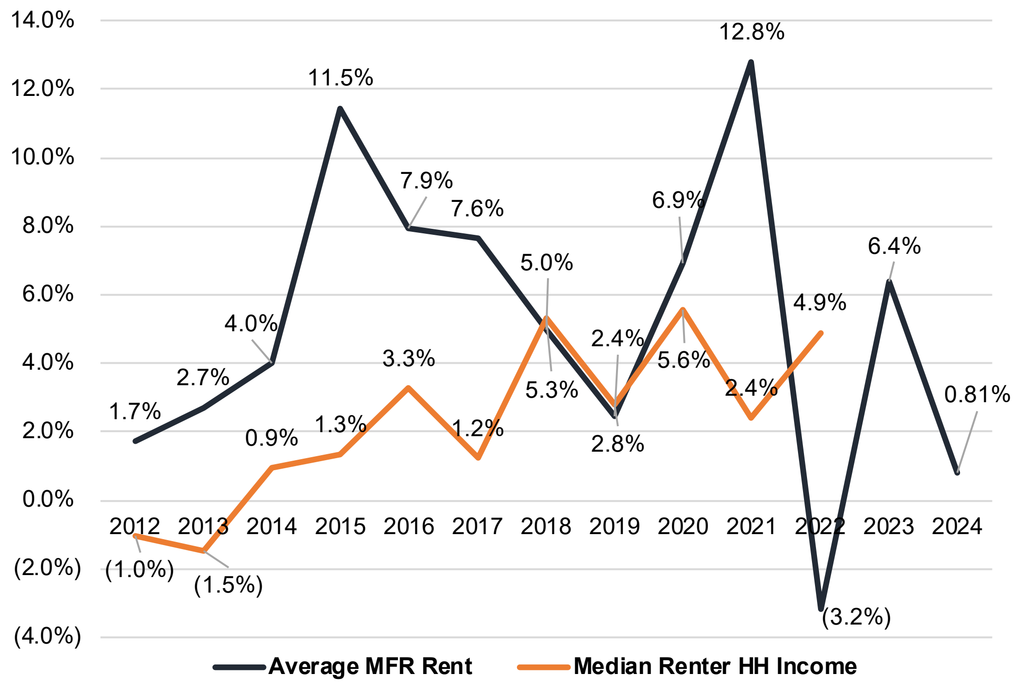
Majority	• 53% of City households are renter-occupied compared to 44% statewide.
People of Color	• Latinx population comprises 81% of renter-occupied units in Salinas compared to 30% countywide & 37% statewide.
Young	• 57 percent of renter-occupied households comprise householders ages 44 or younger compared to 37 percent countywide and 53 percent statewide.
Overcrowded	• Overcrowding increased 24+ percent over the last decade, compared to only 6 percent statewide. • 53 percent of City renter-occupied households have 4 or more occupants, compared to 27 percent statewide.
Cost Burdened	• Mirroring a trend negatively affecting all of California, more than half of renter-occupied households are considered rent-burdened and 26 percent are considered severely cost-burdened
Poverty	• Approximately 18 percent of families that are renters fall below the poverty level compared to 6 percent of owner-occupied families

HOUSEHOLDS AND HOUSING IN SALINAS

- Median renter household annual income: $64,500
- 30% of median renter household income (per month): $1,612
- Median rent for Multifamily apartments built before 1995 (per month): $1,994
- **Difference of almost $400 per month**

- **Extremely low residential vacancy of about 3%** compared to the County's 8% average – very little room for new residents or existing residents looking to move

Annual Percentage Change in Rents vs. Renter HH Income



INCREASES IN RENT VERSUS INCOME

Unbalanced increases in rent compared to incomes in cities with recently adopted or no Rent Stabilization Ordinance

Item	Salinas	Oxnard	Antioch	Mountain View	Oakland	San Diego	Richmond	Sacramento
	Comparable Cities							
Year RSO Adopted	--	2022	2022	2016	1980	AB 1482 as of 2023	2017	2019
Median Renter Household Income (2022$)								
2012 [1]	$48,547	$55,058	$52,256	$100,070	$45,906	$60,767	$39,634	$33,850
2022	$64,509	$68,872	$61,411	$153,279	$68,434	$75,291	$62,537	$56,131
% Change	**32.9%**	**25.1%**	**17.5%**	**53.2%**	**49.1%**	**23.9%**	**57.8%**	**65.8%**
Average Monthly Effective Rent [2]								
2012	$1,070	$1,193	$994	$2,050	$1,318	$1,289	$1,158	$1,368
2022	$1,859	$1,942	$1,647	$2,675	$1,701	$2,093	$1,896	$1,888
% Change	**73.7%**	**62.8%**	**65.7%**	**30.5%**	**29.1%**	**62.4%**	**63.7%**	**38.0%**
Percentage Point Difference Rent Inc. to Income Inc.	**40.9%**	**37.7%**	**48.2%**	**(22.68%)**	**(20.02%)**	**38.5%**	**5.9%**	**(27.81%)**

Source: U.S. Census Bureau ACS 2012 & 2022, Table S1901; CoStar; EPS.

[1] The median household incomes reported by ACS are inflation-adjusted to constant dollars.
[2] This data reflects market rate multifamily apartment units built before 1995 from CoStar.

RENT PRESSURES AND DISPLACEMENT

ECONOMIC IMPLICATIONS

- Displacement due to:
  - Disparity between rent increases and household incomes, Estimated farmworker housing shortage of more than 45,500 units
  - Overcrowding
  - Housing Cost-Burdened

- The affordability crisis disproportionately affects people of color and other vulnerable communities because these populations are over-represented in the renter population

KEY QUESTION #2

HOW CAN THE EXPERIENCES OF CITIES WITH EXISTING RENT STABILIZATION POLICIES INFORM THE ELEMENTS OF THE PROPOSED POLICY REQUIREMENTS IN SALINAS?

PEER CITY EXPERIENCES

- Other cities data helped inform:
  - Recommended rent limit percentages
  - Tenant protections
  - Staffing amount and costs
  - Fee recommendation

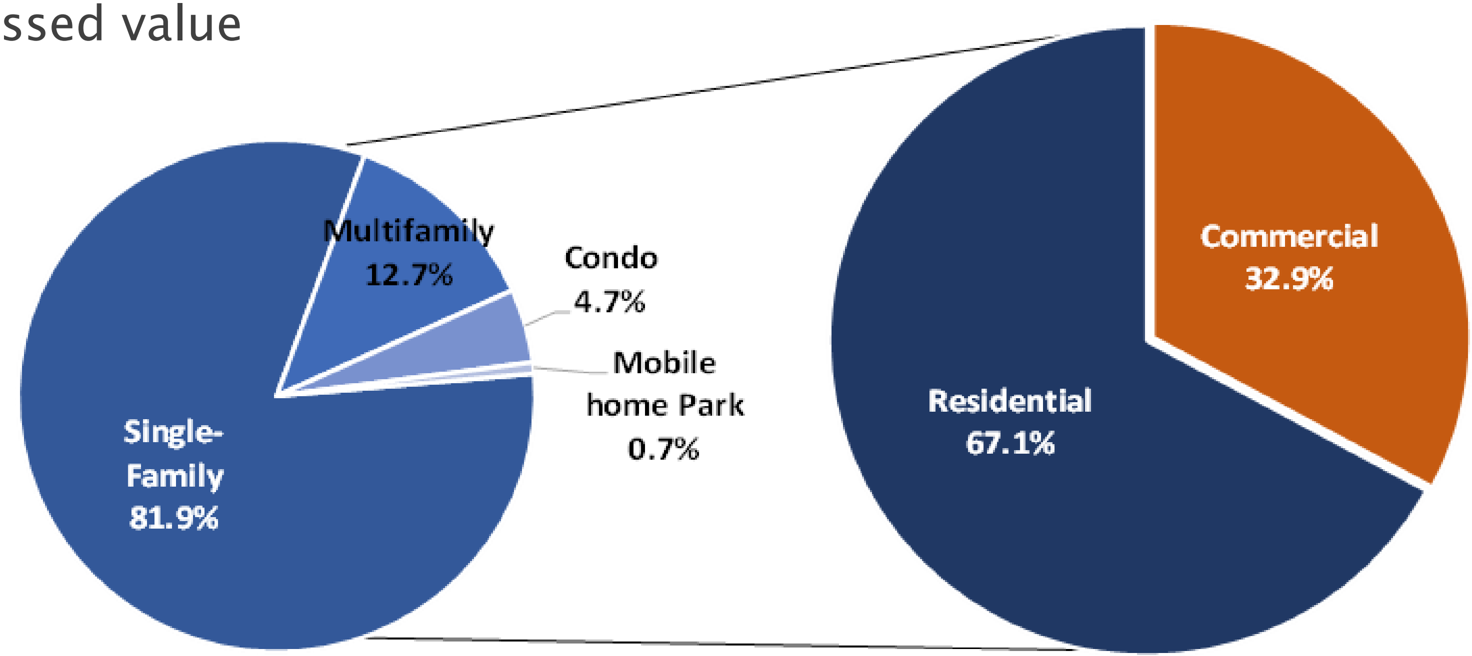
KEY QUESTION #3

WHAT ARE THE POTENTIAL FISCAL IMPLICATIONS OF A PROPOSED RENT STABILIZATION ORDINANCE ON THE CITY'S GENERAL FUND?

PROPERTY TAX

FISCAL IMPLICATIONS

- Property tax accounts for about 21% of City's General Fund Revenue
- Rent Stabilization may affect the City's general fund:
  - Increased revenue through conversion of rental housing to ownership +
  - Reduced revenue due to reduced increase in assessed value of rent-stabilized property
  - Increased sales taxes due to increased discretionary income
- Affected units comprise less than 13 percent of City's residential assessed value



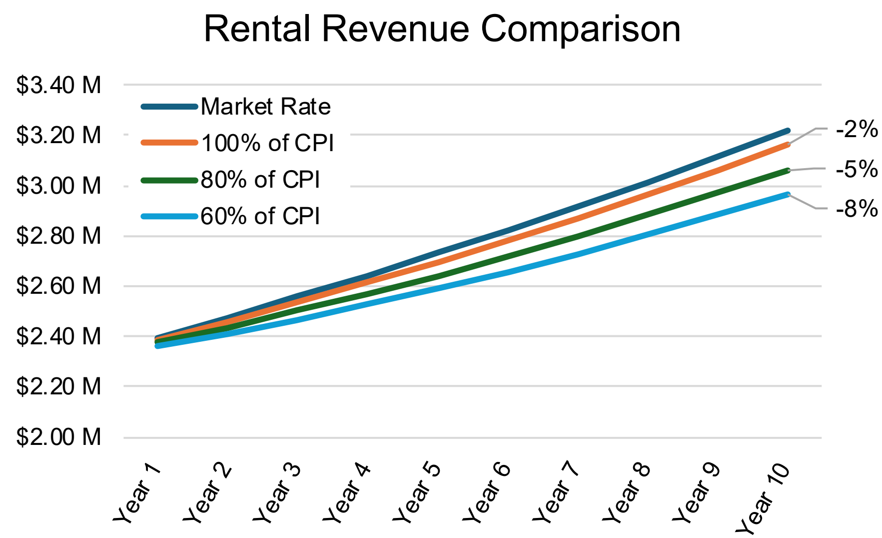
KEY QUESTION #4

WHAT ARE THE ESTIMATED IMPACTS OF DIFFERENT RENT STABILIZATION ORDINANCE SCENARIOS ON HOUSING SUPPLY IN THE CITY?

ECONOMIC IMPACT FOR PROPERTY OWNERS

OVER A 10-YEAR PERIOD

- Rental Revenue
  - Over a 10-year timeframe, rent stabilization reduces rental revenue by 2% to 8%
  - Vacancy decontrol brings vacated units back up to market rate, mitigating the reduction in rental revenues.



Effective Rent Roll Growth with Vacancy Decontrol by Rent Stabilization Rate

	Rent Stabilization Rate - % CPI								
Measure	60%	65%	70%	75%	80%	85%	90%	95%	100%
Effective Rent Roll Growth Rate [1][2]	2.50%	2.58%	2.66%	2.74%	2.83%	2.91%	2.99%	3.07%	3.16%

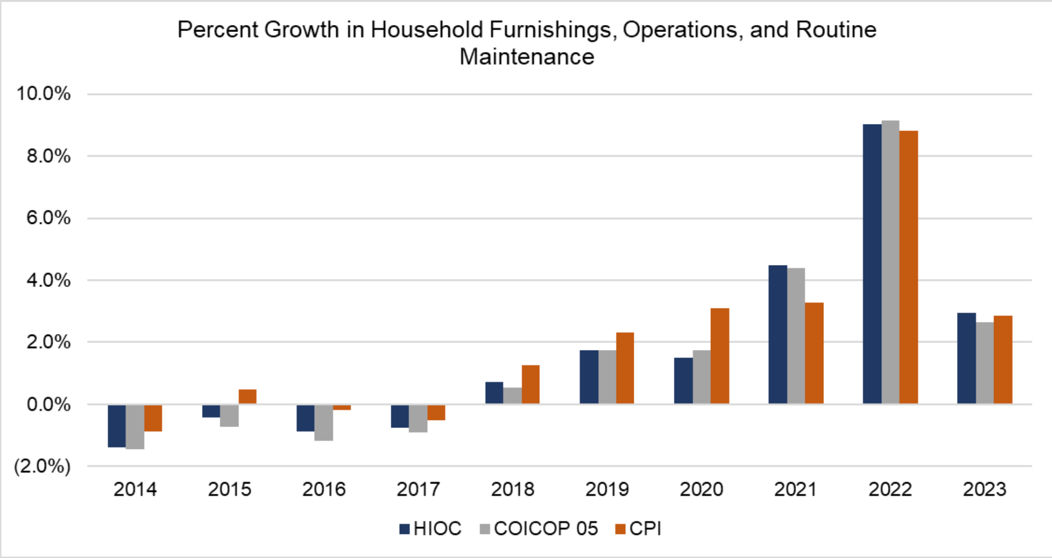
Source: US Census; Costar; EPS.

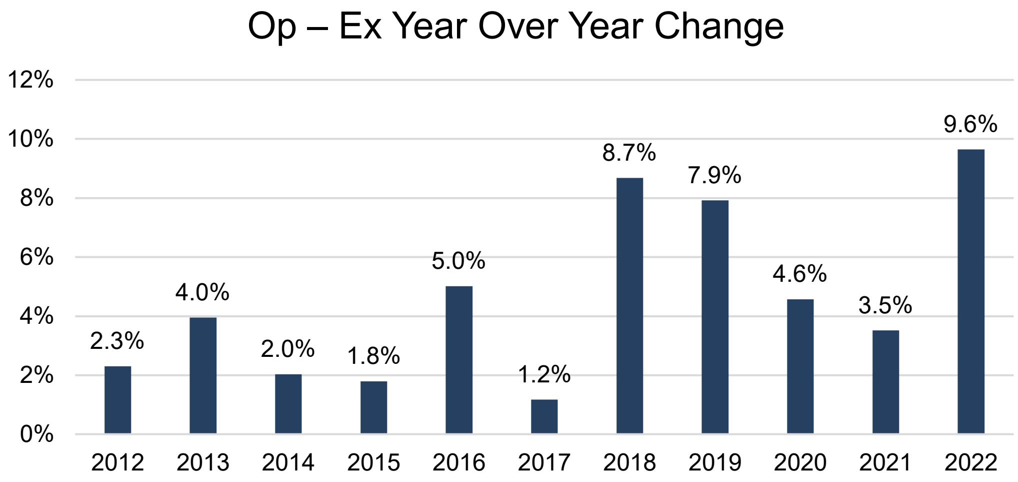
[1] Assumes 11% turnover (20% reduction from current state due to rent stabilization), average CPI of 3%, and vacancy decontrol market-based annual rent growth of 3.35% (based on recent historic average).
[2] Compound Annual Growth Rate (CAGR).

ECONOMIC IMPACT FOR PROPERTY OWNERS

INCREASES IN OPERATING COSTS

- Operating Expenses
  - Significant increase in costs of goods associated with apartment operation starting in 2020. Cost increases in this category minimal prior to 2020.
  - LIHTC operating expenses increased 5% on average from 2012 –2022. LIHTC operating costs likely higher than market-rate due to higher compliance and administrative costs.



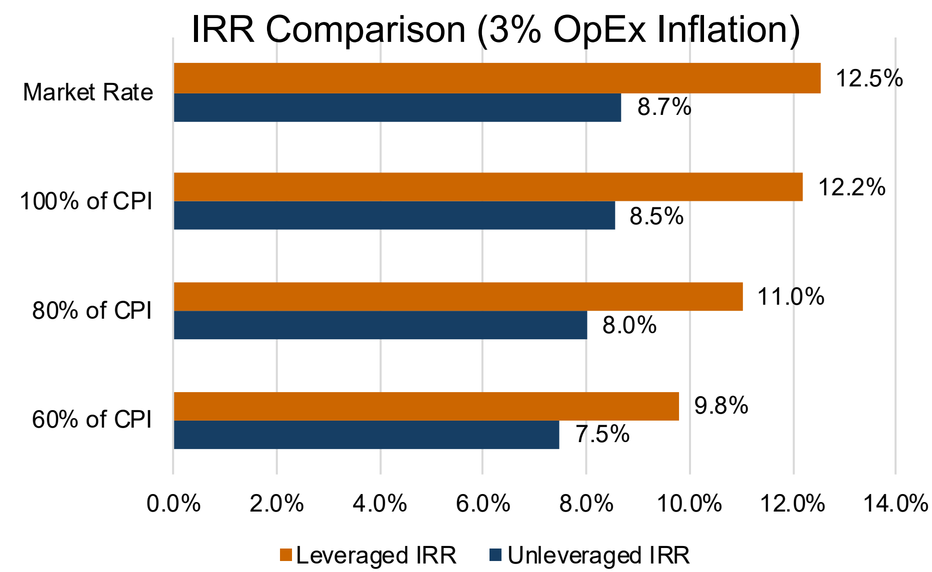


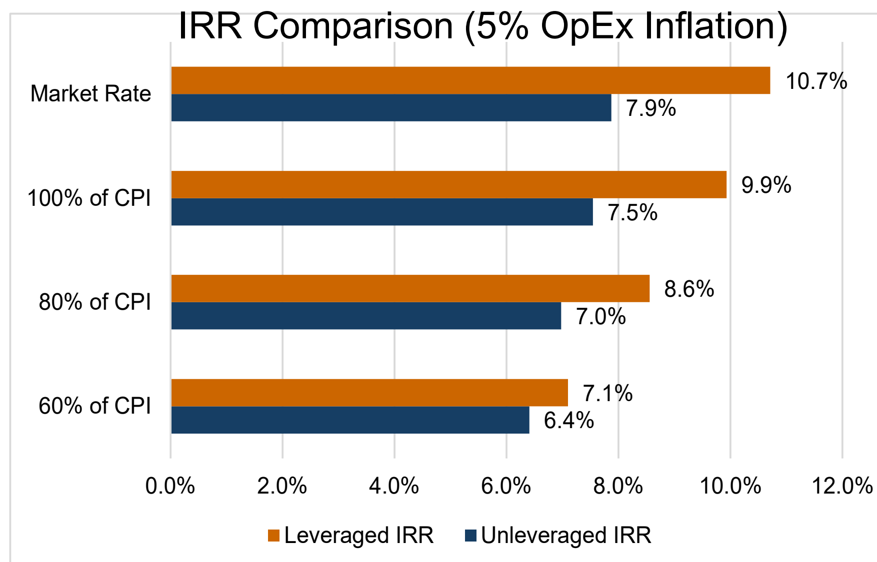
Source: Novogradac, 2023. Low-Income Housing Tax Credit Income and Operating Expenses Report.

ECONOMIC IMPACT FOR PROPERTY OWNERS

OVER A 10-YEAR PERIOD

- Internal Rate of Return (IRR)
  - Measures the potential project return over time against the investment required
  - Leveraged IRRs include debt
  - Unleveraged IRRS do not
  - Existing buildings are considered a low-to-moderate risk investment – a stable IRR ranges from 8% to 12%
  - Elevated operating expense inflation erodes investment return

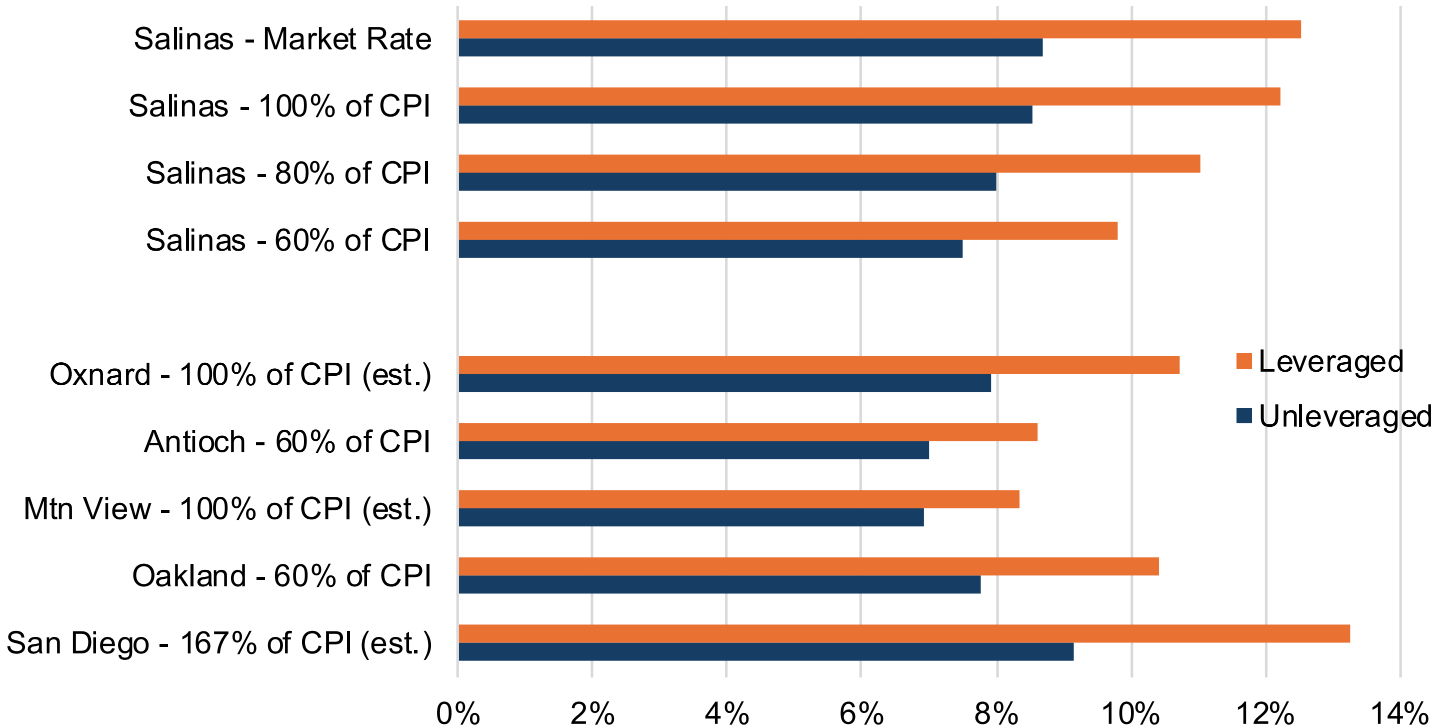




ECONOMIC IMPACT FOR PROPERTY OWNERS

PEER CITIES FEASIBILITY COMPARISON

- San Diego's high IRR due to higher allowable rent increase, high rents, and high turnover



Note: Based on purchase, 10-year operation, and resale of prototypical existing, occupied 100-unit building/ complex using current local market variables. Leveraged analysis assumes 30% equity, 25-year loan at 6%.

COST TO THE CITY

PROGRAM IMPLEMENTATION COSTS

- Staffing ratios based on cities with complaint-driven enforcement
- Costs based on City data

Item	Assumption		Rental Registry	Level of Enforcement Range Minimum	Average	Maximum
Residential Units [1]						
Total Rental Residential Units	22,794	Units				
Units Qualifying for Rent Stabilization	8,330	Units				
Total Staff (Combined with Rental Registry)			2.1	3.2	3.8	6.2
City Cost			$399,706	$621,404	$735,858	$1,246,976
Estimated Fee Revenue				*Fee Per Total Rental Residential Units*		
Rent Program Fee Amount to Break Even based on Level of Staff	per unit/per year		$18	$27	$32	$55
Total Revenue	annually		$399,706	$621,404	$735,858	$1,246,976
Program Surplus/Deficit			**$0**	**$0**	**$0**	**$0**

Source: EPS.

[1] See Table 4-1.Total includes single family rentals.

COST TO THE CITY

RENTAL PROGRAM FEES

- The City's current fee structure is based on the number of units within a range per parcel
- This fee structure provides a monetary break for larger developments and creates a net loss to the City
- Even if the City were to charge the lowest end of the **recommended** fee range on a per unit basis, the revenue would be almost double the current estimated revenue

Item	Estimated Salinas Rental Residential [1]		Annual Registration Fee [2]	Estimated Total Revenue	Esimated Revenue with a Per Unit Fee [3]	Difference
	Buildings	Units				
Estimated per Unit Fee					$18	
Number of Units per Parcel						
1	8,691	8,691	$20	$173,820	$156,438	($17,382)
2-4	11	3,192	$35	$385	$57,456	$57,071
5-9	168	1,418	$60	$10,080	$25,528	$15,448
10-24	118	2,151	$75	$8,850	$38,711	$29,861
25-49	30	1,344	$120	$3,600	$24,200	$20,600
50-99	13	1,132	$225	$2,925	$20,380	$17,455
100+	20	4,818	$350	$7,000	$86,716	$79,716
Total	**9,051**	**22,794**		**$206,660**	**$409,430**	**$202,770**

Source: ACS; CoStar; City of Salinas; EPS.

[1] Estimated based on data from ACS and CoStar.
[2] Registration fees for the rental registry program per the Residential Registry Community Development Council Staff Report dated April 4, 2023.
[3] See Table 4-13.

CONCLUSION AND RECOMMENDATIONS

CONCLUSION

Rent stabilization is part of a toolkit that, along with other policies and incentives, can help alleviate some housing cost pressures. Taken in combination with other policies that encourage renter protections and additional supply, it can be part of a multi-pronged effort to improve the outlook for residents struggling to afford housing.

RECOMMENDATIONS

- The City should consider adopting a rent stabilization ordinance to help stabilize rents and prevent displacement for the City's vulnerable populations
- EPS has determined an optimal rent cap range providing a minimum and maximum for the City to choose within. Percentages within this range will provide a balance for both the renters and property owners with more positive and negative leanings for one or the other in either direction

- The City should consider adopting a rent stabilization ordinance capping annual rent increases to the lesser of:
    - **2.5% to 2.75% – OR**
    - **65% to 75% of the Consumer Price Index for All Urban Consumers (CPI-U) Series Title: All items in West urban, all urban consumers, not seasonally adjusted**

RECOMMENDATIONS

- The ordinance should include strong tenant protections including:
  - Just-cause eviction protections
    - Just-cause curable violation that allows reasonable accommodation
  - No-fault eviction protections including relocation assistance and payment (e.g. owner intent to occupy, withdrawal of property from the rental market, intent to demolish or substantially remodel)
- Consider merging the Rent Stabilization and the Rental Registry programs including the fee and charging on a per unit basis

Q & A

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