# Economic Study of the Rent Stabilization Ordinance and the Los Angeles Housing Market

2009

Prepared for the
City of Los Angeles Housing Department

Economic Roundtable

Los Angeles Housing Department
LAHD

# Economic Study of the Rent Stabilization Ordinance and the Los Angeles Housing Market

2009

Underwritten by the
City of Los Angeles Housing Department

Daniel Flaming
Patrick Burns  Michael Matsunaga  Mirna Ponce
Ken Baar  Raphael Bostic  Malcolm Bennett

Gerald Sumner – Statistical Consultant
Social Science Research Center, California State University, Fullerton – Renter Survey

ECONOMIC ROUNDTABLE
A Nonprofit, Public Policy Research Organization
315 West Ninth Street, Suite 1209, Los Angeles, California 90015
www.economicrt.org

**Background of the RSO Study**

*"In 1979, the City of Los Angeles adopted the Rent Stabilization Ordinance (RSO) (Chapter XV of the Los Angeles Municipal Code) after finding that there was a shortage of decent, safe, and sanitary housing in the City resulting in a critically low vacancy factor. At that time, the City Council determined that it was necessary and reasonable to regulate rents so as to safe guard tenants from excessive rent increases while at the same time providing landlords with just and reasonable returns from their rental units. The City has not conducted a comprehensive assessment of the RSO since 1993. Due to market fluctuations, rising costs, and other economic factors of the last several years, apartment owners, tenants, and government officials alike have suggested that a new large scale review and economic study of the RSO in the context of the local housing market is necessary to determine if the RSO is still meeting its purpose and whether any amendments should be enacted."* - Excerpt from pg. 3 of the study's Request for Proposals (RFP), released October 2, 2006.

This report has been prepared by the Economic Roundtable RSO study team, which assumes all responsibility for its contents. Data, interpretations and conclusions contained in this report are not necessarily those of any other organization that supported or assisted this project.

This report can be downloaded from the Economic Roundtable web site:
*www.economicrt.org*

# Acknowledgements

We are grateful for assistance, data, ideas, information, and critical suggestions that have been generously provided by the Los Angeles Housing Department's project manager, Anna Ortega, and policy liaison, Marisol Romero, along with the following individuals:

## Survey and Focus Group Contributors

*Renter Survey*
Social Science Research Center, CSU-Fullerton
Gregory Robinson
Emily Otis
Jeff Wood
Scientific Telephone Samples
Jennifer Acosta
Celeste Blanchard
Steve Clark
Susan Montoya
Angelique Uglow

*Landlord Survey*
Maribel Carrillo
Edmund Leon
Javier Pineda
Jessica Jew
JaShawn Wiley
Jennifer Tran
Benjamin D. Gaines
Mitchell Printing & Publishing, Inc
Frank Velasco
Tom Sediva

*Focus Groups*
Apartment Association of Greater LA
James B. Clarke
Yvonne Calderon
Valerie Coachman-Moore
Patricia Bowie
Polo Munoz
Sandra Luna
Plaza Community Center, East Los Angeles
Lizette Alcaraz (childcare)
Elizabeth Avila (childcare)
Roberto and Mary Romero, Catholic Charities Community Center
Ben Franklin Library
Sharon Delugach, UCLA Downtown Labor Center
William C. Schweinfurth, Vedder Community Management
Elizabeth Arévalo, Mercado La Paloma
PHFE Women, Infants and Children (WIC)
Shannon Whaley
Anne Kennedy
Judy Gomez
Jimmy Kwon, Sandwich Shop
Council District 15, San Pedro Municipal Building
Terri McKinnon
Marge O' Brien

## Los Angeles Housing Department

*Los Angeles Housing Department*
Roberto Aldape
Jim Bloor
Franklin Campos
Yolanda Chavez
Glender Chu
Robert Galardi
Lorena Gonzalez
Susan Gosden
Teresa Irula
Mariann Karish
Greg Kung
David Law
Mercedes Márquez
Constant Mok
Claudia Monterrosa
Anna Ortega
Eric Romanelli
Jose Romero
Marisol Romero
Hakha Mortezaie
Sally Richman
Thomas Sovinec
Daniel Snyder

*RSO Oversight Committee*
Mark Vargas, Chair
Allan Abshez
Tara Bannister
Larry Gross
Barbara Schultz
Neil Richman
Victor Viereck

## Other Public Agencies

*Bureau of Engineering, City of Los Angeles*
Dennis Baluyot
Cliff Eng
Randy Price
Ellen Zemault

*LA Department of Water and Power*
Patricia Reza-Duval

*City of LA Department of Building and Safety*
David Schnitger

*LA County Public Health*
Joelle F. DuMont

*L County Assessor's Office*
Bulmaro Borrero

*LA County Superior Court*
Diane E. Duran

## Other Acknowledgements

*Research Design*
Beth Steckler, Economic Roundtable Board of Directors

*Translation*
Delia Torres, Languages 4 You

*Legal Assistance*
Nona Randois, Legal Aid Foundation of Los Angeles
Elena Popp, Attorney at Law

*Data*
Konstantin Akhrem, Paragon Partners Ltd.
Ben Bartolotto, Construction Industry Research Board
RealFacts
Chris Bates
Mark Kouba

# Table of Contents

EXECUTIVE SUMMARY ..... 1
Critical Trends ..... 1
Policy Recommendations ..... 2
Profile of the Rental Market from Existing Data ..... 8
Survey of Renters Living in the City of Los Angeles ..... 10
Property Owner Survey ..... 14
Impacts of the Rent Stabilization Ordinance on the Outcomes of Apartment Investments ..... 18
Comparison of Los Angeles Rent Stabilization Ordinance with Ordinances in Other California Cities ..... 20
Housing Market Dynamics, Development Financing, and Growth Trends ..... 22

1 RENTERS AND RENTAL HOUSING IN THE CITY OF LOS ANGELES: A PROFILE OF THE RENTAL MARKET DRAWN FROM EXISTING DATA ..... 25
Major Trends in LA's Rental Housing Market ..... 25
Population and Housing Growth ..... 25
A City of Renters ..... 26
Recent Decline in Rentals ..... 26
Recent Decline in Overcrowding ..... 27
Rent Burden ..... 27
Escalating Rent ..... 28
Insufficient New Construction ..... 28
Summary ..... 29
Inventory and Characteristics of LA's Rental Housing Stock ..... 30
LA's Rental Housing Inventory ..... 30
Rental Housing Covered by the Rent Stabilization Ordinance ..... 32
Share of RSO Properties Purchased after Rent Stabilization was Enacted ..... 34
Preservation and Growth of the Rental Housing Inventory ..... 36
Geography of Condo Conversions ..... 38
Bedrooms and Rent ..... 39
Size of Rental Properties ..... 40
Mobile Homes ..... 43
Characteristics of Renters ..... 44
Population in Rental Housing ..... 44
Age of Heads of Renter Households ..... 46
Ethnicity of Renters ..... 47
Educational Attainment ..... 49
Nativity ..... 49
Vulnerable Renters ..... 51

Occupancy Outcomes for Renters .....54
Housing Vacancy Rate.....54
Number of Rooms in Rental Units.....58
Size of Renter Households.....59
Ratio of Renter Population to Bedrooms.....61
Types of Renter Households .....62
Ratio of Large Renter Households to Large Rental Units .....63
Overcrowding .....65
Rent.....68
Lower, Median and Upper Quartile Rent .....68
Rent in the Upper Tier of the Market.....69
Income Distribution of Renter Households .....69
Renter Incomes .....70
Rent Burden .....71
Impoverished Renters .....72
Rent Savings .....73
Rental Conditions.....77
Inspection Results .....77
Building and Safety Inspection Services .....78
Conversions and Demolitions.....80
Housing at the Margins.....81
Summary.....83

2 SURVEY OF RENTERS LIVING IN THE CITY OF LOS ANGELES .....87
About the Survey .....87
Telephone Survey Methodology.....87
Carrying Out the Telephone Survey .....88
Who Responded to the Survey?.....88
Benchmarking the Renter Survey against Census Data.....88
How Long do Renters Stay and Where?.....92
Length of Stay/Tenure .....92
Building Type and Unit Size.....92
Renters in Partial Units .....93
Household Size to Unit Size: Match or Mismatch?.....95
Number of Persons in Renter Households.....95
Overcrowding .....96
Are Renters Knowledgeable about the RSO?.....99
Awareness of their Unit's RSO Status.....99
Awareness of Ordinance Regulating Rent Increases .....100
Reasons Limiting Evictions .....102
Evictions .....103
At-Fault and No-Fault Evictions.....107
Tennant Relocation Assistance Program .....109

Lease and Rental Agreements....112
Length of Rental Agreements....113
Language(s) of Renters and their Rental Agreements....113
Plumbing and Kitchen Facilities in Rental Units and Paying for Utilities....116
How many Renters Pay for their Own Utilities?....117
Rent....118
Monthly Rent....118
RSO vs. Non-RSO Rent....119
Contributors to Rent....120
Rent Burden....120
Rent Subsidies....122
Rent Increase....123
Rent Increase for RSO Units....124
Rent Increase for Market-Rate Units....126
Excessive or Potentially Unauthorized Rent Increases in RSO Units....127
Rent Discount – Trajectory of Rent Increases....129
Perception of Rental Conditions....132
Perception of Rental Conditions versus SCEP Findings of Violations....132
Treatment by Owner/Manager....133
Recommending their Buildings as a Good Place to Live....136
Tenant Complaints to LAHD about RSO Violations....138
Renter Concern about Affordable Housing....139
Summary....143

3 SURVEY OF RSO PROPERTY OWNERS....147
Overview of Data and Owners....147
Overview....147
Projecting Survey Results onto the Rental Market....148
Residential Rental Holdings and Experience of RSO Owners....149
Property and Management Characteristics....150
Vacancy Rates....150
Tenant Turnover....150
Long-Term Tenants....152
Finding Tenants....154
Leases....155
Perceptions of the RSO Program....156
Financing Capital Improvements....156
Systematic Code Enforcement Program (SCEP)....161
Views of the RSO Program....165
Owner-Tenant Relations....168
Tenant Accountability....168
Tenant Reliability in Paying Rent....169

Evictions .....171
Tenant Costs.....173
Financial Outcomes .....176
Property Maintenance .....176
Reasons why Owners Acquired RSO Properties .....177
Debt on Rent-Stabilized Property .....179
Profit and Reasonable Return on Investment.....179
Factors Associated with Reporting a Profit or a Loss.....182
Re-investing in Rent-Stabilized Housing.....186
Overall Housing Needs .....186
Affordable Housing .....186
Redeveloping RSO Properties .....190
Specialized Rental Markets.....192
Post-Survey Discussions.....195
Summary .....197

4 IMPACTS OF THE RENT STABILIZATION ORDINANCE ON THE OUTCOMES OF APARTMENT INVESTMENTS .....203
Introduction.....203
Rental Units Under the RSO and the Operation the Rental Housing Market.....203
Characteristics of the Rent Stabilized Stock.....204
Turnover in Tenancies .....205
Trends in Market Rents.....207
Summary .....209
The Impacts of the Annual Rent Increase Ceilings .....209
Annual Allowable Rent Increases under the RSO Compared to Increases in the Consumer Price Index (CPI) .....210
Annual Allowable Rent Increases under the RSO Compared with Average Rents in the U.S., Los Angeles Region and City of Los Angeles .....210
Annual Allowable Rent Increases under the RSO Compared with Rent Increases in Other Metropolitan Areas.....212
Impacts of RSO Ceilings on Rent Increases for Continuing Tenants.....212
Summary .....213
Average Apartment Operating Costs and Increases in Operating Costs .....214
Average Operating Costs and Variations in Operating Expenses .....214
Increases in Overall Apartment Operating Costs.....215
Operating Expenses by Type of Expense – Ratios of Operating Expenses to Rental Income.....216
Increases in Apartment Operating Expenses by Type of Expense .....217
Estimate of Overall Increases in Operating Expenses from 1999 to 2006 Based on Estimates of Increases in Each Type of Expense.....223
Summary .....224

Trends in Net Operating Income....224
Background....224
Trends in Net Operating Income 1999-2006....226
Adequacy of Rent Adjustments for Owners without Vacancies....228
Summary....230
The Performance of Investments in Multifamily Housing....230
Length of Ownership....230
Comments on Vacancy Rates....230
Trends in Apartment Values....232
2008 and After....238
Rates of Return on Apartment Investments....238
Summary....241
Overview of the Impacts of the RSO on Outcomes of Apartment Investments....242
Conclusions and Recommendations....244
Reasonableness of the Annual Rent Increase Allowed Under The RSO Program....244
Accuracy of the Methodology Used to Calculate the Annual Rent Adjustment Percentage in Reflecting Actual Changes in Operating Costs....244
Recommended Change to the RSO Based on Available Evidence About Financial Outcomes....244

5 RENT INCREASE STANDARDS: LOS ANGELES RENT STABILIZATION ORDINANCE (RSO) AND COMPARISON WITH ORDINANCES IN OTHER CALIFORNIA CITIES....247
Brief Historical Perspective on Rent Regulations in the U.S. and Los Angeles....247
The Costa-Hawkins Rental Housing Act - State Law Requires Vacancy Decontrol....248
Tightening of Eviction Controls and Increasing Required Mitigation for Tenant Displacement....249
Comparison of Annual Rent Increase Standards....250
Alternative Methodologies and Standards for Setting Allowable Annual Rent Increases....252
An Alternate CPI Index....252
Annual Rent Increase Based on a Dollar Ceiling Rather than a Percentage Ceiling....254
The Impact of the Floor and Ceiling on Allowable Rent Increases....255
Allowable Annual Increases Based on Apartment Operating Cost Study Using a Weighted Cost Index....256
Passthroughs of Exceptional Expense Increases....258
Allowable Rent Increases for Apartment Owners who Pay for Master Metered Gas and/or Electricity....259
Policy Alternatives....260

Comment on Proposals for Lowering the Annual Allowable Increase for Seniors and/or Disabled Persons on Fixed Income....261
Legal Issues....262
Practical and Policy Issues....263
New York's Subsidy Offsetting Rent Increases of Low Income Senior and Disabled Tenants....264
"Banking" of Rent Increases....264
Rent Stabilization Programs - Administration Fees....266
Summary....267

6 RENTAL MARKET ANALYSIS: HOUSING MARKET DYNAMICS, DEVELOPMENT FINANCING, AND GROWTH TRENDS....269
Production Trends for Market-Rate and Affordable Housing Projects....269
The Dynamics of Production of Market Rate and Affordable Housing....271
Land and Development Costs....272
Development Financing....275
Policy Options for Producing Market-Rate and Affordable Housing....276
Inclusionary Zoning....277
Housing Choice Vouchers....277
Density Bonus....278
Regulatory Relief....278
Creative use of “Non-Traditional” Land....279
Incentives for Internal Cross-Subsidy....280
Concluding Thoughts....282

7 CONCLUSIONS AND POLICY RECOMMENDATIONS....285
The RSO and Housing Department Policy....285
Overview of RSO Strengths and Limitations....285
Scope of the RSO....286
Increased Communication with Renters and Owners....286
Evictions and Tenant Relocation....287
Loss of Rental Housing Units Due to Condominium Conversions....288
Capital Improvement Passthrough Program....289
Banking Rent Increases....291
Joint Code of Responsibility for Landlords and Tenants....292
Systematic Code Enforcement Program (SCEP)....294
Updating Leases....294
Information Needed for Administering the RSO....295
Fees to Pay for Implementing Recommendations....296
Calculating Annual Rent Increases....296
Reasonableness of the Annual Rent Increase Allowed Under the RSOProgram....296

Accuracy of the Methodology Used to Calculate the Annual Rent Adjustment Percentage in Reflecting Actual Changes in Operating Costs....296
Recommended Change to the RSO Based on Available Evidence about Financial Outcomes....297
Just and Reasonable Rent Increases....297
Affordable Housing....298
Balancing Population, Housing and Job Growth....298
Renter and Owner Support for Affordable Housing....303
Recommendations for Affordable Housing....304

APPENDIX A – Renter Survey Sampling Methods....309
APPENDIX B – Owner Survey Methods....313
APPENDIX C – Sources of Data on Apartment Operating Costs....317
APPENDIX D – Economic Roundtable Rent Stabilization Tenant Survey....321
APPENDIX E – City of Los Angeles Rental Property Owners and Managers Survey....335

ENDNOTES
Chapter 1....343
Chapter 2....374
Chapter 3....383
Chapter 4....396
Chapter 5....401
Chapter 6....404
Chapter 7....406

# List of Figures

Chapter 1
1-1 City of LA Housing Units and Population 1970-2006 ....25
1-2 Rental Units as Share of LA and US Housing ....26
1-3 Total Rental Units and Renters ....26
1-4 Ratio of Renters to Rental Units and Bedrooms ....27
1-5 Income and Rent of Renter Households ....28
1-6 Annual Rent Increases for Rental Housing in the Low Angeles Region ....28
1-7 Annual Building Permits for New Housing 1981-2007 ....29
1-8 Renter Occupied Housing Units as a Percent of All Occupied Housing Units ....30
1-9 Owner-and Renter-Occupied Housing Units by Area Planning Commission in 1990, 2000 and 2006 ....31
1-10 Renter-Occupied Housing Units Built Before 1980 and Covered by the RSO as a Percent of all Occupied Housing Units, City of Los Angeles, 2000 ....32
1-11 Renter-Occupied Housing Units Built Before 1980 as a Percent of all Renter-Occupied Housing Units, City of Los Angeles, 2006 ....32
1-12 Los Angeles' Current Inventory of RSO Units and Properties by Year Built ....33
1-13 Los Angeles' Current Inventory of Residential Properties by Year Built and RSO Status ....33
1-14 RSO Units by APC and by Share Bought after Rent Stabilization was Enacted ....34
1-15 RSO-Regulated Housing Units by Year Purchased (Base Year) and CPA ....35
1-16 RSO Properties by APC ....36
1-17 LA City's Current RSO Units by Year Built (1900-1979) and Location ....36
1-18 Apartment Property Construction Conversions and Demolitions, 1997-2007 ....37
1-19 Occupied Rental Units by Bedrooms and Rent – City of LA ....39
1-20 Occupied Rental Units by APC, Bedrooms and Rent in 2006 – City of LA ....39
1-21 Rental Properties by Number of Units on Property ....40
1-22 Rental Units Broken Out by Number of Units on the Property ....41
1-23 Number of Units by Property Size and RSO Status in 2000 ....42
1-24 City of LA Mobile Homes by Tenure ....43
1-25 Occupied Housing Units by Tenure and Planning Area, 1970-2006 ....44
1-26 Population in Occupied Housing Units by Tenure and Planning Area, 1970-2006 ....45
1-27 Age Distribution of Heads of Renter Households by Community Planning Area in 2000 ....46
1-28 Ethnicity of Renter Population by Tenure ....47
1-29 Ethnicity of Renter Population by APC ....48
1-30 Educational Attainment of Renter Householders by APC ....49
1-31 Nativity by Tenure ....49
1-32 Tenure for Foreign-born Householders by Years Living in U.S. ....50
1-33 Nativity of Renter Householder by APC ....50

1-34 Senior Renter Householders by APC....51
1-35 Senior Renter Householders by Poverty Status....51
1-36 Percent of Income Spent on Rent by Senior Renter Householders....52
1-37 Poverty Status of Disabled Householders....53
1-38 Percent of Income Spent on Rent by Disabled Householders....53
1-39 Census Data for Vacancy Rates in All Rental Housing Units....54
1-40 Department of Water and Power and U.S. Census Bureau Vacancy Rates for Rental Units....55
1-41 Vacancy Rates in All LA City Residential Units....56
1-42 Vacancy Rates in LA City Rental Housing Units....56
1-43 Vacancy Rates in Large Rental Properties....57
1-44 Number of Bedrooms in Occupied City of Los Angeles Rental Units by APC....58
1-45 Number of People in Renter Households 2000-2006....59
1-46 Average People per Household in Renter-occupied Units....61
1-47 Average People per Household in 0-Bedroom Units....61
1-48 Average People per Household in 1-Bedroom Units....62
1-49 Types of Renter Households by APC in 2006....63
1-50 Number of Occupied Rental Units with 3+ Bedrooms for Every Renter Household with 5+ People....64
1-51 Overcrowding of Renter Household by APC....65
1-52 Overcrowding of Renter households by Bedrooms....65
1-53 Overcrowding by Percent of Poverty Level....66
1-54 Overcrowding by Renter Household by Ethnicity....66
1-55 Overcrowding of Renter Households by Citizenship Status....67
1-56 City of Los Angeles Monthly Rent by Quartiles....67
1-57 Rent Quartiles for City of Los Angeles Planning Regions....68
1-58 Monthly Rent per Sq. Ft. For Apartments in Large Buildings 20+ Years Old by RSO Status....69
1-59 Income of Renters as Percent of Poverty Threshold....69
1-60 Median Income by Tenure and APC....70
1-61 Income Distribution by Tenure....70
1-62 Renter Households Paying 50% or More of Income for Rent 1990-2006....71
1-63 Rent Burden by Household Income in 2006....71
1-64 Poverty Rates by Tenure....72
1-65 Poverty Rates for Renter Households by APC....72
1-66 Rent Burden by Poverty Rate in 2006....73
1-67 Rental Units with Incomplete Plumbing or Kitchen in 2000....82

Chapter 2
2-1 Respondents Completing the City of LA Renter Survey, Overlaid on Rental Units as a Percent of all Housing....87
2-2 Phone Call Attempts made to each RDD Number....88
2-3 LA City Renters by Income....89
2-4 Length of Stay at Current Rental Unit, by APC....91

2-5 Survey Respondents by Rental Type ....92
2-6 Partial Rented Units by Type ....93
2-7 Breakout by APC of Total Renter Households, Households Living in Entire Units and in Partial Units ....94
2-8 Household Size by APC ....95
2-9 Overcrowding by APC ....97
2-10 Overcrowding by Household Size – City of Los Angeles ....97
2-11 Household Size by Rooms in Unit – City of Los Angeles ....98
2-12 Is your unit under rent stabilization? By APC ....99
2-13 Renters' Awareness of RSO Status of their Units, compared with actual Status ....100
2-14 Did you know that rent stabilization limits the amount of annual rent increases? ....100
2-15 Tenants' Awareness of RSO Limiting the Amount of Annual Rent Increases and Reasons for Eviction ....101
2-16 Unlawful Detainer Cases Filed in the Los Angeles Superior Court, Landlord Declarations of Intent to Evict Filed with the City, 1988-2007 ....104
2-17 Landlord Declarations of Intent to Evict RSO Tenants by Year Case Opened ....104
2-18 Landlord Declarations of Intent to Evict Filed with LAHD as a Percent of Total RSO Properties and RSO Units, by Year of Purchase by Current Owner ....105
2-19 Landlord Declarations of Intent to Evict by Type ....105
2-20 Evictions by Type and Year Purchased by Present Owners ....106
2-21 No-Fault Evictions by APC, 1998-2008, Compared to Current Distribution of the RSO Inventory ....107
2-22 LAHD Eviction Cases Opened Monthly and Number Interviewed by Relocation Services Provider ....109
2-23 Declarations to Evict Tenants in RSO Units, 1999-2008, and Relocation Services Cases ....109
2-24 Characteristics of Tenant Households Interviewed during Relocation Assistance Process, by Type ....110
2-25 Monthly Rent Before and After Relocation for Tenant Households Displaced by No-Fault Evictions ....111
2-26 Do you have a written lease or rental agreement with your landlord? ....112
2-27 Do you speak a language other than English at home? ....113
2-28 How well do you speak English? ....115
2-29 How well do you read English? ....115
2-30 Complete Plumbing Facilities for Renter-Occupied Units in 1990, 2000 and 2006 ....116
2-31 Complete Kitchen Facilities for Renter-Occupied Units in 1990, 2000 and 2006 ....116
2-32 Do you pay for any of your own utilities? by APC ....117
2-33 Percent of Renters Paying for Utilities by Type ....117
2-34 Monthly Rent by APC ....118
2-35 Monthly Rent by RSO Status ....119
2-36 Number of Wage-Earners Contributing to Rent by APC ....120

2-37 Rent Burdened Households (Rent as a Percent of Household Income) by APC ....120
2-38 Ability to Pay Rent by APC ....121
2-39 Rent Subsidies by APC ....122
2-40 Type of Rent Subsidies – City of Los Angeles ....123
2-41 Rent Increases Every Year by APC and RSO Status ....123
2-42 Percent by which Current Rents differ from Projected Rents for RSO Units ....125
2-43 Percent by which Current Rents differ from Projected Rents for Market-Rate Units ....126
2-44 Rent Increases by APC and Household Income ....127
2-45 RSO Complaints by Type, 2003-2007 ....128
2-46 Rent Increase Complaints by Outcome, 2003-2007 ....129
2-47 Percent Increase in Median Rent by years Living in Unit ....129
2-48 Tenants' Description of their Unit's Condition ....132
2-49 Tenants' Description of their Unit's Condition, Overlaid with Ratio of SCEP Violations per Unit ....133
2-50 Tenants' Description of the Way the Owner or Manger of their Building Treats Tenants ....135
2-51 Tenants' Likelihood of Recommending their Building to a Friend or Relative as a Good Place to Live, by APC ....136
2-52 RSO Complaints by Type, 2003-07 ....139
2-53 Ratio of RSO Complaints per Unit, 2003-08 ....139
2-54 How important is it for LA to adopt policies and programs to provide affordable housing for renters? ....140
2-55 What should Los Angeles do to provide enough affordable housing for renters? ....140

Chapter 3
3-1 Ownership Role of Survey Respondents ....148
3-2 Profile of Survey Respondents ....148
3-3 Property Portfolios of RSO Owners ....149
3-4 Years Experience owning Rental Property ....149
3-5 Occupancy Status of RSO Units ....150
3-6 Percent Annual RSO Tenant Turnover ....150
3-7 Turnover Rate Compared to Non-RSO Units ....151
3-8 Change in Turnover Rate over Past Year ....151
3-9 Monthly Rent Based on Annual Changes in LA's Consumer Price Index for Rental Housing and Allowable Annual Rent Increases Under the RSO ....153
3-10 RSO Rent as Percent of Market-rate Rent for Long-term Tenants whose Rent has been Increased by the Annual Amount Allowed Under the RSO ....153
3-11 How do you usually find your tenants? ....155
3-12 Duration of Lease Agreements ....155
3-13 Owners that Report Applying for Capital Improvement Passthrough Program ....156
3-14 Owner's Assessment of Capital Improvement Passthrough Program ....157

3-15 Dollar Value of Capital Improvement Claims ....157
3-16 Outcomes for Capital Improvement Claims ....158
3-17 Most Frequent Uses of Capital Improvement Funds ....158
3-18 Reasons for Not Using Capital Improvement Passthrough Program....159
3-19 Capital Improvement Passthrough Applications Approved 1985-2007 ....159
3-20 LA City Properties with SCEP Cases ....161
3-21 Experience with SCEP Inspection Program ....161
3-22 Ratio of Citations to Inspected Units ....164
3-23 How would you describe the way the Housing Department balances landlord-tenant interests? ....165
3-24 Is there anything you would like to change about the RSO program? ....165
3-25 What are the most important things to change in the RSO program? ....166
3-26 Experience with Holding Tenants Accountable for Maintenance and Repairs that should be Their Responsibility ....168
3-27 Owners' Views about Tenant Accountability and Complaints about RSO Violations ....168
3-28 Owners' Views on Tenant Accountability and Renters Views on Treatment by Landlord ....169
3-29 Average Percentage of Delinquent Rents in a Typical Month by Ownership Size ....170
3-30 Tenant Evictions for Delinquent Rent in the Past Two Years as a Percent of Number of Units Owned ....171
3-31 Tenant Eviction Procedures for Disruptive Behavior in the Past Two years as a percent of Number of Units Owned ....171
3-32 Legal Requirements to Evict for Disruptive Behavior ....173
3-33 Views about Annual Rental Unit and SCEP Fees ....173
3-34 Do you pass on rental unit fees to tenants? ....174
3-35 Additional Costs Paid by Tenants ....174
3-36 Do you usually increase rents by the annual amount allowed under LA's rent control program? ....175
3-37 What level of maintenance are you able to provide with the income from rent-controlled property? ....175
3-38 How does this compare to the level of maintenance for your rental units that are not under rent control? ....176
3-39 Primary Reasons why Owners Acquired Rent-Controlled Property ....177
3-40 Debt on the Rent-Stabilized Inventory ....178
3-41 Year when Debt on Property was Assumed ....179
3-42 Year when Properties were Purchased ....179
3-43 Did you make a profit last year? ....180
3-44 Do you get a reasonable return from rent increases? ....181
3-45 Have rent increases kept up with increasing Operating Costs? ....181
3-46 If you were deciding again today, would you still acquire your rent-controlled units? ....186
3-47 How important is it for Los Angeles to provide affordable housing for renters? ....186

3-48 What should Los Angeles do to provide enough affordable housing for renters?.....188
3-49 Renter Assistance Strategies.....189
3-50 Owner Assistance Strategies.....189
3-51 Citywide Subsidy Strategies.....189
3-52 Interest in Redeveloping RSO Property at Higher Density.....191
3-53 Assistance Needed to Redevelop.....191
3-54 Most Important Things to Change in the RSO Program.....192
3-55 Did you make a profit last year?.....193
3-56 Most Important Things to Change in the RSO Program.....194
3-57 How important is it for the City of Los Angeles to provide affordable housing?.....195
3-58 Interested in discussing the result of this survey?.....195

Chapter 4
4-1 Units Covered by RSO by Age and Size of Building.....205
4-2 Distribution of RSO Units by Location and Age of Building.....205
4-3 Median Rents for Units Built before 1980 versus 1980 or Later.....207
4-4 Average RSO Rents in 2000, 2005, 2006 based on Length of Tenancy.....209
4-5 Comparison of Annual Increases under the RSO with Increases in Los Angeles Region and U.S. CPI Rent Indexes.....211
4-6 Average per Unit Assessed Value of RSO Properties 1999 to 2007.....218
4-7 Estimated Increase in Operating Costs per Apartment per Month from 1999 to 2006.....223
4-8 Income, Expense and Net Operating Income Trends, Institute of Real Estate Management, Income/Expense Reports.....225
4-9 Income, Expenses and Net Operating Income Trends, Urban Land Institute, Income/Expense Reports.....226
4-10 Summary of All Four Estimates of Net Operating Income.....228
4-11 Trends in Apartment Values in the City of Los Angeles 1990-2007.....233
4-12 The Impacts of Trends in Capitalization Rates on Apartment Values.....234

Chapter 5
5-1 Consumer Price Index – All Items and All Items Less Shelter, Los Angeles Region, 1979-2007.....253

Chapter 6
6-1 Permits for Large Structure Buildings.....271
6-2 Construction and Building Cost Trends Compared to the Consumer Price Index.....274

Chapter 7
7-1 Number of Approved Capital Improvement Passthrough Applications by Monthly Payment Amount.....289
7-2 Population and Housing Unit Growth – Projections through 2015.....299
7-3 Ratio of Residents to Units – Projections through 2015.....300

7-4 Jobs in LA County's Formal Economy 1978-2007 and Projections to 2014 .....302
7-5 Importance of Initiatives to Provide Housing that Residents can Afford.....303
7-6 Support for Initiatives to Provide Housing that Residents can Afford.....304

Appendix
A-1 Distribution of Survey Recipients by Number of Units Owned.....314
A-2 Distribution of Survey Respondents by Number of Units Owned .....315

# List of Tables

Chapter 1
1-1 Number of Occupied Housing Units, Renter- and Owner-Occupied .....30
1-2 Change in Rental Units and Renter Population .....31
1-3 Number of Occupied Housing Units, Renter- and Owner-Occupied .....31
1-4 Peak Periods for Construction of RSO-Regulated Housing .....34
1-5 Number of Building Permits Approved for Converting Apartments Properties to Condominiums, by APC 1997-2007.....38
1-6 Median Household Income – Buyers vs. Renters.....38
1-7 Mobile Homes by CPSs for Top 3 APCs with Largest Number of Mobile Homes .....43
1-8 Disabled Renter Households by APC.....52
1-9 City of LA Housing Vacancy Rates.....56
1-10 Number of Bedrooms in Occupied Rental Units .....58
1-11 Change in Size of Occupied Rental Units 2000-2006 .....59
1-12 Average Size of Households Paying Cash Rent in 2000 and 2006 .....60
1-13 Median Gross Rent by RSO Status and Years in Unit in 1990, 2000 and 2006.....74
1-14 Average Gross Rent by RSO Status and Years in Unit in 1990, 2000 and 2006 .....75
1-15 SCEP Properties and Code Violations by APC 2005-2008.....77
1-16 Twenty Most Common SCEP Violations.....78
1-17 Most Common Volations Cited by the Los Angeles Department of Building and Safety for RSO-Regulated Buildings.....79
1-18 RSO-Regulated Buildings or Properties Converted to Illegal Uses Violations Identified by LABDS, by Year Cited and APC.....79
1-19 Average Year Built of RSO-Regulated Buildings or Properties Converted to Illegal uses, by Year Cited and APC .....80
1-20 Permits Issued to Covert Apartments Buildings into Condominiums by APC .....80
1-21 Permits Issued to Demolish Existing Apartment Buildings by APC.....81

Chapter 2
2-1 Benchmarking Table – Comparison of Respondents to Renter Survey and 2006 Census ACS .....90
2-2 Length of Stay at Current Rental Unit, Comparing the City of Los Angeles to Non-Rent-Stabilized neighboring Areas.....91
2-3 Unit Size – City of Los Angeles .....93
2-4 Profile of Renters Living in Entire Units vs. Partial Units .....94
2-5 Average Size of Household by APC.....95
2-6 Overcrowding – City of Los Angeles .....96
2-7 Is your unit under rent stabilization? .....99
2-8 Awareness of the RSO's Role in Limiting Rent Increases per Year by Total Household Income.....101

2-9 Awareness of the RSO's Limit on Reasons for Eviction by Total Household Income ....101
2-10 Eviction Types: No-Fault and At-Fault Evictions ....106
2-11 LAHD Eviction Cases Interviewed by Relocation Assistance Services, by Type and Entitlement Amount ....110
2-12 How long is the term of the agreement? ....112
2-13 In what language is the rental agreement that you signed? ....113
2-14 What is the language you speak at home other than English? ....114
2-15 Monthly Rent by APC ....118
2-16 Average and Median Monthly Rent by RSO Status and APC ....119
2-17 Starting and Current Rents by Rent Increases ....127
2-18 Maximum Rent Discount for Typical (Median) RSO Tenants ....130
2-19 Actual Rent Discount for Typical (Median) RSO Tenants ....131

Chapter 3
3-1 Number of Years that Rent-stabilized Units have been Occupied by the Same Tenant ....152
3-2 Owners of RSO Properties Broken Out by the Percent of Their Units for which Declarations of Intent to Evict have been Filed ....172
3-3 Geographic Distribution of Declarations of Intent to Evict ....172
3-4 Reports in Owner Survey of Evictions for Disruptive Behavior and Filings of Declarations of Intent to Evict with the City of Los Angeles Housing Department ....172
3-5 What were the reasons for acquiring rent-controlled units? ....176
3-6 Profit Comparison for RSO and Non-RSO Units ....180
3-7 Probability that Owners will Report a Profit on Their Rent-Controlled Property ....183
3-8 Owners Reporting a Profit and a Reasonable Return ....185

Chapter 4
4-1 Distribution of RSO Properties by Number of Units ....204
4-2 Distribution of RSO Rental Units by Location and Size of Building ....206
4-3 Length of Time in Same Rental Unit 1980-2006 ....207
4-4 Percent Increase in Median Rents, Units Constructed 1979 or Earlier Compared with Units Constructed 1980 or Later ....207
4-5 Increases in Median and Average Rents from 2000 to 2006 by APC, Rental Housing Constructed before 1980 ....208
4-6 Comparison of Increases in U.S. CPI Rent Index and CPI-All Items Index ....210
4-7 Annual Increases Allowed under RSO Compared with CPI Rent Index Increases in Standard Metropolitan Statistical Areas ....212
4-8 Average Overall Apartment Operating Costs per Apartment Unit per Month – Los Angeles Area ....215
4-9 Operating Expense/Income Ratios – Los Angeles Apartments ....217
4-10 Average Water and Sewer Costs per Apt. Unit per Month ....219
4-11 Average Insurance costs per Apartment per Month ....221
4-12 Management and Maintenance Expenses per Apartment per Month ....222

4-13 Income and Expense Trends "Apartment Building Appraises & Analysts Report" ....227
4-14 Estimate of Trends in Net Operating Income Based on Reports of Average Sale Prices and Capitalization Rates by CoStar....227
4-15 Average Sales Price for Apartments – City of Los Angeles – 1999-2006 ....236
4-16 City of Los Angeles, County of Los Angeles, and Other Rent Controlled Cities ....237
4-17 U.S. Market Areas – Average Apartment Values – 1999-2006 ....239
4-18 Cash Flow Projections Pre-2000 Purchaser and Recent Purchaser ....241

Chapter 5
5-1 Annual Rent Increase Standards under Rent Control Ordinances....250
5-2 Annual Rent Increases Since the Adoption of Rent Controls....251
5-3 Comparison Between Increases in CPI All Items and CPI All Items Less Shelter Indexes....254
5-4 Annual Rent Adjustments, Fixed Percentage Compared with Fixed Dollar Method....255
5-5 Impact of 3% Minimum on Allowable Annual Rent Increases....255
5-6 Example of Weighted Operating Cost Study, Rent Increases Required to Cover Operating Cost Increases and Adjust Net Operating Income ....257
5-7 CPI and non-CPI Adjusted Cost Factors in Operating Cost Study and Annual General Adjustment Determination of Santa Monica Rent Control Board....257
5-8 Rent Adjustments for Buildings with Master-Metered Gas and/or Electricity under California Rent Control Ordinances ....261
5-9 Annual Allowable Rent Increases Compared with Increases in Los Angeles Area CPI Rent Index, 1992-1998....263
5-10 Banking Provisions in California Rent Control Ordinances....265
5-11 Administrative Fees and Budgets for California Rent Control Programs ....266

Chapter 6
6-1 Permits Issued by Decade in Los Angeles County ....270

Chapter 7
7-1 Recommended Duration of Tenant Rent Increases ....290
7-2 Joint Code of Landlord-Tenant Responsibilities ....293
7-3 RHNA Goals – City of Los Angeles (1998 to 2005)....301
7-4 RHNA Goals – City of Los Angeles (2006-2014)....301
7-5 Estimated Population Distribution and Housing Needs of the Annual Homeless Population in the City of Los Angeles in 2007 ....306

Appendix
A-1 Sample Dispositions and Estimated Eligible Cases....310
A-2 Methodology and Size of Survey Replicates....314
A-3 Survey Responses from Owners ....315

# List of Text Boxes

Chapter 2
2-1 Focus Group Comments about Overcrowding .....96
2-2 Focus Group Comments about Tenant Education .....102
2-3 Focus Group Comments about Evictions .....108
2-4 Focus Group Comments about Leases.....114
2-5 Focus Group Comments about Rent Burden .....122
2-6 Focus Group Comments about Building Maintenance.....134
2-7 Focus Group Comments about Fair Treatment by Landlords .....135
2-8 Focus Group Comments about Landlord Responsiveness and Communication.....137
2-9 Five Grounds for Complaints by RSO Tenants.....138
2-10 Focus Group Comments about Affordable Housing .....141
2-11 Comments of Renter Survey Respondents about Affordable Housing .....142

Chapter 3
3-1 Describe your experience with the passthrough program for capital improvement costs .....156
3-2 Why haven't you used the passthrough option to help pay for your capital improvements? .....160
3-3 How would you describe your experience with the Housing Department's inspection of your rental units (the SCEP program)? .....162
3-4 What are the most important things to change in the rent control program?.....166
3-5 Other reasons for acquiring RSO property .....177
3-6 What should Los Angeles do to provide enough affordable housing for renters?.....187

# Executive Summary

## CRITICAL TRENDS

### Decline in Overcrowding

Between 2000 and 2006, overcrowding trends of the previous 20 years changed direction. Rates of severe overcrowding fell 65 percent from 2000 to 2006, leaving 8 percent of the City's renters in severely overcrowded (more than 1.5 occupants per room) conditions and another 11 percent in overcrowded conditions (more than one occupant per room). This was the result of a growing stock of larger rental units and a small decline in the renter population. Despite this good news overcrowding remains widespread among low-income renters, with 28 percent of those at or below 200 percent of the poverty level living in overcrowded conditions.

### Increase in Rent Burden

In 2006, LA renters were less able to afford housing than they were 16 years ago. Census data shows that 58 percent of renters are rent-burdened, paying over 30 percent of their income for rent. The share of residents who are severely rent-burdened, paying over half of their income for rent, increased to 31 percent in 2006.

### Reduction in Rental Inventory

In 2000, LA began to emerge from the 1990s housing construction slump and there was an increased pace of both additions and subtractions of rental units from the City's housing inventory. The net outcome from demolition, renovation and new construction of rental properties was a growing inventory of rental housing until 2004. The subsequent spike in condominium conversions resulted in a net loss of rental units by 2006.

### Low Capitalization Rates *(low ratio cash flow to purchase price of property)*

A quarter of the rental unit inventory in buildings with five or more units was purchased in 2005 or later. These recent purchasers have much larger debt service loads than longer-term owners, making them vulnerable to minor fluctuations in expenses or the decline in rental income that can be expected as part of the current recession.

### Housing Construction Costs

Construction costs typically account for about 60 percent of the cost of building rental housing, and land typically accounts for another 30 percent. Construction and land costs are high in Los Angeles, making it extremely difficult to produce new rental housing at prices that are affordable to most Los Angeles renters. If solutions are to be found, policy-makers must establish a framework that accelerates the production of affordable housing in the City.

Policy recommendations based on study findings are summarized in the following section. The final section of the Executive Summary presents key findings from each chapter.

## POLICY RECOMMENDATIONS

### Rent Stabilization Ordinance (RSO) Strengths and Limitations

The Rent Stabilization Ordinance (RSO) covers 66 percent of LA's inventory of rental units and, when owner-occupied units are included, 40 percent of all housing in the City. The majority of Los Angeles renters are rent-burdened, paying over 30 percent of their income for rent, and roughly a third are severely rent-burdened, paying half or more of their income for rent.

Strengths of the RSO program include that it touches a large segment of households in Los Angeles, most of whom are at the lower end of the income distribution, and protects them against rapid rent increases and arbitrary eviction.

The RSO program is limited in that it does not address the overall scarcity of housing in Los Angeles and the acute scarcity of housing that residents can afford, it provides little rent savings for short-term tenants, and it places administrative burdens on owners.

The purpose of the RSO is to protect tenants from excessive rent increases, while allowing owners a reasonable return on their investments. This balance is difficult to achieve in a rental market with both long-term decline in renter incomes and inflation in housing prices.

### Scope of the RSO

Options for the scope of coverage of the rental market by the Rent Stabilization Ordinance are to retain the current scope, or to reduce the scope, most likely by eliminating coverage of properties with 2 to 4 units. The third conceivable option of expanding the ordinance to include rental units built after 1978 is precluded by state law.

The primary findings from this study that argue in favor of excluding small owners from RSO coverage are that small owners are the least profitable segment of RSO owners, have the weakest grasp of financial issues related to their properties, and sometimes are ill-equipped to deal with the additional paperwork required for complying with the RSO.

The primary finding that argues against excluding small owners from RSO coverage is that 24 percent of all RSO units are held by owners of 4 or less units. In the poorest areas of the City, the share of units held by small owners is even larger – 38 percent in the Harbor region, 42 percent in South LA, and 50 percent East LA. Eliminating these units from RSO coverage would result in rent increases and loss of secure tenure for a significant share of LA renters, most of them in households that already are rent-burdened. A second argument against eliminating RSO coverage of small owners is that four-fifths of RSO properties have been acquired since rent stabilization took effect in Los Angeles, for prices that took into account the effect of the RSO on income and profits.

*It is recommended that the City retain the current scope of coverage by the Rent Stabilization Ordinance and provide technical assistance workshops and other training focused on small owners.*

### City Communication with Renters and Owners

Information provided by both renters and owners shows that many of those affected most directly by the Rent Stabilization Ordinance lack basic information about requirements and

opportunities that are part of the program. A third of renters have incorrect information about, or are unaware of, the RSO status of their unit. Two-thirds of low-income renters are unaware that the RSO limits rent increases and protects against evictions without just cause. Half of owners do not know about the capital improvement passthrough program, and despite their concerns about rent ceilings, 99.9 percent of owners have not sought relief through the just and reasonable rent increase application process.

*It is recommended that the City mail annual letters to each RSO household and property owner, identifying responsibilities, resources and benefits that are part of the program.*

**Evictions and Tenant Relocation**

Most renters and landlords agree that at-fault tenants who are disruptive, destructive, or do not pay their rent should be evicted. Renters and landlords both express support for making it easier to evict disruptive and destructive tenants.

The other side of this coin is that the City's low vacancy rate and rapid housing inflation during much of this decade was accompanied by a spike in no-fault evictions. Declarations were filed to remove over 20,000 units from the RSO inventory between 2000 and 2007. In mid-2007, the City added housing relocation search services to help tenants in no-fault evictions. The Housing Department referred 274 displaced households to the housing relocation assistance organization, which helped less than one-in-ten households find replacement rental housing.

*It is recommended that the City inform owners that the RSO does not restrict evictions for disruptive or destructive behavior, inform renters about protections against no-fault eviction provided by the RSO, evaluate the delivery of tenant relocation services, and assess whether the level of service funded under the relocation assistance program should be increased.*

**Loss of Rental Housing Units Due to Condominium Conversions**

Rental vacancy rates for the past eight years have fallen below the 5 percent threshold established in Los Angeles Municipal Code for suspending condominium conversions on residential rental properties of two or more units. The high rent burden for City residents, high levels of overcrowding and low vacancy rates are evidence that affordable rental housing is in short supply. Conditions that warrant denial of approval for condominium conversions have existed in the City for the past eight years.

*It is recommended that the City suspend approval of condominium conversions, monitor rental vacancy rates at the Community Plan Area (CPA) level, and maintain this policy in CPAs with vacancy rates below 5 percent.*

**Capital Improvement Passthrough Program**

The City's aging RSO inventory requires continued investment in capital improvements, including periodic outlays for major rehabilitation that addresses primary structural, plumbing, electrical or mechanical needs. The City's main program to provide additional revenue to owners for capital improvements is the Capital Improvement Passthrough Program, which allows temporary rent increases to pay for 60 percent of the cost of improvements. In the past 5 years,

only 1 percent of RSO owners, representing 4 percent of units, have applied for this program..

Information from the landlord survey that is relevant to the design of this program includes findings that, when compared to owners of 5 or more units, owners of 1 to 4 units are:

- Less than a third as likely to have used the capital improvement passthrough program
- Less than half as likely to report making a profit on their RSO units
- Only half as likely to increase rents by the annual amount allowed under the RSO

*It is recommended that the City increase the capital improvement passthrough amount to: 75 percent for work that meets current criteria for the passthrough program but does not meet the criteria for primary renovation; 100 percent for systemic structural, plumbing, electrical, or mechanical work that can be done while tenants occupy their units; and 100 percent for either capital improvements or primary improvements for owners whose total RSO ownership, including all properties, is 4 units or less. It is also recommended that the tenant habitability component of the Primary Renovation Program and the process for determining whether a habitability plan is required be simplified and streamlined. And it is recommended that the term of payment for the tenant's share of costs be extended for up to 10 years to keep rent increases below $25 per month for as many tenants as possible, that the $55 monthly rent-increase ceiling for the share of capital improvements that can be passed on to tenants be indexed to the Consumer Price Index, and that the cumulative amount of capital improvement passthroughs approved for each property be tracked to ensure that tenants do not receive multiple rent increases that total more than the ceiling amount.*

**Banking Rent Increases**

RSO tenants experience more frequent rent increases than non-RSO tenants because the current use-it-or-lose-it policy for RSO rent increases adds pressure to increase rents annually in order to avoid losing the prerogative to make an increase. Seven other jurisdictions in California with rent control allow owners to bank rent increases, that is, landlords who do not increase rents by the allowable annual amount in a given year are allowed to make this increase in future years.

Oversight of rent banking requires the rent history information that would be collected under the recommended tracking system for overseeing rent increases. If the rent registry is implemented, it is recommended that rent banking be implemented in the following year.

The option to bank rent increases makes the current 3 percent floor under the annual rent adjustment unnecessary. In years when the housing market is slow and rents are most likely to be banked, the change in the Consumer Price Index typically is less than 3 percent.

*It is recommended that the City allow owners to bank annual rent adjustments banking if the recommended rent registry is implemented, with banked rent adjustments in combination with the annual increase permitted under the RSO not to exceed 10 percent. It is also recommended that the 3 percent floor on annual rent adjustments be eliminated and that the current 8 percent ceiling on annual rent increases be retained.*

**Joint Code of Responsibility for Landlords and Tenants**

The most widely expressed concern of landlords about their tenants, as well as tenants about their landlords, is that the other party does not reciprocate reasonable and responsible

behavior. This is not a universal problem but it is the most frequently identified problem in landlord-tenant relations.

*It is recommended that the City adopt a Joint Code of Responsibility for Landlords and Tenants as an articulated set of values about civil, reasonable behavior between landlords and tenants and include it in the Landlord-Tenant Handbook.*

**Systematic Code Enforcement Program (SCEP)**

The Systematic Code Enforcement Program, or SCEP, is the most frequent point of contact between the Housing Department and Los Angeles landlords. The program has been recognized for its success in improving the habitability of rental housing in Los Angeles, but it evokes mixed reactions from property owners.

The two concerns most frequently expressed by owners about SCEP are the need for more consistency in how inspections are conducted and the need for greater tenant accountability for code violations they cause.

*It is recommended that the City enforce the recommended Joint Code of Landlord-Tenant Responsibilities by holding tenants accountable for code violations that they cause. It is also recommended that the City continue training inspectors in standardized procedures for documenting code violations in order to ensure more consistent outcomes from inspections.*

**Updating Leases**

The RSO prohibits unilaterally changing the leases of tenants in ways that reduce services without corresponding rent reductions. For long-term tenants this means that their original lease can stay in force throughout their entire tenancy, even if the property changes ownership. However, as some tenancies extend, the original lease can become outdated relative to state and local laws, and even contradict them.

*It is recommended that the City inform owners and renters that the RSO does not restrict evictions for nuisance or illegal activities, nor is a declaration of intent to evict required for these evictions if they are not related to illegal drug or gang activity.*

**Information Needed for Administering the RSO**

Information from the renter survey suggests that a significant minority of owners are imposing unauthorized rent increases. These increases appear to be most prevalent among low-income renters, which is the population most in need of protection by the RSO. Currently, the RSO program does not have information other than what is received through complaints to enable it to monitor rent increases. Building this capacity is important because the core purpose of the Rent Stabilization Ordinance is to protect tenants against excessive rent increases.

*It is recommended that the City expand the yearly registration renewal application to include information about the rent for each unit and whether or not each unit has been vacated and decontrolled in the past year.*

**Reasonableness of the Annual Rent Increase Allowed Under the RSO Program**

An analysis of the Consumer Price Index and data on increases in apartment operating costs supports the continued use of the Consumer Price Index as a fair and objective benchmark for determining annual allowable rent increases. It protects sitting tenants from excessive rent increases, while at the same time providing apartment owners with annual increases that are reasonable and tied to a commonly used measure of price increases in Los Angeles' economy.

*The CPI annual increase standard fairly balances the interest of renters and owners.*

**Accuracy of the Methodology Used to Calculate the Annual Rent Adjustment Percentage in Reflecting Actual Changes in Operating Costs**

The Consumer Price Index (CPI) is the best available economic benchmark for setting rent increases. The CPI is the only systematic, market-wide source of data that reflects changes in maintenance and management costs, and net operating income.

*The CPI is the best available measure of an allowance for increases in operating costs.*

**Recommended Change to the RSO Based on Available Evidence about Financial Outcomes**

The annual rent increase of one percent per year to offset gas and electricity utility increases in master-metered buildings (a total of two percent if both services are provided) should be replaced by periodic analyses of actual changes in costs. The allowance currently used has no connection with and has substantially exceeded the actual cost increases resulting from increases in the cost of providing gas and electricity in master-metered units.

*It is recommended that the City authorize utility increases periodically when significant gas and/or electricity cost increases occur, rather than an unchanging fixed percentage annual increase.*

**Just and Reasonable Rent Increases**

The reduced level of rent paid by long-term RSO tenants can have a significant impact on small property owners, for whom a single unit provides a quarter to half of total rent revenue. Relief should be available for owners if rent for an RSO unit falls 35 percent or more below the market rate. A 35 percent ceiling on RSO rent gaps is recommended because this is the greatest gap that has been shown to result from the rent adjustment provisions of the Rent Stabilization Ordinance. Gaps that exceed this amount can reasonably be viewed as inconsistent with the RSO objective to fairly balance the interests of landlords and tenants.

*It is recommended that the City inform property owners that Just and Reasonable Rent Increase application process can be used to address extreme disparities in rent levels.*

**Balancing Population, Housing and Job Growth**

Demographic and economic projections underscore the challenges the City faces in providing housing that meets the needs of its diverse residents. Increasing the supply of housing

is important, but the level of housing affordability may be even more crucial to the wellbeing of the City's residents. It appears that the City is on track to meet the needs of higher-income residents, but will make only modest headway in ensuring adequate housing for lower-income residents, most of whom are severely cost-burdened and often live in overcrowded conditions.

**Renter and Owner Support for Affordable Housing**

Over 90 percent of renters and 60 percent of owners support City initiatives that will help meet the need of residents for homes they can afford. Renters and owners agree that the housing needs of seniors and families should be prioritized, that it is important to save existing affordable units, that inclusionary zoning is desirable, and that public spending should be increased to subsidize affordable units and create home ownership programs.

**Recommendations for Affordable Housing**

1. *Include housing that residents can afford as part of market rate development.*
2. *Use housing choice vouchers to increase the revenues generated by affordable rental projects.*
3. *Streamline entitlement processes to reduce carrying costs for affordable housing projects.*
4. *Identify "non-traditional" land that has the capacity to be developed into housing.*
5. *Focus development interest by providing information about parcels that the City is most interested in seeing developed.*
6. *Streamline the condemnation and eminent domain processes for blighted properties to provide incentives for current landowners to either sell their property or clean and redevelop the property in a timely fashion.*
7. *Use public funds to purchase affordable units with covenants on the brink of expiration and to incentivize owners of these units to continue providing their units at affordable rent levels.*
8. *Develop an affordable housing land bank.*
9. *Promote mixed-income and mixed-use projects where internal cash flows create subsidies.*
10. *Establish development fees for residential, commercial and industrial construction projects that increase the demand for affordable housing.*
11. *Link affordable housing developers with the 1,363 RSO owners that reported in the landlord survey that they interested in redeveloping their properties at higher densities with affordable or rent-controlled housing included in the new development.*

**Fees to Pay for Implementing Recommendations**

Five recommendations that are being made will require additional funding for the Housing Department: 1) technical assistance workshops for small owners, 2) annual educational letters about the RSO to renters and owners, 3) higher level of relocation services (if borne out by an assessment of relocation services), 4) creation of a rent database for all RSO units, and 5) collection and analysis of cost data for gas and electric utilities.

*It is recommended that the City increase the annual rental unit registration fee by the amount necessary to pay for these additional responsibilities.*

## PROFILE OF THE RENTAL MARKET FROM EXISTING DATA

### Major Trends in LA's Rental Housing Market

- Much of the current housing scarcity emerged in the 1980s, a decade when LA's population grew 17 percent but its housing inventory grew only 9 percent – about half of the population growth rate. In the following decade, population growth slowed but the margin of disparity between new residents and new housing remained the same.
- Los Angeles residents rent their homes at about double the national rate.
- The shift toward greater home ownership seen in New York and Chicago may also be seen in Los Angeles in the coming decade as immigrants who arrived in the 1990s continue to make economic gains and are increasingly able to buy homes.
- Since 1997, the increase in rents in the Los Angeles region has been much greater than the increase in other consumer costs.
- Price increases since 1997 for rental housing in the Los Angeles area have been 270 percent greater than increases in all other consumer costs.

### Inventory and Characteristics of LA's Rental Housing Stock

- Los Angeles has 764,197 renter-occupied housing units. This is roughly 60 percent of the City's occupied housing.
- The Rent Stabilization Ordinance (RSO) covers 118,254 rental properties with 638,051 housing units, or two-thirds of LA's rental inventory.
- Seventy-nine percent of the RSO-regulated inventory of rental housing units was purchased by the current owners after the RSO ordinance went into effect.
- Since 1997, the net outcome from demolition, renovation and new construction of rental properties was a growing inventory of rental housing until 2004. The subsequent spike in condominium conversions resulted in a net loss of rental units by 2006.
- Most rental property owners are small landlords. Sixty-nine percent of rental properties in the City of Los Angeles have just one unit and only 3 percent have 20 or more units.
- Two-thirds of all rental units are on properties with 10 or more units, with managers with a sufficiently large scale of operations to apply professional capabilities to managing their properties.

### Characteristics of Renters

- As foreign-born residents become long-term stakeholders in their communities, home ownerships rates grow. After 30 years of residency, home ownership rates for foreign-born residents surpassed those of U.S.-born residents.
- In 2006, a quarter of senior householders in Los Angeles were living in poverty and over 40 percent of all senior renters were severely rent burdened.
- In 2006, 35 percent of householders' with disabilities were living in poverty. Forty-five percent of all renters with disabilities were devoting 50 percent or more of their income

to rent and another 27 percent were devoting 30 to 49 percent of their income to rent, making them one of the most vulnerable renter populations in Los Angeles.

**Occupancy Outcomes for Renters**

- Rental vacancy rates for the past eight years have fallen below the 5 percent threshold established in Los Angeles Municipal Code ("LAMC") Section 12.95.2(F)(6) for suspending condominium conversions on residential rental properties of two or more units.
- The high rent burden for City residents, high levels of overcrowding and low vacancy rates are evidence that affordable rental housing is in short supply. Conditions that warrant denial of approval for condominium conversions have existed in the City for the past eight years. Condominium conversions have filled a need for market-rate, owner-occupied housing in the City, but often at the cost of reducing the scarce supply of rent-stabilized housing.
- The geographic distribution of condominium conversions reflects the distribution of household wealth in the City. Citywide, buyers have two and a half times more income than renters, with the incomes of both renters and buyers being highest in West LA and the South Valley.
- Citywide from 2000 to 2006, the net impact of demolitions and new construction was a 15 percent decline in the share of studio apartments and an 11 percent increase in the share of apartments with 2 or more bedrooms in the City's rental inventory. This made an important contribution to reducing overcrowding.
- Occupant density in studio or 0-bedroom rental units dropped 35 percent and in 1-bedroom units dropped 11 percent between 2000 and 2006. A key factor contributing to this outcome was the recent increase in the typical size of rental units.
- Between 2000 and 2006, overcrowding trends of the previous 20 years changed direction. Rates of severe overcrowding fell 65 percent from 2000 to 2006, leaving 8 percent of the City's renters in severely overcrowded conditions and 11 percent in overcrowded conditions.
- Overcrowding remains widespread for low-income renters, particularly for those living at or below 200 percent of the poverty level.

**Rent**

- Between 2000 and 2006, a new trend may have begun to emerge: the share of "middle income" renters grew by 2 percentage points and the share of poor renters declined 3 percentage points.
- A large income divide still separates owners and renters: in 2006, the median income (measured in 2007 dollars) was $73,000 for homeowners compared to $32,000 for renters.
- In 2006, over 30 percent of renter households in the City were severely rent-burdened, paying 50 percent or more of their income for rent. The share of Los Angeles residents who are severely rent-burdened has increased by 23 percent in the last decade and a half.

- In 2006, nearly a quarter of all renters were living below the federal poverty threshold (as defined by federal guidelines) and 40 percent were living at or below 150 percent of the poverty threshold.
- The median rent for RSO tenants is less than the median rent for non-RSO tenants, and the gap in average rents is even greater. In 2006, the median and average differentials were $113 and $142, respectively. The rent differential for RSO units appears to have resulted from two factors: 1) the inherent difference between rents for older RSO units and newer non-RSO rental units that exists in the market place, and 2) RSO policies that limit annual rent increases.

### Conditions in Rental Housing

- From April 2005 through June 2008, the SCEP inspection program identified an average of 1.5 violations in each of the 757,677 rental units that were inspected throughout the City of Los Angeles.
- The most common SCEP violations are: deteriorated interior walls, inoperable or missing smoke detectors, windows or doors requiring maintenance, and unsafe floor coverings.
- The most frequent code violation, found in 18 percent of Building and Safety notices to comply issued, is for construction work that was done without a permit, often to increase the size and occupant capacity of housing units. The second most frequent type of violation, found in 9 percent of cases, is for garage conversions that were done without a building permit, typically to create rental housing that in some cases was substandard.
- There have been 441 cases from 2002 through early 2008, in which RSO property owners were issued notices by the LA Department of Building and Safety for converting an apartment building or property to another use.
- The number of apartment buildings converted to condominiums has increased annually since 2003, with more than 100 former apartment buildings converted each year since 2005.
- Citywide in Los Angeles, the Census Bureau reported that 3 percent of units lacked complete kitchen facilities and 2 percent lacked complete plumbing facilities.
- There is a direct connection between the income level in a community and the number of substandard dwelling units reported – individuals in substandard units are likely to be extremely poor, disabled and/or linguistically isolated.

## SURVEY OF RENTERS LIVING IN THE CITY OF LOS ANGELES

### Carrying Out the Telephone Survey

- A random-sample telephone survey of 4,859 renters was completed, providing up-to date information about the attitudes, finances, and experiences of renters.
- The survey achieved a 44.4 percent overall response rate and was conducted in three languages - Spanish, English and Korean.

- Thirty percent of respondents chose to donate the value of their gift card to LA's Affordable Housing Trust Fund.

**Benchmarking the Renter Survey against Census Data**

- The renter survey obtained responses from two-thirds as many renter households in LA as the U.S. Census Bureau's 2006 American Community Survey (ACS).
- The types of households that the Census Bureau has the greatest difficulty reaching – low-income renters – are the households from which the renter survey obtained higher representation.

**Length of Stay/Tenure**

- Citywide, 70 percent of the renter survey respondents have lived in their current units less than ten years.

**Overcrowding**

- There is evidence showing that the overcrowding problem in the City has improved since 2000. Survey data indicates that 28 percent fewer renter households live in severely overcrowded condition than reported by the 2000 Census. The survey, however, found more overcrowding than 2006 Census figures.
- Overcrowding and severe overcrowding are most prevalent in the South LA, East LA and North Valley regions.
- A majority of renter households with 5 or more people live in units with inadequate space. Seventy percent of 5-person households live in overcrowded or severely overcrowded units with 4 rooms or less, and almost 90 percent of households with 6 or more people live in inadequate densities.

**Renters' Awareness of Their Unit's RSO Status and RSO functions**

- Thirty-four percent of renters are incorrect about, or unaware of, the RSO status of their unit.
- Only 41 percent of renter survey respondents who say that they speak English "Not well" or "Not at all" are aware that the RSO limits rent increases each year.
- Only 48 percent of renters with household incomes less than $25,000 per year know that the RSO limits the legal reasons for eviction.

**Landlords' Declarations of Intent to Evict Tenants; Tenant Relocation Program**

- There was a surge in Landlord Declarations of Intent to Evict filed with the Housing Department from 2000 onwards, peaking in 2005, counter to the downward trend in overall unlawful detainer cases.
- Evictions related to condominium conversion account for 54 percent of all evictions recorded by the Housing Department.

- East LA and West LA standout as having disproportionately more cases of evictions during the period from 1998 to 2008.
- The Housing Department had referred 187 no-fault eviction cases to its housing relocation assistance services provider as of mid-May 2008, representing 274 tenant households and at least 532 tenants.

**Leases and Rental Agreements**

- Seventy-one percent of renters have a written lease or rent agreement with their landlord.
- Among survey respondents whose lease is written in English, 77 percent were renters who completed their telephone interview in English, 21 percent in Spanish, and two percent in Korean.

**Rent**

- The rent differential between RSO and non-RSO units ranged from a high of $500 to virtually no difference
- A little over 60 percent of Los Angeles' households have less than two people contributing to rent payments
- Citywide survey results show 18 percent more severely rent burdened households and 11 percent more rent burdened households than the 2006 Census.
- A majority of renters in Los Angeles say that it is somewhat or very difficult to pay rent.
- Overall, 11 percent of respondents in the City receive some form of rent subsidy
- Sixty-three percent of tenants in RSO units report that their rent increases *every* year. Only 54 percent of their counterparts in non-RSO units report yearly rent increases.
- The 2007-2008 renter survey found that the share (56 percent) of market-rate units with rent increases below the rate of rent inflation is 27 percent larger than the share (44 percent) of RSO units with rent increases that are less than those allowed by the RSO.

**Excessive or Potentially Unauthorized Rent Increases in RSO Units; Tenant Complaints**

- Twenty-seven percent of tenants in RSO units reported current rents that were *above the projected allowable increase* permitted by the RSO.
- Tenants who appear to have received rent increases above the projected allowable increase were those with the lowest starting rents.
- A portion of RSO tenants may well be receiving unauthorized rent increases. Low-income renters are more likely to have rent increases that are above the allowable increase.
- The City of Los Angeles Housing Department (LAHD) receives over 7,000 tenant complaints per year concerning possible violations of the RSO – complaints about illegal rent increases account for a third of these.

**Trajectory of Rent Increases**

- Renters who moved into RSO units between 1997 and 2006 received rent increases from their landlords that were on average 15 percent less than the RSO's maximum allowable rent increases.
- Tenants of market-rate units who started renting their units between 2001 and 2005 received rent increases at rates similar to the RSO allowable increase.
- Median RSO rent increases have generally increased at a steady rate slightly below the RSO allowable increase.
- Typical non-RSO tenants have consistently received larger rent increases in comparison to RSO tenants. Additionally, rent increases have generally not kept pace with increases in the CPI and have varied with fluctuations in the economy and rental market.
- Between 1997 and 2006, typical RSO tenants received rent discounts ranging from 2 percent to over 40 percent.
- The size of the RSO rent discount is contingent upon fluctuations in the market that impact the degree to which non-RSO rents increase.

**Tenants' Perception of Rental Conditions**

- A plurality of renters in the City of Los Angeles (46 percent) reports their housing units being in "excellent" or "good" condition. Another 43 percent characterize their rental units as being in "fairly good" or "fair" condition.
- The Housing Department's Code Enforcement Unit found a higher rate of violations in the units of renters who described their unit as being in "Fairly Poor" or "Very Poor" condition.
- A majority of renters in the City of Los Angeles say that they are treated either "very well" (courteous and polite - 50 percent) or "somewhat well" (33 percent) by their landlord.
- Three quarters of renters living in the City of Los Angeles are "very likely" or "somewhat likely" to recommend their building to a friend or relative as a good place to live.
- Tenants' most common complaint to LAHD is about illegal rent increases, with complaints about false or deceptive eviction notices being almost as common.

**Renter Perceptions of Affordable Housing**

- Over 90 percent of renters in the City believe that is very or somewhat important that Los Angeles create affordable housing.
- Renters ranked 11 potential policy initiatives to provide affordable housing in the City – the only option that did not garner overwhelming support was "let private markets solve housing problems."
- Renters' highest stated priority is to provide affordable rental housing for seniors.
- The second highest priority is informing tenants of their rights and helping them access services.
- Discrimination and unfairness are paramount concerns among renters.

## PROPERTY OWNER SURVEY *(random sample of RSO property owners)*

### Ownership Structure

- Most owners in all size classes have many years of experience in owning and managing residential rental property. Two-thirds have at least ten years of experience. Only 7 percent have two or less years of experience.
- Three-quarters of RSO owners have small holdings, 4 or less units, usually on a single property, with long-term experience (10 or more years) with this scale of ownership – they own one-quarter of RSO units.
- One-quarter of RSO owners have medium or large holdings (5 or more units), long-term ownership experience, and often own multiple properties, some of which are in other cities – they own three-quarters of RSO units.

### Vacancy Rates and Turnover

- The survey interval of November 2007 through April 2008 covered a period of high demand for rental housing. Ninety-six percent of RSO units were occupied, 3 percent were vacant for rent, and 1 percent were vacant for other reasons.
- The point-in-time vacancy rate is low despite the fact that roughly a fifth of units turn over in the course of a year, indicating that owners have not had to wait long to find new renters for vacant RSO units.
- There are fewer turnovers in RSO units than in non-RSO units.

### Long-term Tenants

- Eight percent of RSO units have been occupied by the same tenant for 15 or more years.
- If owners increase rent every year by the amount allowed by the Rent Stabilization Ordinance, rents are unlikely to be more than 35 percent less than market rates. It is probable that any gaps greater than this are the result of other factors, including years in the 1990s when the housing market was depressed and owners did not increase rents, and neighborhoods in which rents have increased more rapidly than the overall LA average.
- A small share of long-term RSO tenants with very low rents appears to have a disproportionate and adverse financial impact on a subpopulation of small property owners. To fairly balance the interests of tenants and owners, as called for by the Rent Stabilization Ordinance, it is reasonable to consider providing some relief for these small owners.

### Finding Tenants and Leasing Units

- Overall, 47 percent of owners use word of mouth to find tenants. Next most frequently, 41 percent of owners use signs on their property.
- Eighty-eight percent of RSO tenants rent their unit with a written lease or rent agreement.

**Financing Capital Improvements**

- From January 2003 to April 2008, only 1.3 percent of RSO owners applied to pass through capital improvement costs to their tenants.
- Fifty-six percent of those who had not applied said it was because they had not heard of the program.
- The most widely expressed concern about the Capital Improvement Passthrough Program is that a larger share of the cost for maintaining the basic infrastructure of rent-stabilized housing needs to be shared by tenants.
- Prior to 1989, when the passthrough amount was 100 percent, the amount of investment was 189 percent greater and the number of units upgraded was 218 percent greater than in the following 18 years when the passthrough amount was reduced to 50 percent.

**SCEP Inspections**

- Sixty-seven percent of the City's RSO properties and 58 percent of market-rate properties inspected from April 2005 through June 2008 were found to have code violations that required correction.
- An important factor affecting the likelihood of code violations is the age of a property.
- Nearly half of owners (48 percent) say that the SCEP program was either "very helpful for identifying needed maintenance," or "a useful service."
- Owners of properties built in1967 or later are 2.5 times more likely than owners of properties built in 1966 or earlier to say that SCEP is an "unnecessary expense."
- Owners of properties built in 1960 or earlier are 3.6 times more likely than owners of properties built in 1961 or later to say that SCEP is "very helpful for identifying needed maintenance."
- Owners of 10 or less units are 3.1 times more likely than owners of 11 or more units to say that SCEP is "very helpful for identifying needed maintenance."
- Comments by owners suggest that the preferable approach to strengthening the program is by replicating the best practices of the most knowledgeable and judicious inspectors.
- Owners of older, smaller properties tend to experience SCEP as a useful source of technical assistance for maintaining their properties. Owners of newer, larger properties tend to experience SCEP as an unnecessary intrusion into the management of their properties.
- The two most frequently expressed concerns about SCEP are the need for more consistency in how inspections are conducted and the need for greater tenant accountability for code violations they cause.

**Tenant Accountability and Reliability**

- Responses about problems with holding tenants accountable for things that should be their responsibility are almost evenly divided: 48 percent of owners say this is never or rarely a problem; 53 percent say it is sometimes or often a problem.

- Owners of 1 to 4 units report fewer problems with tenant accountability – they were 3 times more likely than owners of 5 or more units to report that holding tenants accountable for maintenance was never an issue.
- Owners who say that tenant accountability is often a problem are nearly twice as likely to have had a complaint filed against them for failure to comply with Rent Stabilization Ordinance regulations as owners who say that this is never an issue.
- Negative attitudes are often reciprocal between owners and tenants. Owners who have more positive views about their tenants appear, in turn, to be viewed more positively by their tenants.
- Among owners of 1 to 4 units an astounding 44 percent of tenants fail to pay their rent on time in an average month. The rate of delinquency goes down as ownership size increases, with owners of 40 or more units reporting an average of 6 percent late payments per month.
- There appears to be no difference between RSO and non-RSO properties in the rate of rent payment delinquencies.

**Evictions**

- Eighteen percent of owners report having evicted tenants for rent delinquency in the past two years.
- The high rent delinquency rates reported by owners of 1 to 4 units appear to be accompanied by high eviction rates; over the course of two years, evictions are reported for 48 percent of their units.
- Eviction rates for delinquent rent drop dramatically as ownership size increases – down to 2 percent for owners of 40 or more units.
- Evictions for rent delinquency are highly correlated with evictions for disruptive behavior, that is, the owners that are filing for evictions for rent delinquency are the same as those that are filing evictions for disruptive behavior.
- Fifty percent of owners of 1 to 4 units report that over the course of two years, evictions for disruptive behavior are initiated for 50 percent of their units. This rate drops to 4 percent for owners of 40 or more units. For all owners it is 13 percent.
- Ninety-three percent of owners have never filed a declaration of intent to evict with the Housing Department, and 3 percent of owners account for 60 percent of all declared evictions.
- Evictions for which a declaration of intent to evict is filed are over-concentrated in West Los Angeles (eviction rate 223 percent of the City average), South Valley (eviction rate 175 percent of the City average), and Central Los Angeles (eviction rate 139 percent of the City average).
- Evictions appear to be concentrated in the areas of the City where rents are highest.
- Seventy-seven percent of owners reported that evicting disruptive tenants is difficult or very difficult.

**Tenant Costs**

- Citywide, four-fifths of owners do not pass either the registration or the SCEP program fee to tenants.
- Tenants in 63 percent of RSO units pay additional costs for specific utilities or services.
- Electric and gas utilities are the most frequent additional fees, paid by roughly half of tenants. Fifteen percent pay for use of laundry facilities, 7 percent pay for both trash and water utilities, 4 percent pay for parking, and 3 percent for storage.
- Small owners are much less likely to increase their rents than large property owners – rents are increased annually for tenants at 31 percent of properties with 1 to 4 units, compared to 77 percent who can expect annual increases at properties with 40 or more units.
- The likelihood of annual rent increases also varies by region of the City. Rents are raised annually at 52 percent of RSO properties in the Central region of the City compared to only 31 percent of properties in South Los Angeles, and 29 percent of properties in the North San Fernando Valley.

**Property Maintenance**

- Fifty-seven percent of owners say that all maintenance is handled immediately and preventive maintenance is practiced.
- Two-thirds of RSO units are reported by owners to be maintained at a level that is as good as, or better than, units that are not under rent control, and one-third are reported to have a lower level of maintenance.

**Reasons for Acquiring RSO Property**

- The most frequently stated reasons for acquiring RSO properties are: income from residential rents, retirement security, and as a residence for self or family members.
- Nineteen percent of owners “fell into” the RSO rental housing market by inheriting the property, acquiring their property prior to the enactment of the RSO, or simply because they did not know their property was under rent control when they purchased it.

**Debt on RSO Properties**

- Sixty-five percent of the rent-stabilized housing inventory is encumbered by debt.
- The rate of debt-burdened property increases as property size increases – from a low of 60 percent for properties with 1 to 4 units, to 80 percent for properties with 40 or more units.
- Eighty-five percent of the units with a debt burden were financed between 2000 and early 2008. This is the interval when financing has often created debt burdens that exceed rental income by substantial margins.
- Forty-three percent of units in the RSO inventory have been purchased since 2000, and 55 percent of units have debt incurred since 2000, suggesting that 12 percent of the RSO inventory is burdened by debt that is the result of refinancing rather than purchase.

### Profit and a Reasonable Return on Investment

- Almost two-thirds of RSO units produced a profit or broke even last year, and slightly over a third had a loss.
- The likelihood of reporting a profit increases along with ownership size. Owners of 1 to 4 units are more likely to report a loss than owners of 5 or more units.
- Less than a third of owners answered that their properties that are not under rent control are more profitable than their properties that are rent stabilized.
- Owners representing over 70 percent of the RSO inventory report that they do not get a reasonable return on their investment from RSO properties.
- Owners representing over three quarters of the RSO inventory say that rent increases do not keep up with operating costs.
- The owner at highest risk of having a loss will have 1 to 4 units, will have purchased the property in 2000 or later, will have acquired the property for a personal residence or to supply affordable housing, will postpone maintenance, and will have more than minimal numbers of tenants delinquent in their rent every month.
- Among all owners citywide, a third (32 percent) say they would still acquire their rent-stabilized property, a plurality (41 percent) say they would not acquire the property, and a quarter (27 percent) are unsure.

### Providing Affordable Housing

- Sixty-one percent of owners say that affordable rental housing is somewhat important or very important, demonstrating strong support among these equity holders for meeting housing needs.
- Only 17 percent of owners state that it is somewhat unimportant or not important at all to meet this need.
- Owners express support for a broad range of public sector actions to meet LA's affordable housing needs. The reason for this activist posture heard in a number of focus groups is that many owners believe that a disproportionate share of the citywide responsibility for providing affordable housing is falling on the shoulders of RSO owners.

## IMPACTS OF THE RENT STABILIZATION ORDINANCE ON THE OUTCOMES OF APARTMENT INVESTMENTS

### Rental Units Under the RSO and the Operation of the Rental Housing Market

- The RSO inventory of units can be divided into thirds: a third are on properties with 4 or less units, a third are in properties with 5 to 19 units, and a third are in properties with 20 or more units.
- Building size is largely a function of the period in which a building was constructed – in

earlier eras, small buildings were the mainstay of rental housing.

- Fifty-one percent of RSO tenants moved into their current unit within the past 5 years, 21 percent 5 to 9 years ago, and 23 percent 10 or more years ago.
- Turnover rates have declined since 2000.
- The rate of turnover in buildings with 2 to 9 dwelling units was a little lower than the rate for buildings with 10 or more units.
- Rates of turnover are a little higher in the newer portions of the Los Angeles stock that are not covered by the RSO than in RSO units.
- From 2000 to 2006, rents increased most in the areas that had the lowest rents in 2000.
- Increases in rents since 2000 are mainly attributable to the increases obtained upon vacancies.

**Impacts of the Annual Rent Increase Ceilings**

- In the 1980's and since 1999 (but not from 1990 through 1998), the RSO ceilings on annual rent increases have limited rent increases for sitting tenants to levels below market-rate increases in the LA region.
- The annual percentage rent increase allowed under the RSO exceeded or roughly equaled the percentage increase in national rents during 23 of the past 29 years.
- Over the past eight year period, annual rent increases under the RSO exceeded market rent increases in 15 of 23 metropolitan areas in the U.S.

**Performance of Investments in Multifamily Housing**

- About a quarter of all units in buildings with five or more units have been purchased in 2005 or later. This is very significant because the recent purchasers operate under much larger debt service loads than longer-term owners.
- From 1999 through 2006, apartment sales prices tripled, from an average of $40,701 to $127,484.
- In 2007, apartment values decreased by 4 percent.
- The average annual compounded rate of appreciation (compounded annual growth rate or CAGR) from 1999 to 2006 was 15.4 percent. However, over the longer period from 1990 to 2007, the CAGR was 4.7 percent.
- From 2000 to 2005, even an apartment with a fixed net operating income stream increased substantially in value because the market value of an income stream increased because of the decline in capitalization rates for apartment purchases.
- There are significant differences in the price of apartments based on location, size and age, but that the rate of appreciation from 1999 to 2006 has been similar for all apartments regardless of these distinctions.
- It does not appear that the RSO has had a significant impact on the average rate of appreciation of apartment buildings. The rates of appreciation and increases in values are similar among buildings that are covered by the RSO and buildings not covered by the RSO, and higher in the City than in other comparison communities.

- Based on Assessor's data, RSO properties in the City of Los Angeles had the second highest rate of appreciation out of 40 metropolitan regions. Based on CoStar data, the greater Los Angeles area had a rate of appreciation that was exceeded by only 8 of the 40 metropolitan regions in the U.S.
- Apartment values are highly dependent on capitalization rates. If capitalization rates increase by a few percent, a substantial portion of apartment owners could be left with sharply reduced or even negative equities in their buildings that could not be solved by City policies or the market.
- The rate of return on apartment investments is linked to when the investment was made. Owners who purchased prior to about 2003, paid prices for their apartments that are low relative to the market value of their units in early 2008, when sales data was analyzed, and are likely to be low relative to current net operating income levels. These owners have substantial cash flows, unless they have obtained larger mortgages and, thereby, reduced their cash investment. On the other hand, recent purchasers are in a radically different position. A substantial portion of these owners have incurred mortgage obligations that leave little space for cash flow or increases in investments in maintaining and renewing their properties, making them vulnerability to minor fluctuations in expenses or rental income.

## COMPARISON OF LOS ANGELES RENT STABILIZATION ORDINANCE WITH ORDINANCES IN OTHER CALIFORNIA CITIES

### Brief Perspective on Rent Regulations in California

- Currently, 10 jurisdictions in California have apartment rent stabilization ordinances - Berkeley, Beverly Hills, East Palo Alto, Hayward, Los Angeles, Oakland, San Francisco, San Jose, Santa Monica, and West Hollywood.
- The California Legislature passed the Costa-Hawkins Rental Housing Act in July 1995, which provides for vacancy decontrols on rents subject to local rent control ordinances.

### Comparison of Annual Rent Increase Standards

- Currently, most of the municipal rent control ordinances in California tie allowable annual rent increases to the percentage increase in the Consumer Price Index (CPI).
- Questions have been raised about whether the CPI should be used to determine allowable annual rent increases on the basis that it is based on the market basket of goods purchased by an average household, which differs substantially from the basket of expenses associated with operating apartment buildings.
- Under some rent control ordinances, annual apartment operating cost studies have been used to determine allowable annual rent increases, instead of the CPI. However, the outcome of these studies are largely determined by the CPI, because estimates of increases in a substantial portion of apartment operating expenses are based on the CPI, because actual data is unavailable.

- Annual rent increases in cities that authorize a *fixed* percentage annual increase (San Jose, Hayward, and Beverly Hills) have exceeded allowable annual increases under the RSO.

**Allowable Rent Increases For Apartment Owners Who Pay For Master Metered Gas And/Or Electricity**

- Under the Los Angeles ordinances, apartment owners who provide master-metered gas and/or electricity are permitted additional annual rent increases of one percent for each of these services that are master-metered.
- In fact, there is no connection between the annual master-metered increase authorized by the Los Angeles RSO and the actual cost increases associated with the provision of master-metered gas and electricity.
- Some of the other jurisdictions with rent control provide apartment owners with additional allowances for master-metered gas and electricity, but link these additional rent increases to an estimate of the average increase in the cost of those utilities or provide for passthroughs of cost increases based on individual building applications.

**Comment on Proposals for Lowering the Annual Allowable Increase for Seniors and/or Disabled Persons on Fixed Income**

- There are no provisions in any California rent control law that provide for lower annual rent increases for low-income households, senior or disabled renters.
- Judicial precedent in regard to the constitutionality of rent control provisions that place greater limits on the allowable rent increases of protected classes of tenants has been mixed.
- Rent control provisions that provide for low rent increases for protected classes of tenants (low income, seniors and the disabled) may result in discrimination against these classes in the selection of tenants by apartment owners.

**"Banking" Rent Increases**

- Under most rent stabilization ordinances, but not the Los Angeles RSO, apartment owners may "bank" allowable annual rent increases if they are not implemented in the year in which they are permitted.
- Some jurisdictions limit the amount of banked rent increases that can be implemented in a single year and/or place a ceiling on the total amount of increases that can be banked so that tenants who have benefitted from banked increases are not suddenly faced with steep rent increases.

**Rent Stabilization Programs - Administration Fees**

- Registration fees vary greatly among the different California cities with rent control laws. Higher fees are in effect in cities that once had vacancy controls (pre-Costa-Hawkins) and still require annual registration of rents and reporting of rents for new tenants.

## HOUSING MARKET DYNAMICS, DEVELOPMENT FINANCING, AND GROWTH TRENDS

### Production Trends for Market-Rate and Affordable Housing Projects

- In the past 5 years, about 23,000 new apartment units have been completed in Los Angeles County, an average of 4,500 apartment units completed per year. The bulk of these units have been produced in Downtown, West Los Angeles, and the San Fernando Valley.
- Housing production in Los Angeles through 2006 was strong; permits were issued for over 4,300 large structures totaling over 100,000 units.
- Due in part to slow production in the 1990s, production of both market rate and affordable housing in the city has not kept pace with the needs associated with the City and region's growing population.
- While the housing market has cooled considerably and now stands far below its historic highs, ownership housing is still far from affordable.
- This lack of affordable ownership product has placed additional upward pressure on rental properties by keeping demand for rental properties strong.

### The Dynamics of Production of Market Rate and Affordable Housing

- The high cost of land in Los Angeles, coupled with basic costs of construction labor and materials, add up to a cost structure such that market-rate rents will greatly exceed a rent level that would be affordable for many families.
- For apartments, capitalization rates have fallen from more than 8.5 percent in 2001 to close to 6 percent in 2006, and have remained near this level until relatively recently.
- Many owners who have assumed mortgages for rental properties during this decade have found that the debt service associated with their property has consumed a larger share of their cash flows than was the case for properties purchased in the preceding decade.
- Los Angeles' housing market surge has altered landowner expectations, resulting in an escalation of prices for land and parcels in previously lower-cost areas that would ordinarily be most conducive for the production of affordable housing on a cost basis.
- Since 2002, new housing building and construction costs have risen by about 23 and 27 percent, respectively, far outpacing the 16 percent rate of inflation in the economy during this time.

### Development Financing

- The market for construction finance is an important determinant of the ultimate costs that a housing developer faces.
- Financing terms that result in lower financing costs might make it possible to achieve affordable minimum rents even in the face of rising construction costs. LA City policy makers can help create more attractive financing options that would reduce the costs of construction.
- During Los Angeles' last housing boom, institutional investors (hedge funds, opportunity funds, and private equity funds) became important players in construction finance,

serving as equity partners on some deals and offering favorable interest rates compared to those offered by commercial banks.

- Institutional investors have largely exited the market for construction finance during the current credit crunch, causing underwriting standards to tighten as commercial banks are left as the primary and dominant construction lender for multifamily projects.
- Tighter underwriting has reduced the pool of creditworthy borrowers, meaning there are fewer developers that will be deemed sufficiently creditworthy to warrant the extension of a construction loan. (The higher standards for creditworthiness are also affecting rental property owners seeking to carry out major renovations or expansions that lead to greater density.)
- Consistent with market rate projects, affordable housing projects faced more expensive construction and permanent debt, with prices rising about one-half of a percentage point in the second half of 2008.
- Financing for affordable housing typically involves the public sector, where subsidies are used to fill the gap between rents set at levels that are affordable for lower-income households and the projects' debt service payment obligations for land purchase and construction property management.
- The recent economic slowdown and credit crunch have had major adverse effects on the public subsidies for development financing, such as the Federal Low-Income Housing Tax Credit (LIHTC) program.
- In California, the adverse trends in finance have outweighed the decline in construction and building costs associated with the weakening housing market. Given that most affordable housing projects are difficult to pencil in the most bullish of market conditions, the rising interest rates coupled with the loss of significant low-cost equity capital is likely to seriously hinder the pace at which these projects are built.

**Policy Options for Producing Market-Rate and Affordable Housing**

- *Inclusionary Zoning* – Include housing that residents can afford as part of market rate development. Couple inclusionary zoning with cost offsets such as permit streamlining, density bonuses, parking requirement relief and others to achieve revenue neutral, or near-revenue-neutral, outcomes for developers while adding affordable units.
- *Housing Choice Vouchers* - Use housing choice vouchers (commonly referred to as Section 8 vouchers) to increase the revenues generated by affordable rental projects.
- *Regulatory Relief* - Streamline entitlement or approval processes to reduce the burden of carrying costs for affordable housing projects that are on the margin of profitability.
- *Creative use of "Non-traditional" Land* - Identify "non-traditional" land that has the capacity to be developed into housing. Areas to consider include: a) parking lots, b) blighted properties and c) obsolete industrial land that will not result in the loss of sustainable jobs.
- *Inventory of Developable Parcels* - Create a database of and provide information about parcels that the City is most interested in seeing developed. Use this inventory to focus development interest and identify those communities in which the City will actively support development.

- *Expedite Recycling of Blighted Property* - Streamline the condemnation and eminent domain processes for blighted properties to provide incentives for current landowners to either sell their property or clean and redevelop the property in a timely fashion. In some instances, this can produce new multifamily units (either market rate or affordable); in others, it will enhance the community's character and make it more conducive to housing and other investment.
- *Protect Affordable Units* - Direct public funds to either purchase affordable units with covenants on the brink of expiration or incentivize the owners of these units to continue to provide their units at affordable rent levels.
- *Affordable Housing Land Bank* - Develop an affordable housing land bank that is controlled by either the City or a non-profit whose mission is to provide and preserve affordable housing.
- *Internal Cross-Subsidy* - Promote the development of projects where the subsidy originates from internal cash flows, namely mixed-income and mixed-use projects.
- *Development Fees* - Establish development fees for residential, commercial and industrial construction projects that increase the demand for affordable housing. New development should be partially accountable for the affordable housing needs that are created.
- *Link Property Owners with Affordable Housing Developers* – 1,363 RSO owners reported in the survey that they are definitely interested or might be interested in redeveloping their properties at higher densities with affordable or rent-controlled housing included in the new development. Contact these owners to secure their permission to release their names to affordable housing developers so as to identify a large inventory of sites for potential use by the affordable development community.

Chapter 1

# Renters and Rental Housing in the City of Los Angeles

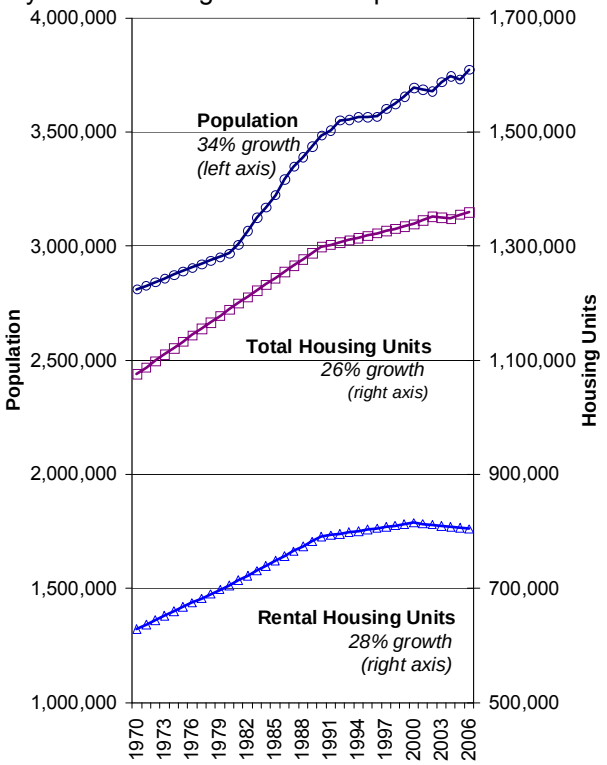
*A Profile of the Rental Market Drawn from Existing Data*

An extensive body of existing federal and local data is analyzed in this chapter to provide a broad profile of Los Angeles' rental housing market. This information is presented in seven sections:

1. *Major trends in LA's rental housing market* – population and housing growth and the price index for rental housing.
2. *Inventory and characteristics of LA's rental housing stock* – growth trends in different areas of the City, construction trends since 1900, the share of rent stabilized properties that have been purchased since the Rent Stabilization Ordinance (RSO) was enacted, and the cumulative impacts of construction, conversions and demolitions.
3. *Characteristics of renters* – the population in rental housing, ethnicity, nativity, and vulnerable renters.
4. *Occupancy outcomes for renters* – vacancy rates, match of household size to rental unit size, and overcrowding.
5. *Rent* – renter incomes, rent burden, and RSO rent savings.
6. *Rental conditions* – inspection results, conversions and demolitions, and substandard housing.
7. *Summary* – key findings from this chapter.

Figure 1-1

City of LA Housing Units and Population 1970-2006




*Sources: U.S. Census Bureau, American Community Survey, Economic Roundtable*

## MAJOR TRENDS IN LA'S RENTAL HOUSING MARKET

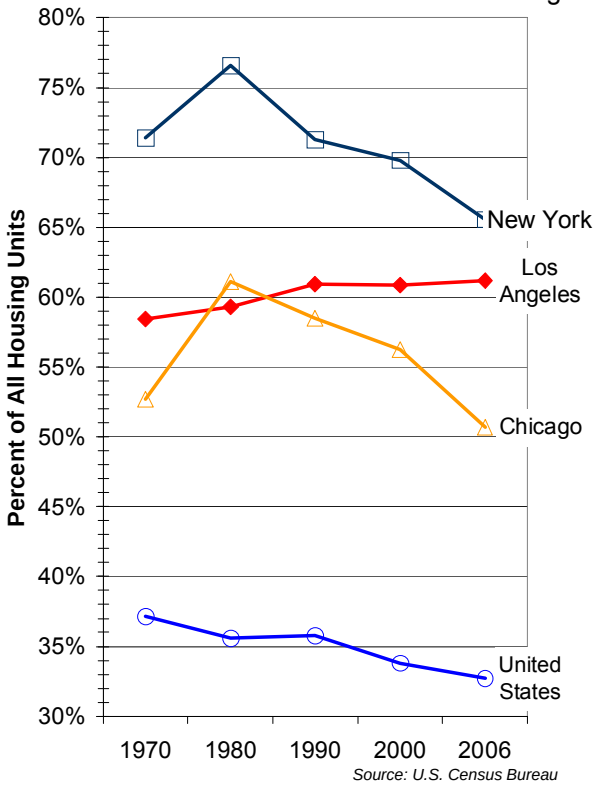
### Population and Housing Growth

Over the past 36 years, LA's population has grown 34 percent but its housing inventory has grown only 26 percent (Figure 1-1), [1] leading to a scarcity of housing for many households, particularly lower-income renters. The most favorable ratio of housing units to residents was in 1980, with one housing unit for every 2.5 residents. In 2006, this ratio stood at one unit for every 2.8 residents.

**Much of the current housing scarcity emerged in the 1980s, a decade when LA's population grew 17 percent but its housing inventory grew only 9 percent – about half**

**of the population growth rate. In the following decade, population growth slowed but the margin of disparity between new residents and new housing remained the same.** From 1990 to 2000, LA's population grew 6 percent and its housing inventory grew 3 percent.[2] In the most recent interval, from 2000 to 2006, the housing inventory has grown at nearly the same rate as the population – 2 percent.

Figure 1-2
Rental Units as Share of LA and US Housing

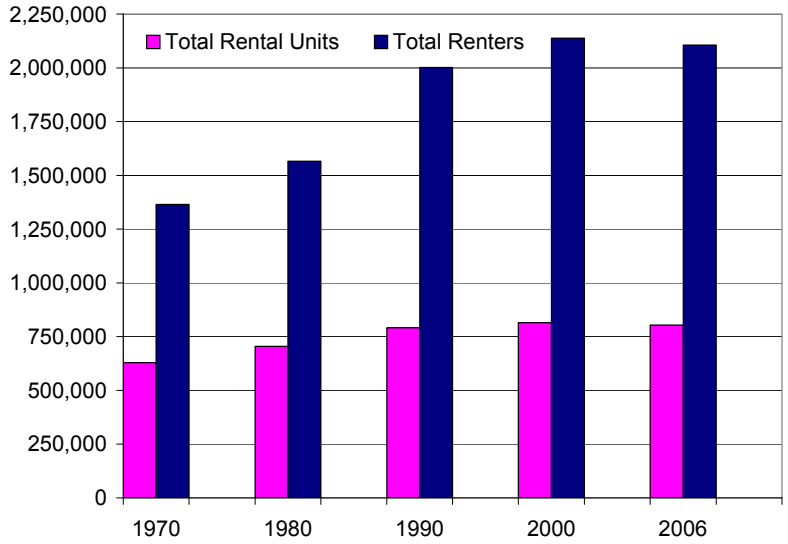



*Source: U.S. Census Bureau*

## A City of Renters

**Los Angeles residents rent their homes at about double the national rate**; a rate that is comparable to other cities such as Chicago and New York that make up the urban core of major metropolitan areas (Figure 1-2).[3] But looking at the change from 1980 to 2006, the rate of home renting has declined nationally from 36 to 33 percent, in New York it declined from 77 to 66 percent, in Chicago it declined from 61 to 51 percent, while the share of Los Angeles residents that rent their homes grew from 59 to 61 percent. **The shift toward greater home ownership seen in New York and Chicago may also be seen in Los Angeles in the coming decade as immigrants who arrived in the 1990s continue to make economic gains and are increasingly able to buy homes.**

Figure 1-3
Total Rental Units and Renters
*City of Los Angeles 1970-2006*



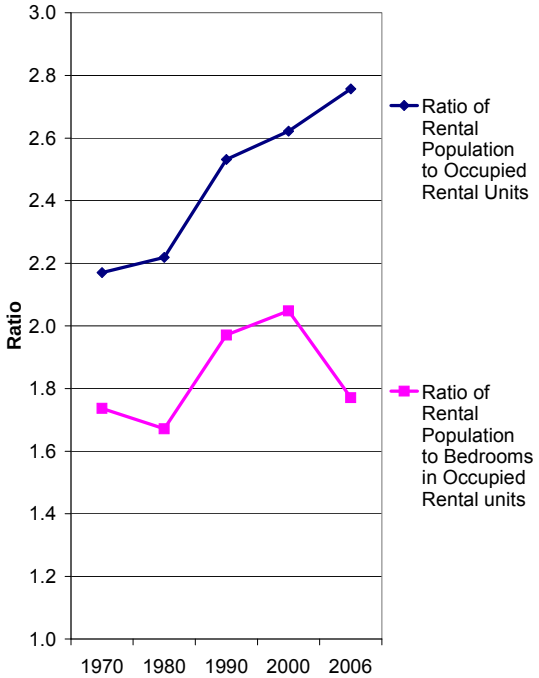

*Source: U.S. Census Bureau; rental inventory includes vacant units*

## Recent Decline in Rentals

There appears to have been a small decline in the number of both renters and rental units in Los Angeles between 2000 and 2006, probably reflecting the purchase of homes by some renters during this period of easily accessible home mortgages as well as the conversion of some rental units to owner-occupied

units (Figure 1-3).[4] The renter population and the number of rental units both declined by 1.4 percent.[5] This appears to have reversed a three-decade long trend from 1970 to 2000, in which the number of rental units grew 30 percent and the number of renters grew 57 percent.

Figure 1-4
Ratio of Renters to Rental Units and Bedrooms
*City of Los Angeles, 1970-2006*




*Source: U.S. Census Bureau*

## Recent Decline in Overcrowding

Overcrowding is the direct consequence of a rate of population growth that has been almost double the rate of growth in the rental housing inventory. In 1970, there were 2.2 renters for every rental unit. By 2006, there were 2.8 renters for every unit (Figure 1-4).[6] However, when we look at the ratio of renters to bedrooms we see an improvement since 2000. The inventory of bedrooms in rental units grew from 1,043,767 in 2000 to 1,189,827 in 2006. This 1.4 percent increase in the number of bedrooms was the result of both more rental units and larger units coming to market during this period.[7] This growth in the inventory of bedrooms reduced the ratio of renters to bedrooms from 2.05 in 2000 to 1.77 in 2006. A ratio of two occupants per bedroom is a threshold measure for overcrowding, with more than two people per bedroom indicating overcrowding. This is equivalent to the more widely used standard that more than 1.5 people per room indicates overcrowded living conditions.[8]

Looking at the macro-level ratio of bedrooms to residents and not the actual matching of housing units with residents through the marketplace, the City went from average rental conditions of overcrowding in 2000 to overall acceptable renter densities in 2006. As we discuss later, severe overcrowding remains wide spread among lower-income renters and in some geographic areas of the City, but **this overall reduction in overcrowding is very good news.**

## Rent Burden

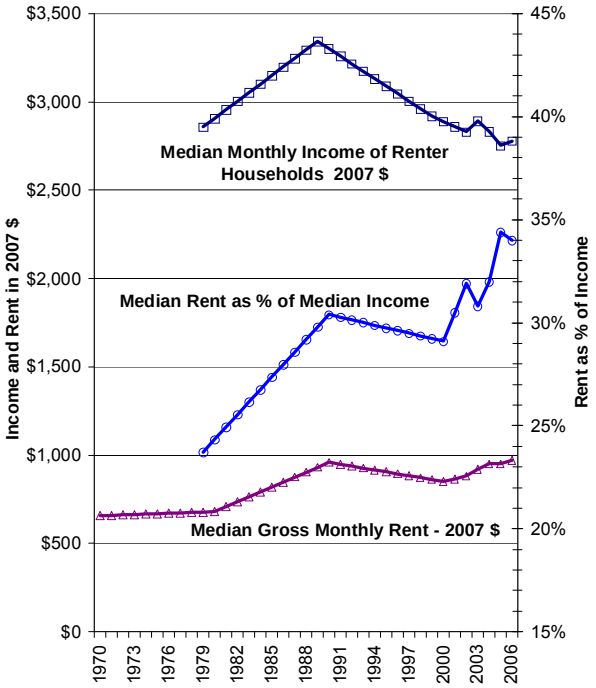
Since 2005, Los Angeles renters have paid a larger share of household income for rent than at any time in the past 28 years (Figure 1-5).[9] One reason for this is that rents have increased since 2000. Measured in constant dollars, the median 2006 rent had returned to the same level it was at in 1990 ($960 in 1990, $970 in 2006, adjusted to 2007 dollars). Another reason is that household incomes declined from 1989 through 2002, with evidence of possible income growth hinted at in 2003 and 2006.

The Census Bureau data shown in Figure 1-5 indicates that since 2002, **the median LA renter has been precariously housed, paying over 30 percent of household income for rent.** This is also true in Chicago and New York, but the problem is not as severe in those two cities as

it is in Los Angeles. LA's typical renter household pays a larger share of its income for rent than households in Chicago, New York, or the United States. Census Bureau data for 2006[10] shows that median gross rent as a percentage of household income was:

- City of Los Angeles 34.0%
- Chicago City 32.0%
- New York City 30.5%
- United States 29.9%

Figure 1-5
Income and Rent of Renter Households
*City of Los Angeles, 1970-2006, 2007 Dollars*

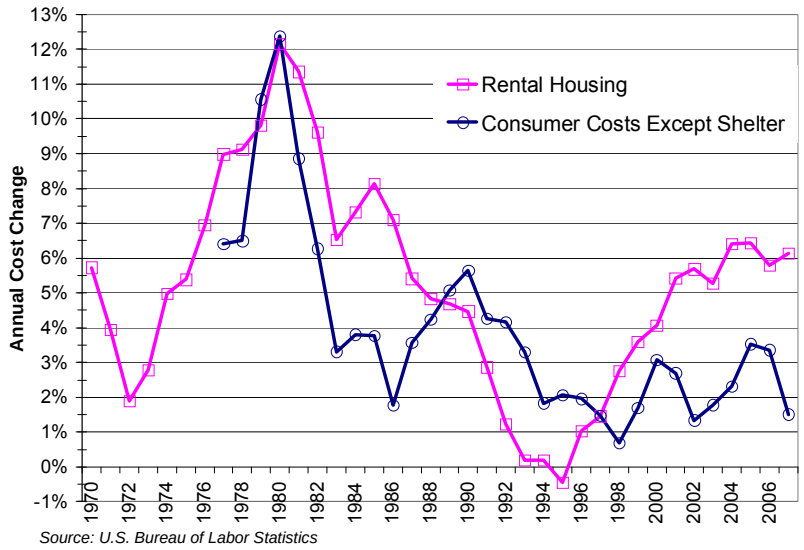



*Sources: U.S. Census Bureau, American Community Survey, Economic Roundtable*

## Escalating Rent

**Since 1997, the increase in rents in the Los Angeles region has been much greater than the increase in other consumer costs** (Figure 1-6).[11] From 1997 to 2007, the price index for rental housing has increased 65 percent while the index for all other consumer costs increased by only 24 percent. Price increases for rental housing have slightly outpaced increases for owner-occupied housing (65 percent versus 56 percent), but have been nearly three times greater than increases in all other consumer costs.[12]

Figure 1-6
Annual Rent Increases for Rental Housing in the Los Angeles Region
*Consumer Price Index - All Urban Consumers, Los Angeles CMSA 1970-2007*



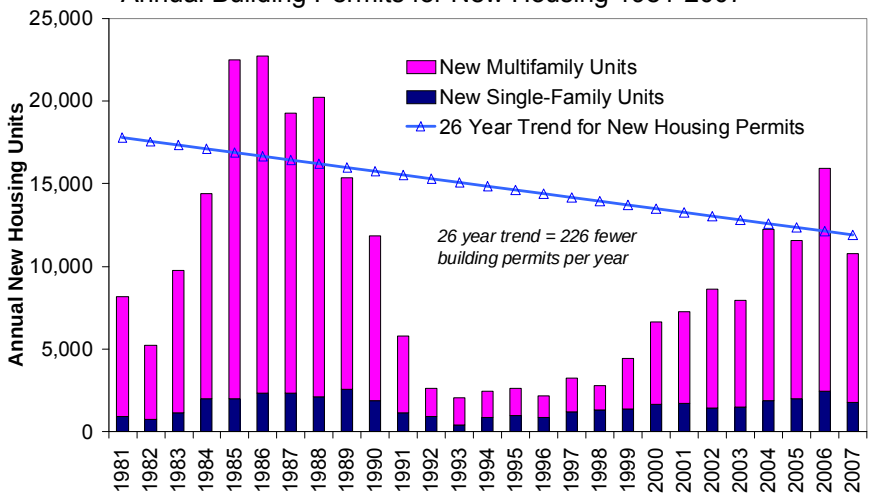

*Source: U.S. Bureau of Labor Statistics*

## Insufficient New Construction

Another important problem is that **construction of new housing has not kept pace with population growth**. There has been substantial fluctuation in housing production levels, with a strong recent growth cycle ending in 2007. But the long-term trend is that annual building permits for new housing declined by 226 units a year from 1981 to 2007 (Figure 1-7).[13]

During this interval of 1981 through 2007 for which we have building permit data, permits were issued for 41,558 new single-family units and 216,992 new multi-family units. Thus, 84 percent of all permits for residential building issued since 1981 have been for rental units.[14]

Figure 1-7
Annual Building Permits for New Housing 1981-2007




*Source: Construction Industry Research Board, Economic Roundtable*

## Summary

This broad overview of housing conditions in Los Angeles draws largely on census data to describe the middle, or median, household. We know that other data sources tell this story with differing nuances and that each community and population group has a distinct story. In the remainder of this chapter we draw on a broad range of data resources to: analyze trends, size and composition of the City's housing stock, profile the characteristics of renters, and describe outcomes in the City's rental housing market. Highlights presented in this overview that are explored in greater depth in following sections include:

- *Over the past 36 years, LA's population has grown 34 percent but its housing inventory 26 percent, leading to a scarcity of housing for many households. Much of this housing scarcity resulted from the decade of the 1980s, when there was rapid population growth accompanied by inadequate housing production.*
- *The share of Los Angeles residents that rent their homes is double the national rate.*
- *The City's inventory of rental bedrooms grew 1.4 percent from 2000 to 2006; this modest growth together with modest growth in renter income and the success of some renters in becoming homeowners in this interval of accessible mortgages had the net effect of significantly reducing the amount of overcrowding.*
- *Since 2005, Los Angeles renters have paid a larger share of household income for rent than at any time in the past 28 years. Price increases since 1997 for rental housing in the Los Angeles have been 270 percent greater than increases in all other consumer costs.*
- *The long-term trend is that annual building permits for new housing declined by 226 units a year between 1981 and 2007.*
- *Eighty-four percent of all building permits issued by the City of Los Angeles since 1981 have been for rental units.*

## INVENTORY AND CHARACTERISTICS OF LA'S RENTAL HOUSING STOCK

### LA's Rental Housing Inventory

Los Angeles has 764,197 renter-occupied housing units. This is roughly 60 percent of the City's occupied housing (Table 1-1). Another 18,500 rental units are vacant,[15] combining for a total rental inventory of 783,157 units.

Table 1-1
Number of Occupied Housing Units, Renter- and Owner-Occupied, City of Los Angeles 2006

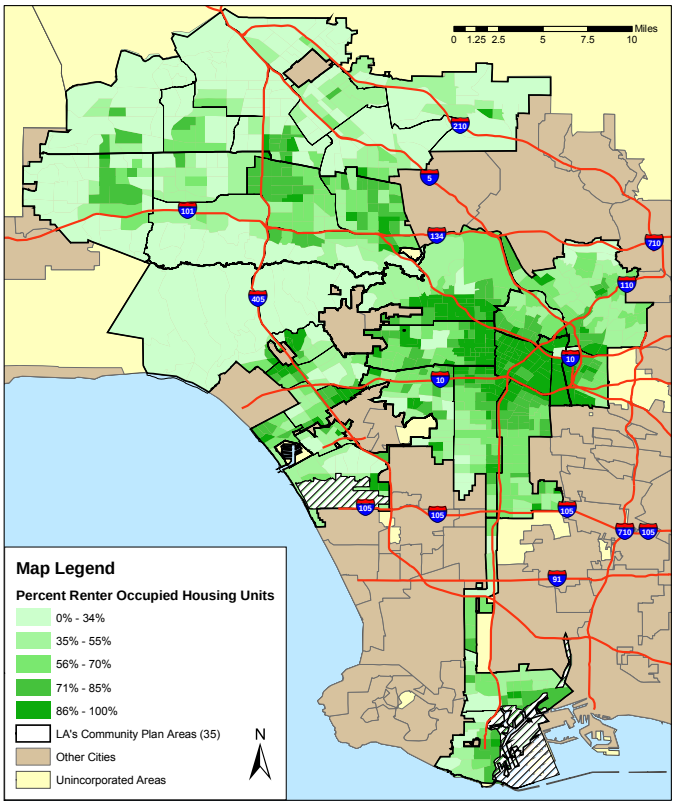
| Tenure | Estimated Number of Units | Percent |
|---|---|---|
| All Households | 1,274,167 | 100% |
| Owner occupied | 509,970 | 40% |
| Renter occupied | 764,197 | 60% |

*Source: U.S. Census Bureau, 2006 American Community Survey, Public Use Microdata Sample. (Universe: Total Occupied Housing Units)*

Los Angeles' construction of new housing units has not kept up with its population growth. This gap worsened during the decade of the 1980s when there was a 28 percent growth in LA's renter population (Table 1-2). For the City as a whole, the ratio of renters to occupied rental housing units has risen each decade for the last thirty years until 2000.

The geographic distribution of LA's renter occupied housing is uneven across its 7 Area Planning Commission (APC) regions and 35 Community Plan Areas (CPAs). *Central Los Angeles* APC has by far the greatest number of renter occupied units, 221,012, followed by the *South San Fernando Valley* and *South Los Angeles* regions (Table 1-3). These three regions account for two-thirds of the City's overall renter-occupied housing stock. Reference maps showing the 7 APCs and 35 CPAs are provided in the endnotes.[16]

Figure 1-8
Renter Occupied Housing Units as a Percent of All Occupied Housing Units
City of Los Angeles, 2000




*Source: US Census Bureau, 2000. Census of Population and Housing, Summary File 3. H36. Tenure by Year Structure Built. Universe: Occupied Housing Units.*

At the neighborhood level, the geography of the City's renter occupied housing units is even more varied, with pockets of rental housing scattered across almost all of the 35 CPAs (Figure 1-8). Renter-occupied housing units make up most of the city's housing stock in several areas of the city. High renter areas in the *Central* and *East LA regions* include *Westlake, Pico-Union, Wilshire/Koreatown, Hollywood, Chinatown, Lincoln Heights, Boyle Heights and Downtown.* In the *South LA region*, the *University Park* and *Jefferson Park* areas have the highest

percent of renter occupied housing. In the *San Fernando Valley region, North Hollywood, Van Nuys, Panorama City* and *Canoga Park* have the highest percent of renter housing. In the *West LA region*, the *Palms, Westwood, Venice*, and *Sawtelle* areas are highest. In the *Harbor region, San Pedro, Wilmington*, and *Harbor Gateway* each have pockets of concentrated renter housing.

Table 1-2
Change in Rental Units and Renter Population
City of Los Angeles 1970-2000

| Census Year | Rental Units | Percent Growth | Renter Population | Percent Growth | Renters per Unit |
|---|---|---|---|---|---|
| 1970 | 628,843 | - | 1,364,744 | - | 2.17 |
| 1980 | 705,445 | 12% | 1,565,402 | 15% | 2.22 |
| 1990 | 790,894 | 12% | 2,002,001 | 28% | 2.53 |
| 2000 | 815,029 | 3% | 2,137,229 | 7% | 2.62 |

*Source: CensusCD Neighborhood Change Database (NCDB) 1970-2000 US Census Tract Data (Long Form Release 1.0), GeoLytics, Inc., East Brunswick, NJ, 2003,*

Table 1-3
Number of Occupied Housing Units, Renter- and Owner-Occupied, City of Los Angeles 2006

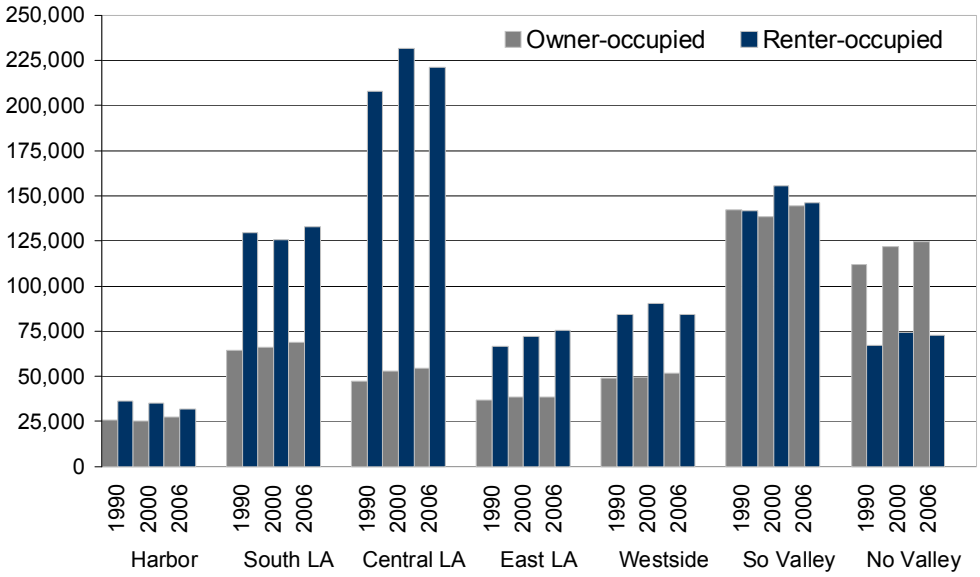
| Area Planning Commission | Renter Occupied | | Owner-Occupied | |
|---|---|---|---|---|
| | Units | Percent | Units | Percent |
| Harbor Area | 31,889 | 54 | 27,436 | 46 |
| South LA | 132,878 | 66 | 68,658 | 34 |
| Central LA | 221,012 | 80 | 54,723 | 20 |
| East LA | 75,421 | 66 | 38,534 | 34 |
| Westside | 84,401 | 62 | 51,782 | 38 |
| South Valley | 145,974 | 50 | 144,153 | 50 |
| North Valley | 72,622 | 37 | 124,684 | 63 |
| Total - City of LA | 764,197 | 60 | 509,970 | 40 |

*Source: U.S. Census Bureau, 2006 American Community Survey, Public Use Microdata Sample. (Universe: Total Occupied Housing Units)*

The City's supply of renter and owner-occupied housing units is shifting in different ways in different areas, as shown by the map in Figure 1-9.[17] The *Central Los Angeles* APC has by far the greatest concentration of renter occupied housing units and the sparsest share of owner-occupied housing. The *South Los Angeles* and *South San Fernando Valley* regions have the next highest concentrations of renter housing, although the latter is noteworthy for having almost equal amounts of renter and owner occupied housing until 1990. The *North San Fernando Valley* and *West LA* regions stand out as the only regions of LA where owner-occupied units significantly outnumber renter-occupied housing.

The number of renter occupied housing units declined slightly in the *Harbor, Central* and *West Los Angeles*, and the *San Fernando Valley* between 2000 and 2006.

Figure 1-9
Owner- and Renter-Occupied Housing Units
by Area Planning Commission in 1990, 2000 and 2006



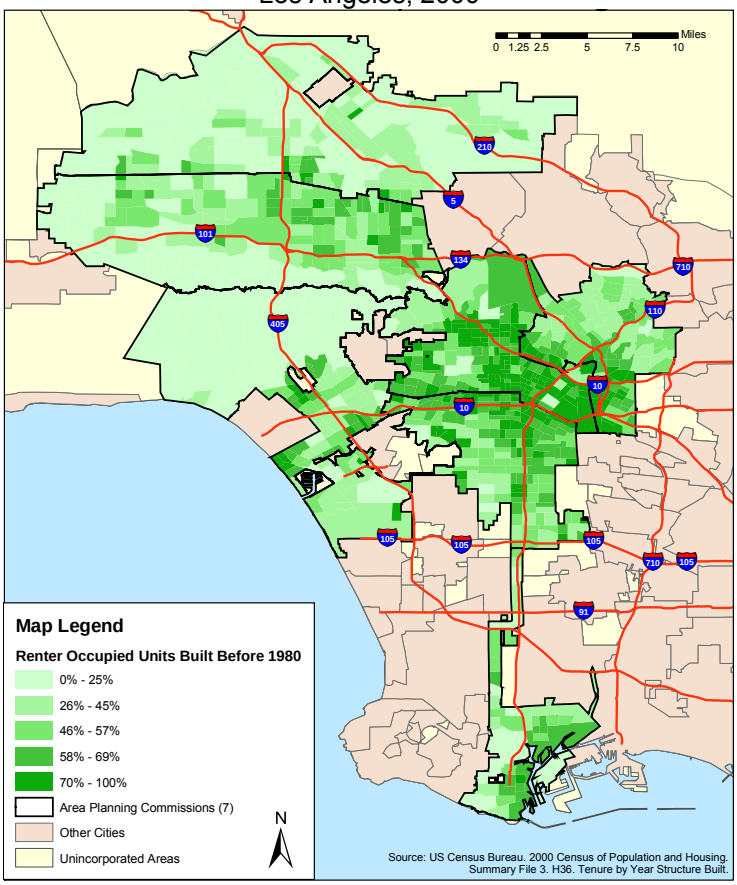

*Source: U.S. Census Bureau, 1990 and 2000. Census of Population and Housing, Public Use Microdata Sample, 5 Percent. U.S. Census Bureau, 2006. American Community Survey. (Universe: Total Occupied Housing Units.)*

## Rental Housing Covered by the Rent Stabilization Ordinance

The Rent Stabilization Ordinance (RSO) covers 118,254 rental properties with 638,051 housing units. The RSO regulates properties within the City if there are two or more rental units on the lot and the certificate of occupancy was issued on or before October 1, 1978.[18] The U.S. Census identifies housing that was built before or after 1980, so this break point is used as a rough indicator of units built before the RSO took effect. In Figure 1-10, we show the neighborhood concentrations of these older (pre-1980) units that make up the housing inventory regulated by the RSO. This map closely resembles the map of all rental housing shown earlier in Figure 1-8, because most rental units were built before the Rent Stabilization Ordinance was adopted.

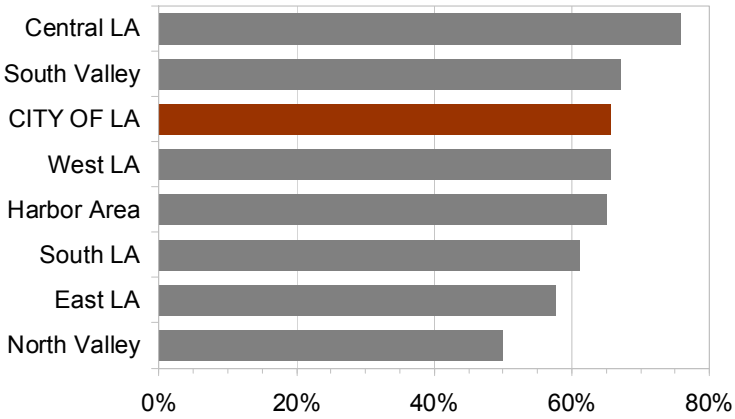
Citywide, pre-1980 rental housing accounts for 66 percent of all rental housing (Figure 1-11).[19] The area of the City where the largest portion of rental housing was built before 1980 is *Central LA*, 76 percent. The *South Valley* (67 percent), *West LA* (65 percent) and *Harbor* (65 percent) areas are similar to the City as a whole. The *North Valley* stands out as having the smallest portion of its rental housing built before 1980 - only half of the rental stock.

Figure 1-10
Renter-Occupied Housing Units Built Before 1980 and Covered by the RSO as a Percent of all Occupied Housing Units, City of Los Angeles, 2000




*Source: US Census Bureau, 2000. Census of Population and Housing, Summary File 3. H36. Tenure by Year Structure Built. Universe: Occupied Housing Units.*

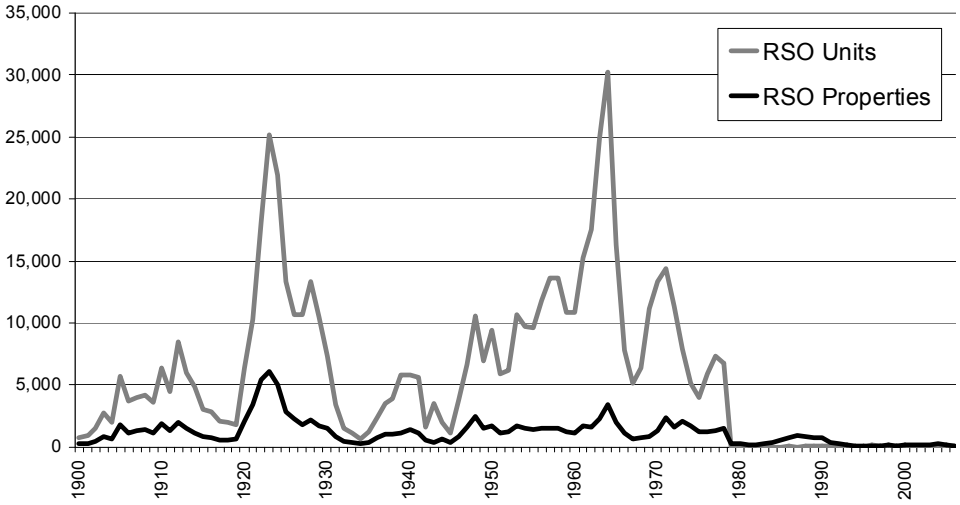
Figure 1-11
Renter-Occupied Housing Units Built Before 1980 as a Percent of all Renter-Occupied Housing Units, City of Los Angeles 2006




*Source: U.S. Census Bureau, 2006. American Community Survey. (Universe: Total Renter Occupied Housing Units.)*

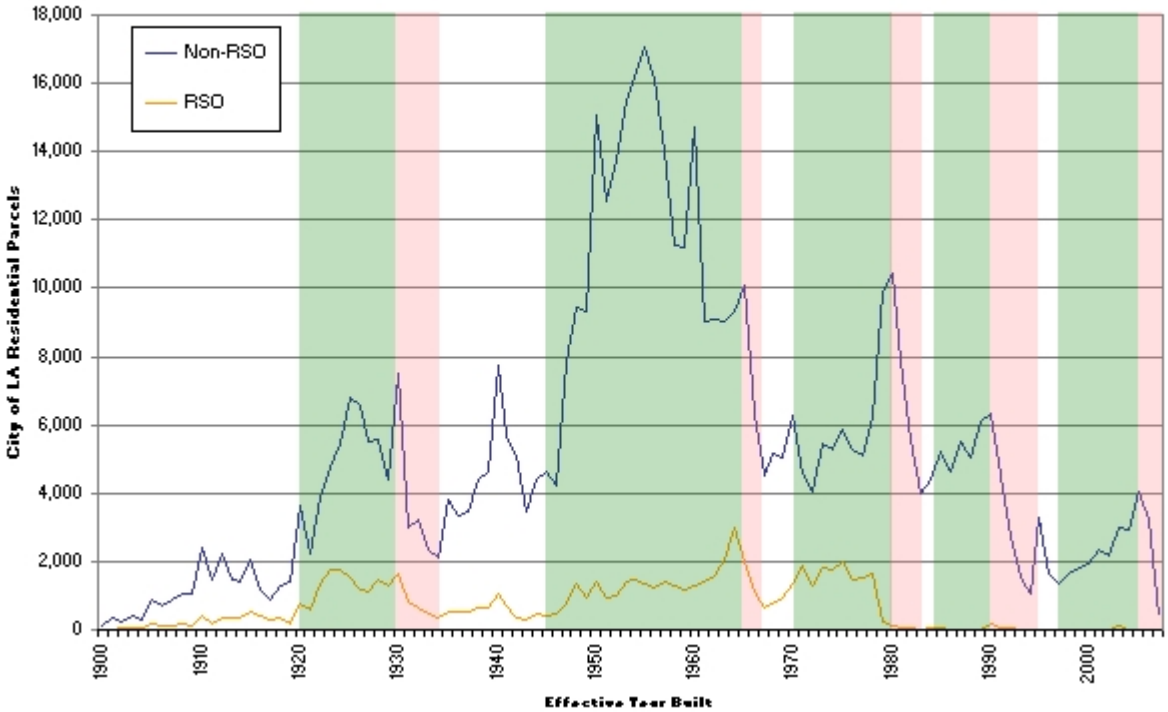
When were RSO-regulated units and properties added to Los Angeles' current rental housing inventory? **Two historical periods of housing construction stand out: the early growth period of the 1920s and the prolonged expansion following World War II** (Figure 1-12).[20] By definition, RSO-regulated units and properties stopped being added by the end of 1978 because newer housing structures are exempt. However, properties with two units were added to the RSO inventory in 1995; prior to then the RSO applied only to properties with three or more units.

Figure 1-12
Los Angeles' Current Inventory of RSO Units and Properties by Year Built




*Source: City of Los Angeles Housing Department: General RSO Property Data for Each Property with 2 or More Units. (Data is combined from LAHD, Public Works/Bureau of Engineering, County Assessor)*

Figure 1-13
Los Angeles' Current Inventory of Residential Properties by Year Built and RSO Status




*Source: LA County Assessor's Office, Local Roll, combined with LA City Housing Department: General RSO Property Data for Each Property with 2 or More Units.*

How does the age of Los Angeles' RSO-regulated housing compare with that of the overall housing stock? The City's current housing inventory – RSO-regulated and otherwise – was built-up during several periods of growth (Figure 1-13; Table 1-4). The earlier housing stock growth periods coincided with Los Angeles' early population growth (1920-1933), the post World War II expansion (1945-1954), the Baby Boom / Korean War era (1955-1965) and the real estate boom of the seventies (1970-1979). The addition of *units* to the current inventory RSO-regulated housing roughly followed those overall housing stock, until 1978, when a series of slowdowns in housing production occurred, coinciding with the 1978-1983 oil price shocks and national recession, the early 1990s recession and regional aerospace industry collapse, and the onset of the national subprime mortgage crisis in 2006.

Table 1-4
Peak Periods for Construction of RSO-Regulated Housing
*Periods with less construction activity not shown*

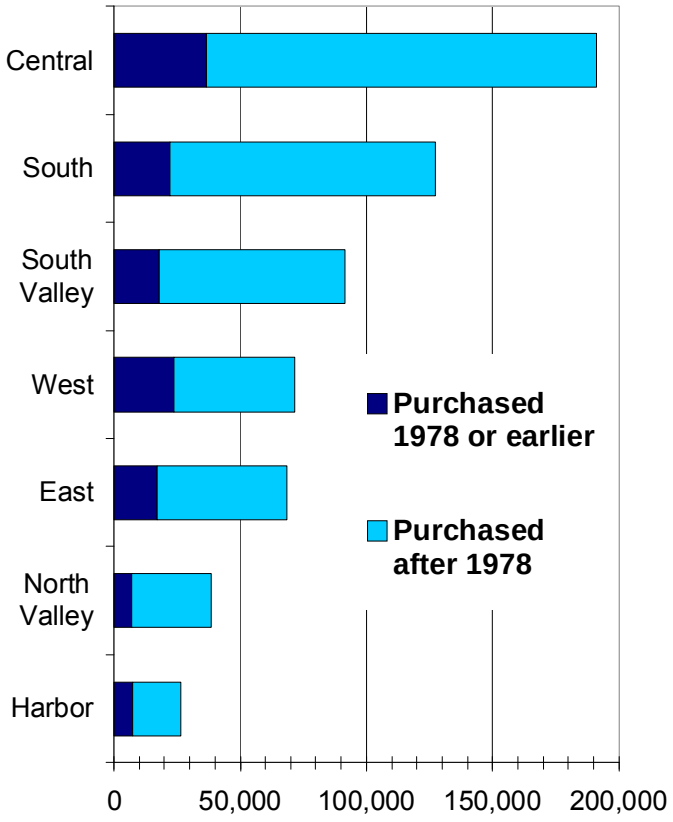
| Year | RSO Units | | RSO Properties | | Non-RSO Residential Properties | |
|---|---|---|---|---|---|---|
| | *Number* | *Percent* | *Number* | *Percent* | *Number* | *Percent* |
| 1920-1933 | 87,231 | 14% | 16,876 | 14% | 64,866 | 11% |
| 1945-1954 | 54,994 | 9% | 10,489 | 9% | 108,597 | 18% |
| 1955-1965 | 163,136 | 26% | 17,971 | 15% | 130,896 | 22% |
| 1970-1979 | 75,986 | 12% | 14,939 | 13% | 58,018 | 10% |
| **ALL YEARS** | **638,051** | **100%** | **118,254** | **100%** | **591,154** | **100%** |

*Source: City of Los Angeles Housing Department: General RSO Property Data for Each Property with 2 or More Units. (Data is combined from LAHD, Public Works/Bureau of Engineering, County Assessor)*

## Share of RSO Properties Purchased after Rent Stabilization was Enacted

**Seventy-nine percent of the RSO-regulated inventory of rental housing units was purchased by the current owners after the RSO ordinance went into effect.**[21] This indicates that four-fifths of owners have knowingly chosen to invest in properties subject to rent stabilization regulations. The share of RSO properties that have been purchased after enactment of rent stabilization varies across the City's APC's, from a high of 83 percent of in *South LA* to a low of 67 percent in *West LA* (Figure 1-14).[22]

Figure 1-14
RSO Units by APC and by Share Bought after Rent Stabilization was Enacted



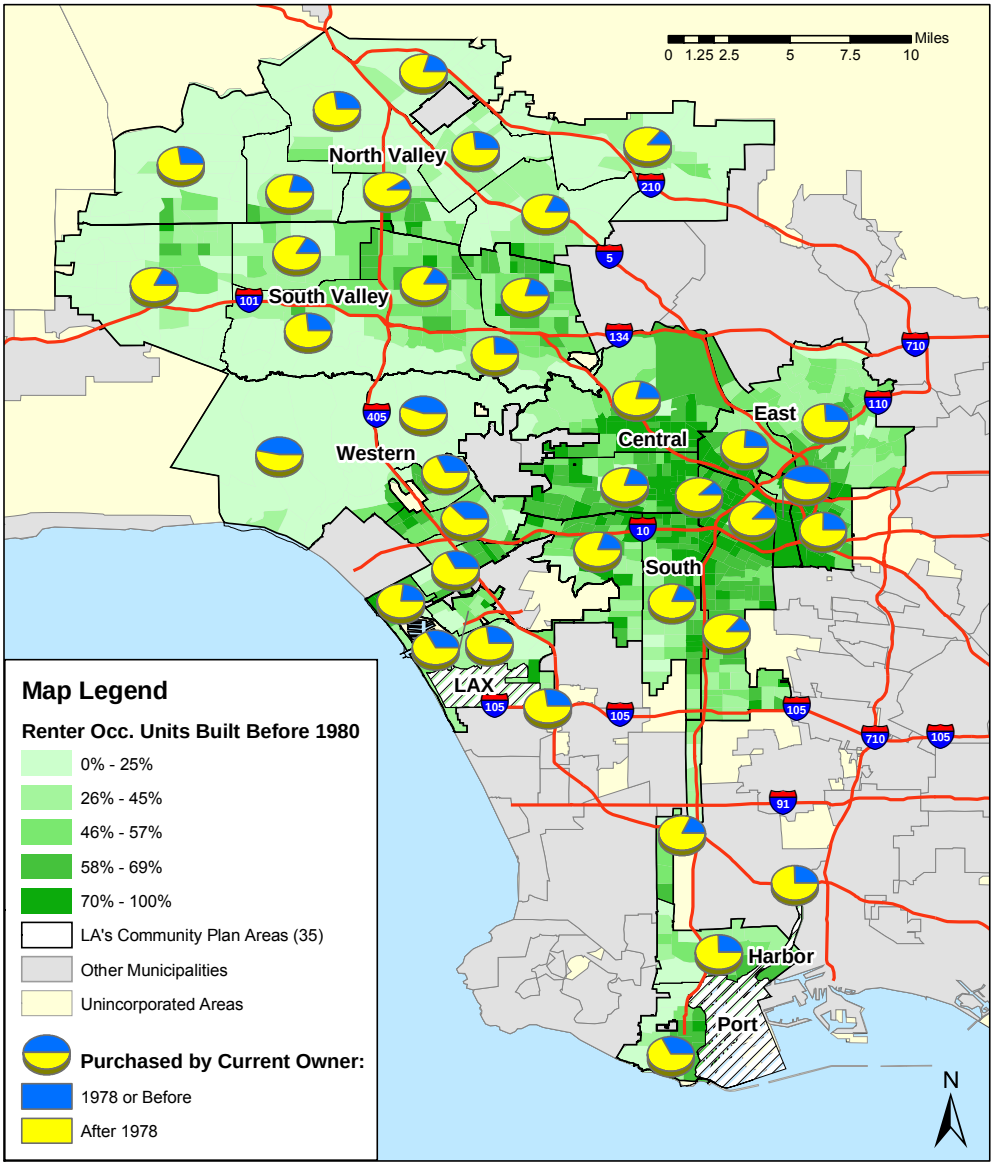

*Source: LA County Assessor's Office, Local Roll, combined with City of LA Housing Department: General RSO Property Data for Each Property with 2 or More Units*

At a finer level of geography, Figure 1-15[23] maps the CPA's where a third or more of RSO properties were purchased before the RSO took effect are:

- Brentwood-Pacific Palisades 47%
- Central City North 46%
- Bel Air-Beverly Crest 45%
- West Los Angeles 37%
- San Pedro 33%
- Palms-Mar Vista-Del Rey 33%

Interestingly, the *Central City North* CPA has a large number of RSO units in a residential neighborhood at the north end of *Chinatown* as well as a swath of *Downtown* LA East of Alameda Street. Among Los Angeles' largest apartment buildings of 100 units or more, only 52 percent were built during 1978 or before (RealFacts). The other 48 percent, built since 1978, are exempt from RSO-regulation and are part of LA's trend towards higher housing density and larger rental properties.

Figure 1-15
RSO-Regulated Housing Units by Year Purchased (Base Year) and CPA



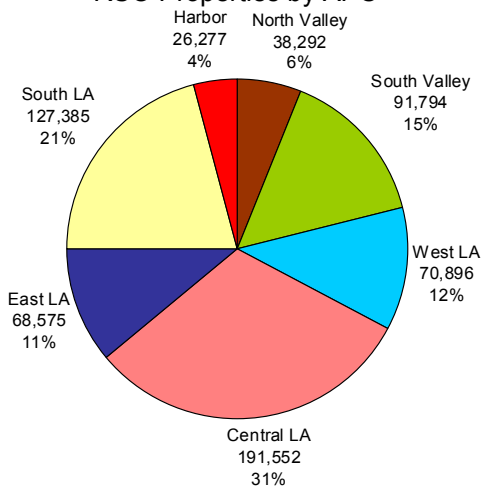

*Source: LA County Assessor's Office, Local Roll, combined with City of LA Housing Department: General RSO Property Data for Each Property with 2 or More Units.*

## Preservation and Growth of the Rental Housing Inventory

Where in the City was the current inventory of RSO-regulated rental units built and when was it built? The distribution of RSO-regulated housing is concentrated in specific regions of Los Angeles. The *Central LA, South LA and South Valley* regions account for two thirds of the City's RSO inventory (Figure 1-16), but have these areas always been home to such a large share of the RSO rental housing supply?

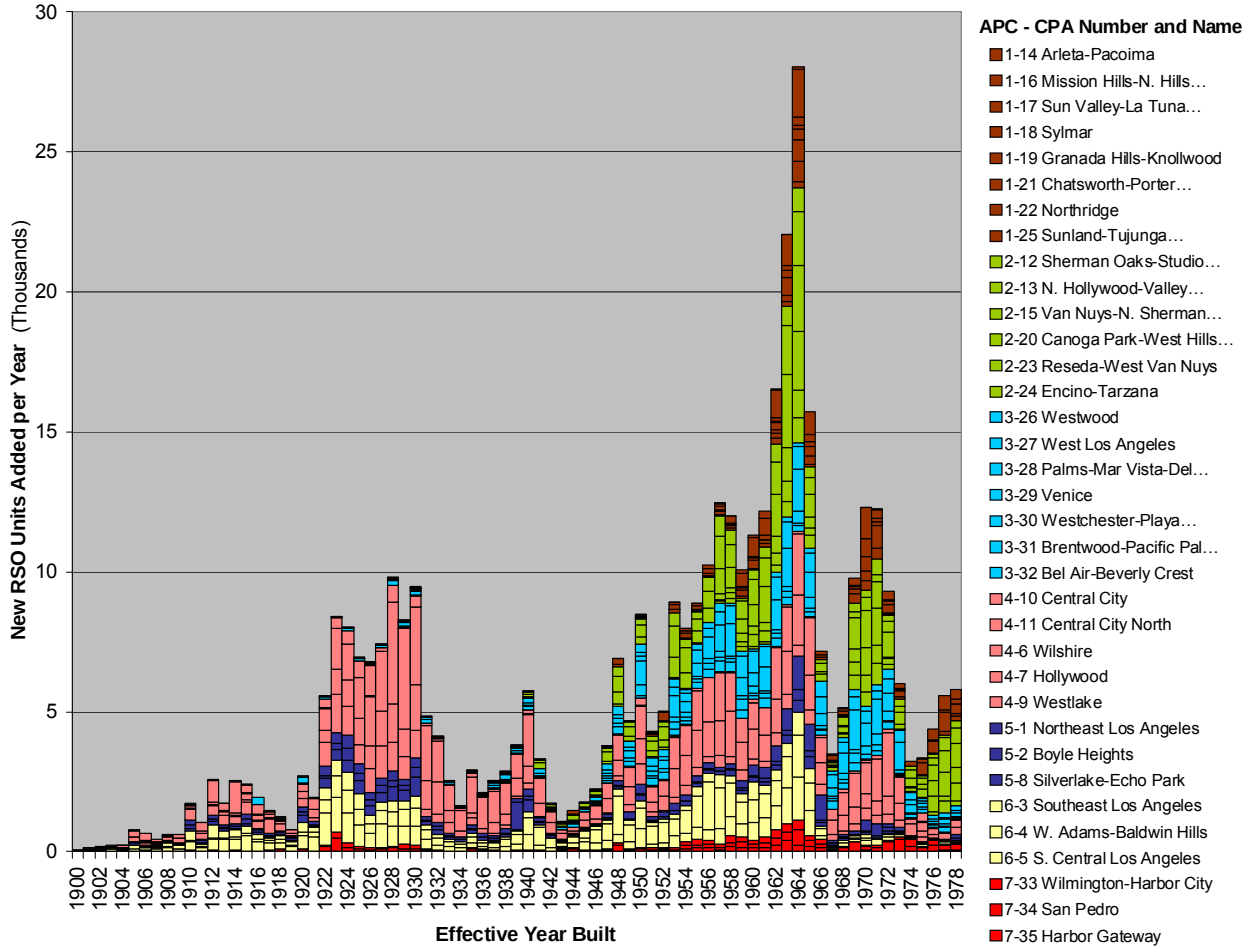
The intervals when RSO units were added to LA's housing stock are shown in Figure 1-17, broken out by APC and CPA. During the 1920s, *Central LA, South LA* and *East LA* were the primary regions where

Figure 1-16
RSO Properties by APC




*Source: LA County Assessor's Office, 2007 Local Roll, combined with City of LA Housing Department: 2007 General RSO Property Data.*

Figure 1-17
LA City's Current RSO Units by Year Built (1900-1978) and Location

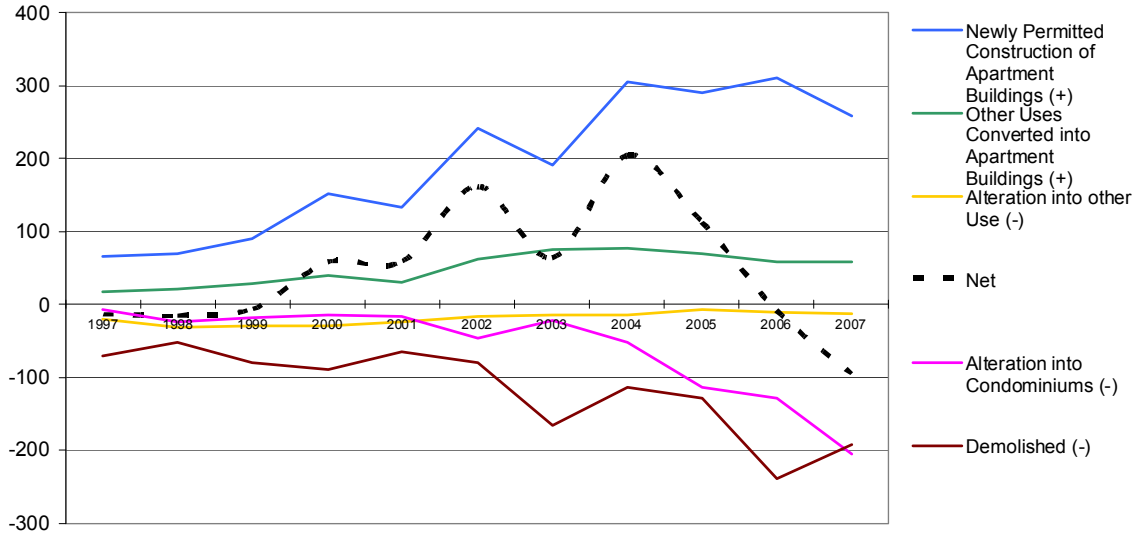



*Source: LA County Assessor's Office, 2007 Local Roll, combined with City of LA Housing Department: 2007 General RSO Property Data for Each Property with 2 or More Units.*

housing was built. *Central LA* was the primary region to continue building during the 1930s. Following World War II, the *West LA, San Fernando Valley* and *Harbor* regions began adding units, which added to the current inventory of RSO-regulated rental housing. A similar pace of development occurred in *Central LA, South LA* and *East LA*. By the 1970s, very little residential construction was occurring in *South LA* or *East LA*. During the 1970s, most residential construction, including rental units, was located in the *South San Fernando Valley*. After enactment of rent stabilization in 1978, the history of creating the RSO inventory ended because new units built after 1978 are exempt from rent stabilization.

During the 1990s, housing construction in Los Angeles County was stagnant, in part due to the collapse of the aerospace industry in the first part of the decade and the overall loss of skilled workers and their families to outmigration. Were there significant additions to the City of LA's rental housing stock in this period? Subtractions by conversion and demolition? Both have been occurring, based on City building permit records (Figure 1-18).[24]

Figure 1-18
Apartment Property Construction Conversions and Demolitions, 1997-2007




*Source: City of Los Angeles, Department of Building and Safety, Building Permit Data from the Plan Check and Inspection System (PCIS), 1997-2007.*

In 2000, as LA began to emerge from the 1990s housing construction slump, and continuing through the recent boom, there was an increased pace of both additions and subtractions of rental units from the City's housing inventory. The annual number of new apartment buildings permitted for construction by the City of Los Angeles grew from 66 in 1997 to 312 in 2006. But losses of existing apartment buildings due to demolition or conversion to for-sale condominiums have also surged. Based upon building permits issued, **the net outcome from demolition, renovation and new construction of rental properties was a growing inventory of rental housing until 2004. The subsequent spike in condominium conversions resulted in a net loss of rental units by 2006.** Although the real estate bubble has since burst, many of these apartment building demolitions and conversions can be attributed to market dynamics that incentivized creation of owner-occupied housing. As more data about the current housing downturn becomes available, we may see a reversal of the trend to convert rental

housing into owner-occupied housing. It is probable that some foreclosed and unsold housing that was developed to be sold will instead be rented.

Indeed, permits for new apartment construction dropped off in 2007 by 17 percent from 2006, mirroring the housing industry's overall downturn. During the period 1997-2007, 15,573 new single-family homes were permitted for construction in the City of Los Angeles, along with another 6,483 condominium units.[25]

Table 1-5
Number of Building Permits Approved for Converting Apartment Properties to Condominiums, by APC 1997-2007

| Year | Area Planning Commission | | | | | | | City of LA |
|---|---|---|---|---|---|---|---|---|
| | North Valley | South Valley | West LA | Central LA | East LA | South LA | Harbor | |
| 1997 | | | 5 | 1 | | | | 6 |
| 1998 | 7 | 2 | 9 | | | 2 | 4 | 24 |
| 1999 | | 2 | 13 | 2 | | | | 17 |
| 2000 | | 7 | 7 | | 1 | | | 15 |
| 2001 | | 1 | 15 | | | | | 16 |
| 2002 | | 14 | 22 | 4 | | 5 | | 45 |
| 2003 | 2 | 5 | 8 | 4 | 1 | 1 | | 21 |
| 2004 | 3 | 15 | 16 | 17 | | | | 51 |
| 2005 | 4 | 30 | 25 | 15 | 1 | | 39 | 114 |
| 2006 | 17 | 37 | 33 | 31 | 3 | 3 | 5 | 129 |
| 2007 | 13 | 63 | 68 | 48 | 4 | 7 | 3 | 206 |
| TOTAL | 46 | 176 | 221 | 122 | 10 | 18 | 51 | 644 |
| % of Converted Properties in APC | 7% | 27% | 34% | 19% | 2% | 3% | 8% | 100% |
| % LA City Rental Properties in APC | 4% | 9% | 10% | 21% | 18% | 31% | 6% | 100% |

*Source: Data for properties converted to condominiums from City of Los Angeles, Department of Building and Safety; Building Permit Data from the Plan Check and Inspection System (PCIS), 1997-2007; and data for total rental property inventory from City of Los Angeles Housing Department inventory of RSO and SCEP units in 2007.*

## Geography of Condo Conversions

The number of apartment properties converted into condominiums is skewed towards West LA and the South San Fernando Valley, based upon approved building permits from 1997 to 2007 (Table 1-5). These two areas accounted for well over half of the City's conversions. Compared to the distribution of rental properties, conversions were over-concentrated in West LA, South Valley and North Valley, close to parity in Central LA, and under-concentrated in East LA, South LA and the Harbor.

**The geographic distribution of condominium conversions reflects the distribution of household wealth in the City**, as well as the availability of rental units suitable for conversion. Citywide, buyers have two and a half times more income than renters, with the incomes of both renters and buyers being highest in West LA and the South Valley, as shown in Table 1-6. In West LA, shifting housing occupancy from renters to buyers means changing from households with $49,000 in annual income to households with $117,000 in in-

Table 1-6
Median Household Income - Buyers vs. Renters
*City of Los Angeles 2006*

| Area | Buyers | Renters |
|---|---|---|
| North Valley | $75,000 | $32,000 |
| South Valley | $82,000 | $34,400 |
| West LA | $117,000 | $49,000 |
| Central LA | $104,600 | $34,800 |
| East LA | $72,000 | $27,400 |
| South LA | $49,200 | $23,100 |
| Harbor | $73,900 | $32,400 |
| LA CITY | $80,000 | $32,000 |

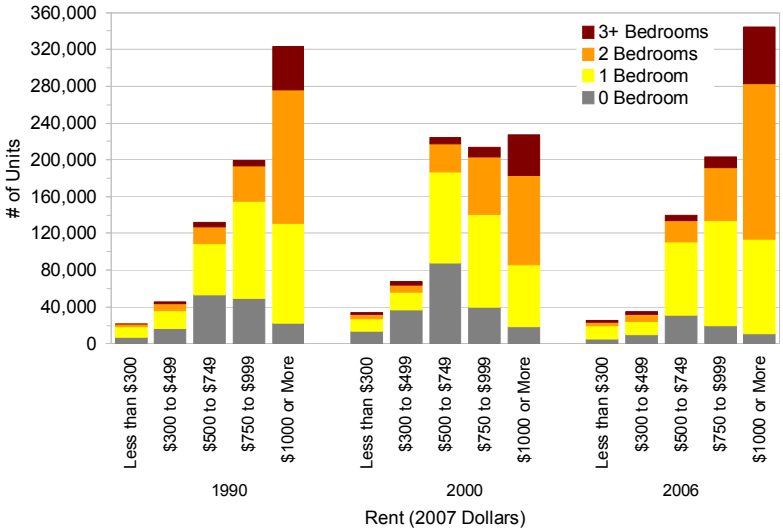
*Source: U.S. Census Bureau 2006 American Community Survey, Public Use Microdata Sample*

come. In the South Valley, it means changing from households with $34,400 in income to households with $82,000 in income. Shifting housing out of rental use, and particularly out of RSO rental status, and making it accessible to owner-occupants means connecting with a market that has far more income to spend on housing. However, it further diminishes the already scarce supply of rental housing.

## Bedrooms and Rent

Fluctuations in the rental market between 1990 and 2006 impacted the distribution of units across the rent price range. In 1990, 45 percent of the City's rental units were $1,000 or more and 28 percent were in the $750 to $999 range (Figure 1-19).[26] The most common type of rental unit had 2 bedrooms and cost over $1,000 for rent. Next was a 1-bedroom unit that also cost over $1,000 for rent.

Figure 1-19
Occupied Rental Units by Bedrooms and Rent – City of LA

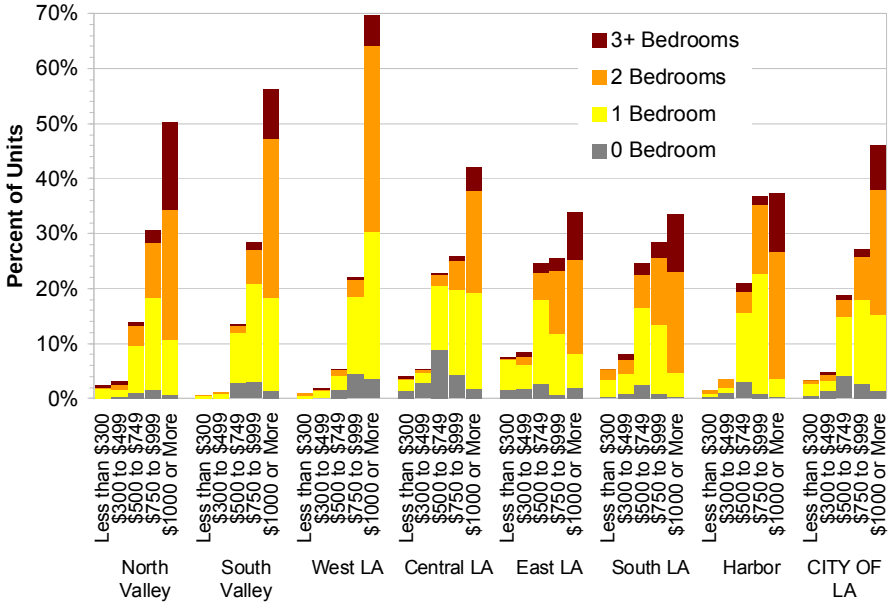



*Source: U.S. Census Bureau, 1990 and 2000. Census of Population and Housing, Public Use Microdata Sample, 5 Percent. U.S. Census Bureau, 2006. American Community Survey.*

Two critical trends during the decade of 1990 to 2000 were:

1. Thirty-two percent growth in the number of 0-bedroom rental units in the City, thereby increasing the stock of smaller units commanding lower rents
2. Declining rent prices that shifted high rent 1- and 2-bedroom units into lower rent categories.

Figure 1-20
Occupied Rental Units by APC, Bedrooms, and Rent in 2006 – City of LA




*Source: U.S. Census Bureau, 2006. American Community Survey. Public Use Microdata Sample*

The number of 2-bedroom units in the top price range decreased by 32 percent, while the number of units in the mid-ranges increased by almost 65 percent. Similarly, the number of 1-bedroom units in the top price range decreased 39 percent, while the number of

units in the $500 to $749 range increased 80 percent. Consequently, at the end of this decade, the two most common types of rental units were:

1. 1-bedroom units renting for $750 to $999
2. 1-bedroom units renting for $500 to $749

These types of units accounted for roughly 30 percent of the City's rental housing.

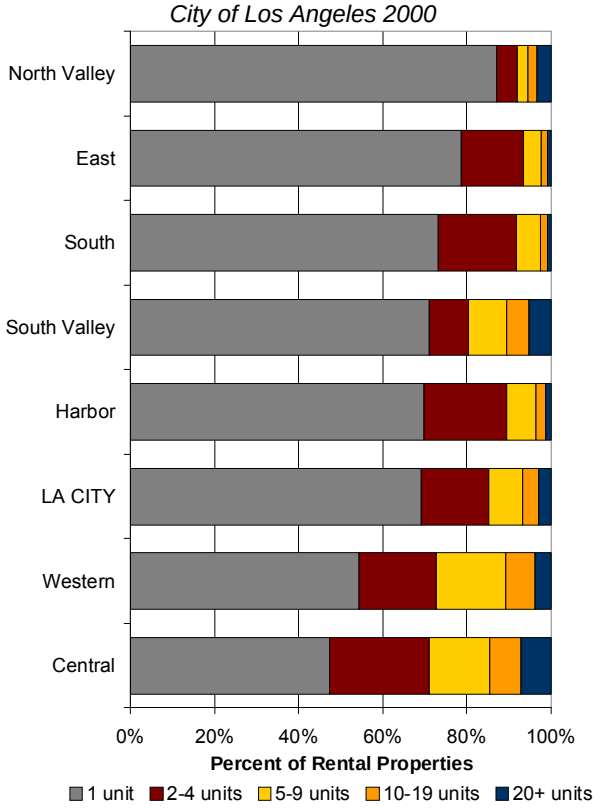
Based on most recent data (which is 2006 and does not reach the end of the housing boom and the current downturn in the housing market), the occupant capacity of the City's rental inventory had grown significantly but distribution of rent costs had returned to 1990 levels. Forty-six percent of the City's rental units were $1000 or more and 27 percent were in the $750 to $999 range. The two most commonly found types of rental units were:

1. Two bedrooms rented for $1000 or more a month
2. One bedroom rented for $750 to $999 a month

Highlights of changes that occurred in the City's seven planning regions are shown in Figure 1-20.[27] These include:

- Nearly 70 percent of all rental units in *West LA* had rents over $1,000
- A majority of rental units in the *South Valley* and *North Valley* regions had rent costs of $1,000 or more
- The *East LA* and *South LA* regions had the greatest share of rental units with rents under $750 (41 and 38 percent, respectively)
- Three-quarters of rental units in the *Harbor* region fell into two roughly equal categories - units with rents in the $750 to $999 range and $1,000 or higher range
- The two most common types of units found in *Central LA* were 2-bedroom and 1-bedroom units renting for $1,000 or more; these accounted for 36 percent of all rental units.

Figure 1-21
Rental Properties by Number of Units on Property
*City of Los Angeles 2000*




*Source: Census2000 Summary File 3, Table H32*

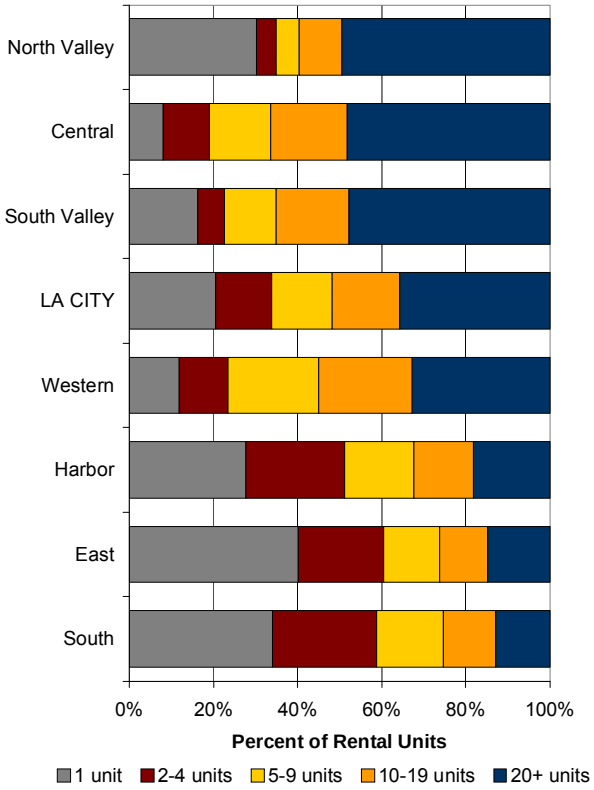
## Size of Rental Properties

Many of LA's rental units are located on parcels with a small number of units – especially in *South Los Angeles*. Although in *South LA* as elsewhere, more recently constructed apartment buildings typically have more units. The older "mom and pop" rental properties with two, three or four units are a holdover from LA's origins when *South LA* was a sprawling, low-density, desirable suburb with a character that was distinct from the downtown urban core. The longevity of these properties in

LA's housing inventory speaks to their importance as an income and investment resource for small property owners, who often inherited these properties from their parents. Often, these properties have proven to be important investments as the value of Los Angeles real estate has grown.

**Most rental property owners are small landlords. Sixty-nine percent of all rental properties in the City of Los Angeles, both RSO and non-RSO, have just one unit and only 3 percent have 20 or more units** (Figure 1-21, 2000 data).[28] If we exclude 1-unit properties, which are outside the purview of rent stabilization, 52 percent have 2 to 4 units - mom and pop properties, and 10 percent have 20 or more units. One-unit properties make up the largest share of rental properties in the *North Valley* and *East LA* planning areas. Two to four unit properties are most predominant in the *Central* planning area.

Figure 1-22
Rental Units Broken Out by Number of Units on the Property
*City of Los Angeles 2000*




*Source: Census2000 Summary File 3, Table H32*

*Units by Size of Property*

Most renters live in buildings with 10 or more units (Figure 1-22, 2000 data).[29] Fifty-two percent of LA City rental units were on properties with 10 or more units in 2000. If we exclude 1-unit properties, 65 percent of units are on properties with 10 or more units and 45 percent are on properties with 20 or more units. **Two-thirds of all rental units are on properties with 10 or more units.** Even though the *North Valley* has many small property owners, properties with 20 or more units account for a majority of rental units.

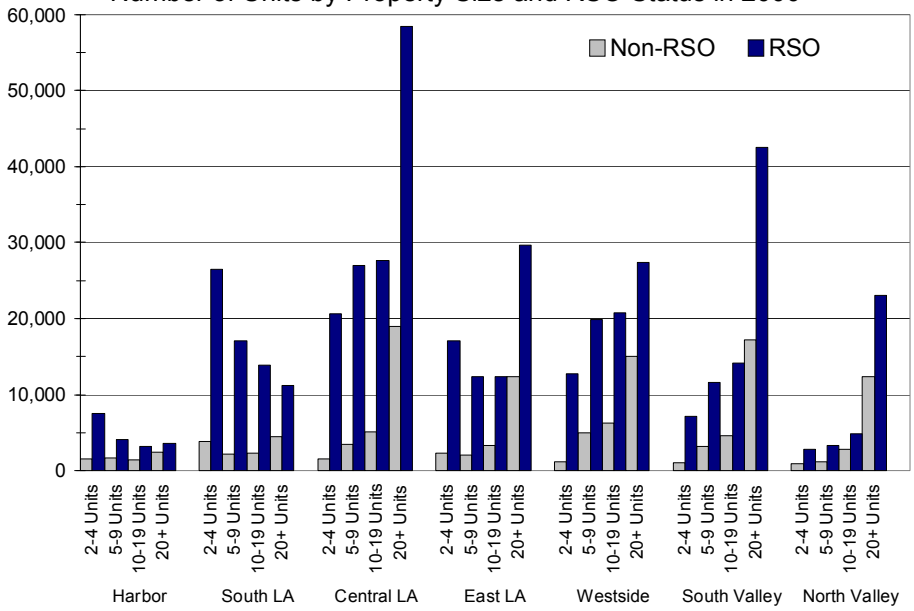
There has been a long-term trend toward larger rental developments. In 1990, 12 percent of all LA City rental units were in buildings with 50 or more units. In 2000, this had increased to 16 percent, and by 2006 it reached 17 percent.

Furthermore, many larger property owners own multiple properties, making their significance even greater. For example, an analysis of 118,254 properties that are under the Rent Stabilization Ordinance found that 49,373 properties, with 377,216 units, are held by 12,967 owners or managers. This group representing 16 percent of all rental property owners and managers accounts for 59 percent of all rental units under the Rent Stabilization Ordinance (RSO).

*Property Size and RSO Status*

Small rental properties are most prevalent within the *South LA* and *Harbor* planning areas (Figure 1-23, 2000 data).[30] Based on Census data, RSO properties with 2 to 4 units account for 39 percent of all RSO properties in South LA and 41 percent in the Harbor. Non-RSO properties, built in or after 1979, tend to be larger than the older, non-RSO properties.

Figure 1-23
Number of Units by Property Size and RSO Status in 2000




*Source: Census 2000 PUMS 5% Sample*

In summary, **most rental units are under the purview of owners or managers with a sufficiently large scale of operations to apply professional capabilities to managing their properties**. However in some areas, most notably *South Los Angeles* and the *Harbor*, small property owners account for two-fifths of the market for rent-stabilized units.

*Total RSO Units and Property Size*

The Housing Department's inventory of 638,051 RSO units on 118,254 properties is 21 percent larger than the inventory of 527,537 (total occupied and unoccupied) RSO units shown in the Census Bureau's 2006 American Community Survey data.[31] Throughout this report we use Census data when describing the total rental inventory and Housing Department data when describing the RSO inventory. Housing Department data shows the following breakout of RSO properties by ownership size:

- *1-4 units*: 201,914 units on 88,625 properties – 32 percent of units and 75 percent of properties
- *5-9 units*: 112,933 units on 16,929 properties – 18 percent of units and 14 percent of properties
- *10-19 units*: 95,118 units on 7,313 properties – 15 percent of units and 6 percent of properties
- *20 or more units*: 228,086 units on 5,387 properties - 36 percent of units and 5 percent of properties

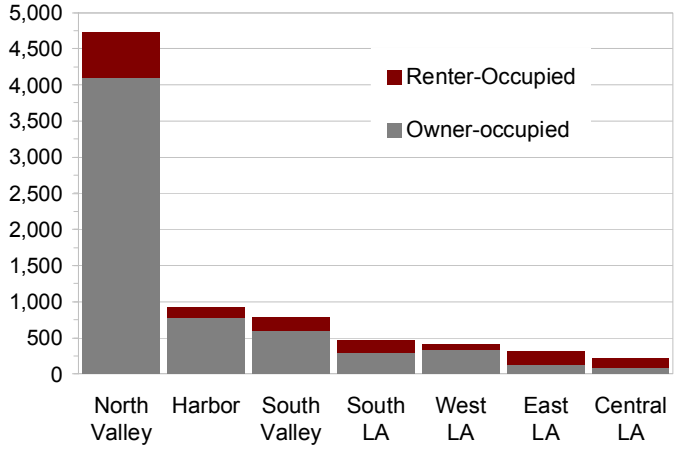
## Mobile Homes

There were over 7,800 occupied mobile homes in Los Angeles in 2000. While only 20 percent were renter-occupied, virtually all mobile homes (regardless of tenure) are located on rented land. A large portion - 60 percent - of the City's mobile homes is located in the North Valley (Figure 1-24).[32] The *Harbor* and *South Valley* regions, despite having substantially fewer mobile homes than the *North Valley*, contain Community Planning Areas with the second and third largest stock of mobile homes in the City. The two regions accounted for 12 percent and 10 percent of the City's mobile homes, respectively.[33]

A closer examination of the *North Valley*, *Harbor*, and *South Valley* regions, broken out by Community Planning Areas (Table 1-7), shows that:

- *Chatsworth-Porter Ranch*, *Sylmar*, and *Arleta-Pacoima* account for three-fourths of the mobile homes in the *North Valley*;
- *Wilmington-Harbor City* account for over 60 percent of mobile homes in the *Harbor* region; and
- *Reseda-West Van Nuys* and *Canoga Park-Winnetka* account for almost three-fourths of the mobile home in the *South Valley*.

Figure 24
City of LA Mobile Homes by Tenure




*Source: U. S. Census 2000*

Table 1-7
Mobile Homes by CPAs for Top 3 APCs with Largest Number of Mobile Homes

| Area Planning Commission (APC) | Community Planning Area (CPA) | CPA Total Mobile Homes | Percent of APC |
|---|---|---|---|
| North Valley | Chatsworth-Porter Rch | 1,514 | 32% |
| | Sylmar | 1,253 | 26% |
| | Arleta, Pacoima | 852 | 18% |
| | Sun Valley-LA Tuna Cyn | 296 | 6% |
| | Mission Hills | 245 | 5% |
| | Sunland-Tujunga | 240 | 5% |
| | Granada Hills-Knollwood | 177 | 4% |
| | Northridge | 153 | 3% |
| | **North Valley APC Total** | 4,730 | 100% |
| Harbor | Wilmington-Harbor City | 581 | 63% |
| | San Pedro | 267 | 29% |
| | Harbor Gateway | 79 | 9% |
| | Port of Los Angeles | 0 | 0% |
| | **Harbor APC Total** | 927 | 100% |
| South Valley | Reseda-W Van Nuys | 370 | 47% |
| | Canoga Park-Winnetka | 205 | 26% |
| | Van Nuys | 132 | 17% |
| | Encino-Tarzana | 48 | 6% |
| | N Hollywood-Valley Vlg | 22 | 3% |
| | Sherman Oaks-Studio | 5 | 1% |
| | **South Valley APC Total** | 782 | 100% |

*Source: U. S. Census Bureau 2000*

## CHARACTERISTICS OF RENTERS

### Population in Rental Housing

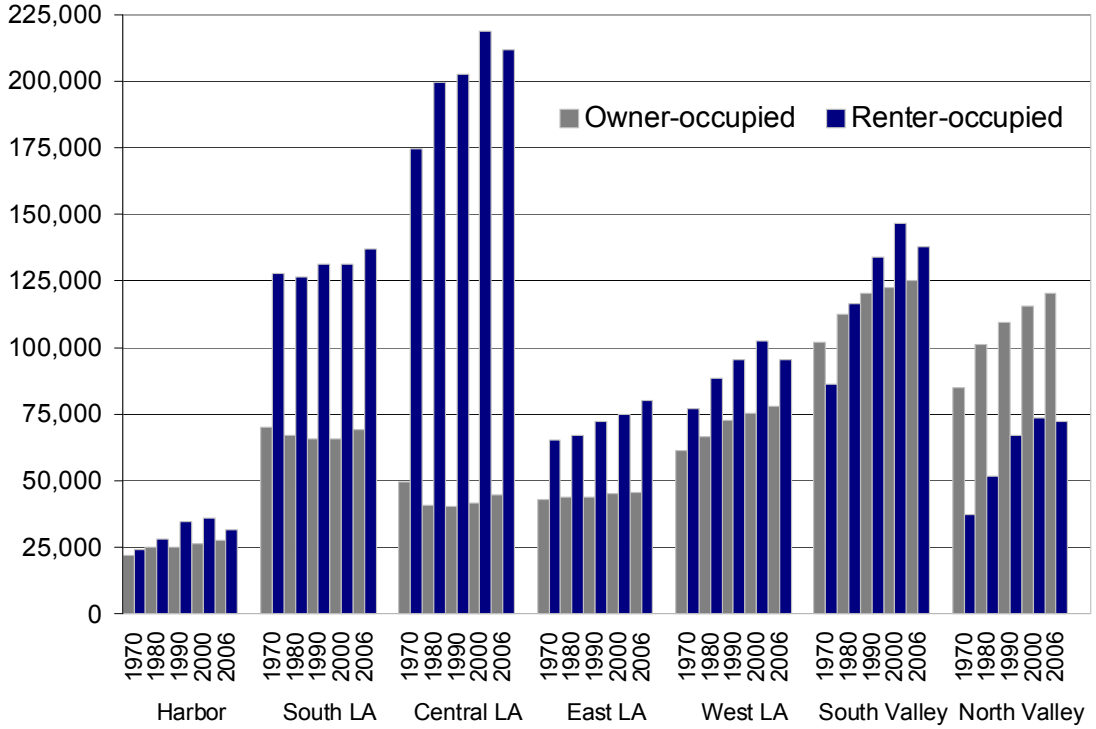
In 2006, 60 percent of the City's occupied housing units were rental units and 57 percent of Los Angeles residents lived in rental housing.

The greatest absolute number and concentration of rental units and renters is in the *Central* Area Planning Commission (APC)[34] region of Los Angeles (Figures 1-25 and 1-26).[35] In 2006, the *Central* region had 212,000 renter-occupied units (28 percent of the City's rental units) and 497,000 residents living in rental units (24 percent of the City's renters). This represents a ratio of 2.3 renters per occupied rental unit in 2006. Eighty-one percent of *Central LA* residents were renters in 2006.[36]

The second greatest concentration of renters is in *South Los Angeles*, with 137,000 renter-occupied units (18 percent of the City's rental units) and 457,000 renters in 2006 (22 percent of the City's renters). This represents a ratio of 3.3 renters for every occupied rental unit in 2006. Sixty-four percent of *South LA* residents were renters in 2006.

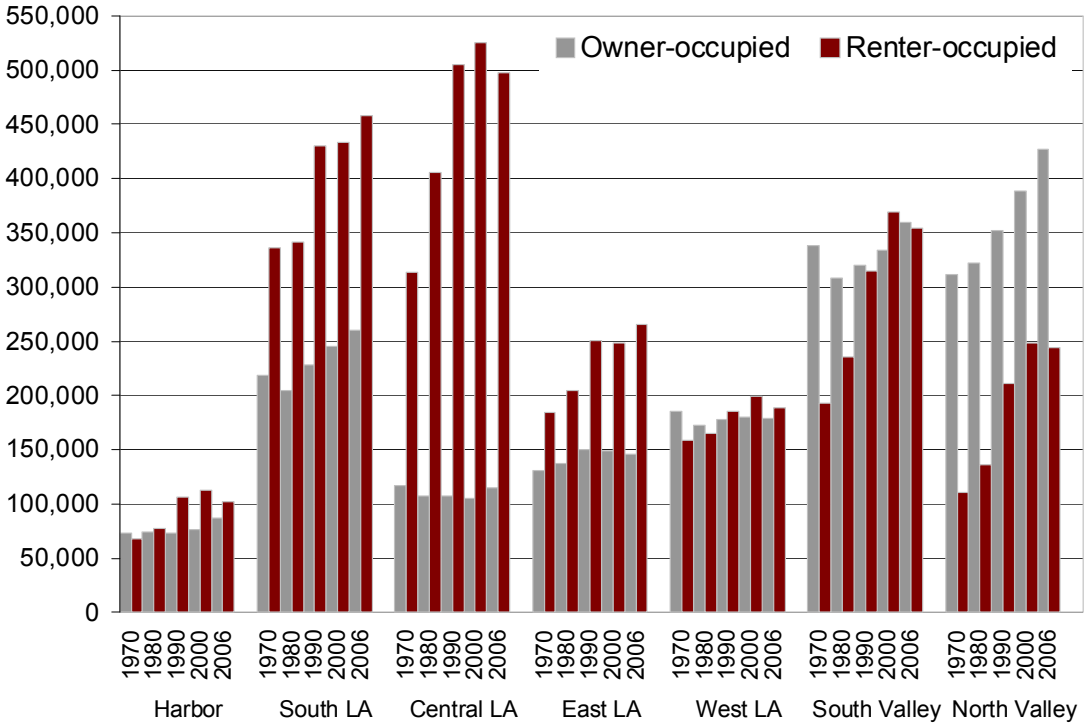
The *South Valley* region has transitioned from housing 36 percent of residents in rental housing in 1970 to 50 percent in 2006. The South Valley had 138,000 renter-occupied units (18 percent of the City's rental units) and 354,000 renters in 2006 (17 percent of the City's renters). This represents a ratio of 2.6 renters for every occupied rental unit in 2006.

Figure 1-25
Occupied Housing Units by Tenure and Planning Area, 1970-2006




*Source: GeoLytics 1970-2000, ACS PUMS 2006*

Figure 1-26
Population in Occupied Housing Units by Tenure and Planning Area, 1970-2006




*Source: GeoLytics 1970-2000, ACS PUMS 2006*

The *North Valley* region has the largest concentration of owner-occupied housing in the City, with 64 percent of residents housed in owner-occupied units in 2006. The *North Valley* had 72,000 renter-occupied units (9 percent of the City's rental units) and 244,000 renters in 2006 (12 percent of the City's renters). This represents a ratio of 3.4 renters for every occupied rental unit in 2006, the highest ratio of any region.

*West Los Angeles* has had a roughly equal balance of renters and homeowners since 1970, with 51 of residents in rental housing in 2006. *West Los Angeles* had 96,000 renter-occupied units (13 percent of the City's rental units) and 189,000 renters in 2006 (9 percent of the City's renters). This represents a ratio of 2.0 renters for every occupied rental unit in 2006, the lowest ratio of any region.

The share of *East Los Angeles* residents living in rental housing has increased gradually, from 58 percent in 1970 to 65 percent in 2006. *East Los Angeles* had 80,000 renter-occupied units (10 percent of the City's rental units) and 266,000 renters in 2006 (13 percent of the City's renters). This represents a ratio of 3.3 renters for every occupied rental unit in 2006.

The *Harbor* region had the most noticeable recent downturn in the share of residents living in rental housing, declining from 60 percent in 2000 to 54 percent in 2006. The *Harbor* region had 31,000 renter-occupied units (4 percent of the City's rental units) and 102,000 renters in 2006 (5 percent of the City's renters). This represents a ratio of 3.3 renters for every occupied rental unit in 2006, up from 3.1 in 2000; this was the only region to have an increase in the number of renters per unit over this period.

## Age of Heads of Renter Households

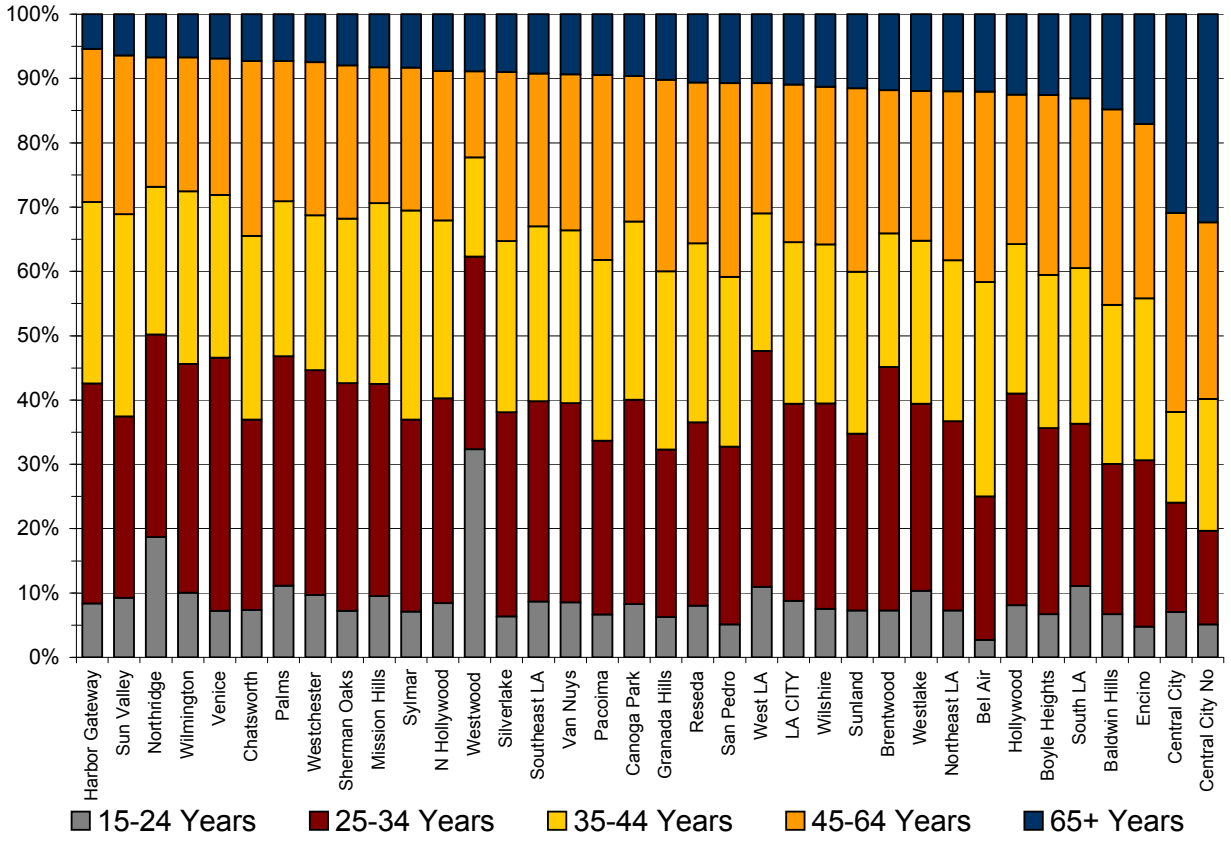
There is little variation in the age of heads of renter households when we look at Area Planning Commission regions, but significant differences emerge when we look at Community Planning Areas (Figure 1-27).[37] Citywide, 11 percent of people who head renter households are 65 years of age or older. The four Community Planning Areas with the highest concentrations of older heads of households are:

- Central City North 32%
- Central City 31%
- Encino – Tarzana 17%
- West Adams - Baldwin Hills 15%

At the other end of the age spectrum, 9 percent of people who head renter households are 24 years of age or younger. Two areas with significantly higher concentrations of young heads of households are:

- Westwood (with UCLA) 32%
- Northridge 19%

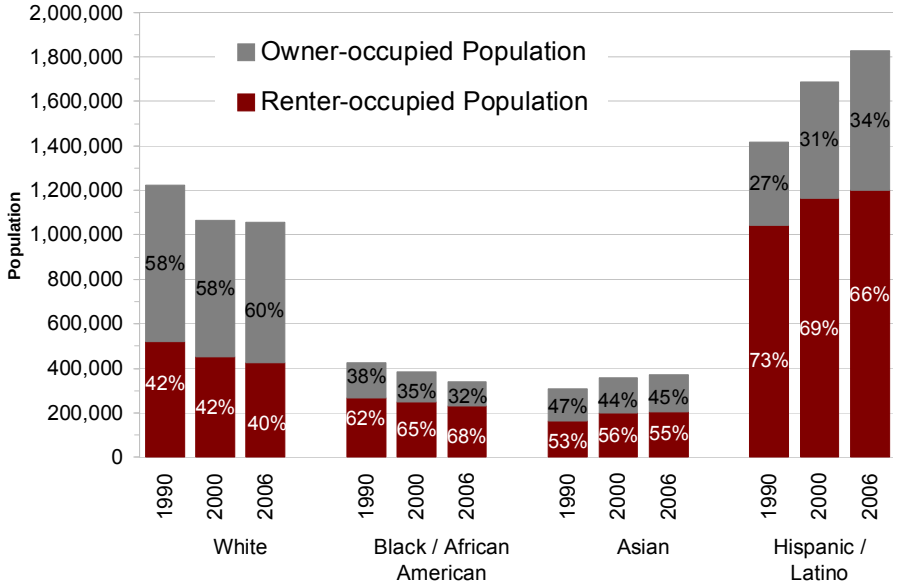
Figure 1-27
Age Distribution of Heads of Renter Households by Community Planning Area in 2000




*Source: Census 2000, Summary File 3, Table H17*

## Ethnicity of Renters

Figure 1-28
Ethnicity of Renter Population by Tenure




*Source: U.S. Census Bureau, 1990 and 2000. Census of Population and Housing, Public Use Microdata Sample, 5 Percent. U.S. Census Bureau, 2006. American Community Survey.*

Nearly 60 percent of all Los Angeles residents lived in rental units in 2006. Whether they chose to rent for reasons associated with lower cost, flexibility, or necessity, rental units were home to a very large share of City residents. Census Bureau data shows that when we break out population and tenure data by ethnicity, *African American* and *Latino* residents were disproportionately concentrated in rental units while *White* and *Asian* residents were disproportionately concentrated in owner-occupied units.

The ethnic makeup of LA's renter population partially mirrors the ethnic makeup of the City's total population, which in 2006 was as follows:[38]

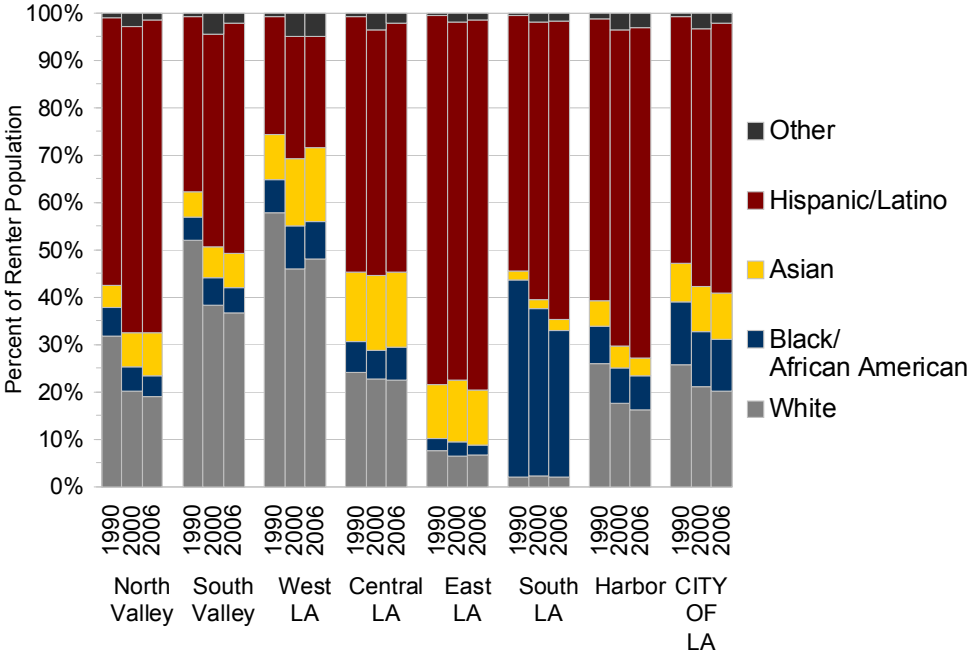
- *Latinos* are the largest group, accounting for almost half of all residents (49 percent) as well as the largest group of renters, accounting for somewhat over half of everyone living in rented housing (57 percent).
- *Whites* are the second-largest population group, accounting for between one-quarter and one-third of residents (29 percent) and one-fifth of renters (20 percent).
- *Asians* are the third largest population group, accounting for one-tenth of residents (10.0 percent), and slightly less than one-tenth of renters (9.7 percent).
- *African Americans* are the fourth-largest population group accounting for slightly less than one-tenth of residents (9.6 percent) and slightly over one-tenth of renters (11 percent).
- Residents who identify their ethnicity as *Other* make up 2 percent of the population and 2 percent of renters.

The comparatively small share of *Whites* and the comparatively large shares of *Latinos* and *African Americans* living in rental housing reflect differences in average in come among these groups – households with less income are more likely to rent. It is noteworthy that the percent of *Latino* residents who were renters declined from 73 percent in 1990 to 66 percent in 2006. However, the percent of *African Americans* who were renters increased from 52 percent in 1990 to 68 percent in 2006. Over this period, *African Americans* have made up a declining share of the City's residents, and those *African American* residents who remain are less likely to

be homeowners (Figure 1-28).[39] Nearly 60 percent of the total decline of *African American* residents living in Los Angeles between 1990 and 2006 came from residents who lived in owned homes.

The shares of *White* and *Asian* residents living in owned and rented units have remained relative stable over the last 16 years, even with fluctuating population sizes. Fifty-three to 56 percent of *Asian* residents and 40 to 42 percent of *White* residents were living in rented homes during this period.

Figure 1-29
Ethnicity of Renter Population by APC



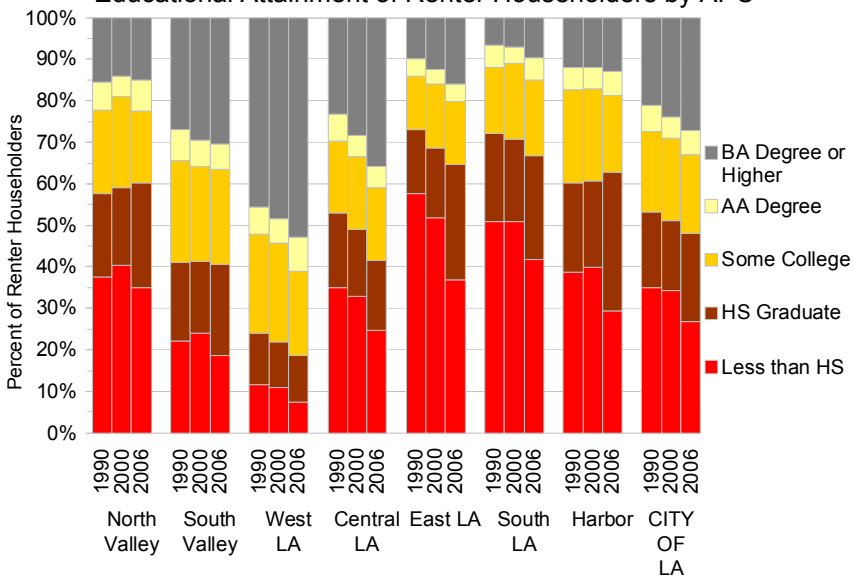

*Source: U.S. Census Bureau, 1990 and 2000. Census of Population and Housing, Public Use Microdata Sample, 5 Percent. U.S. Census Bureau, 2006. American Community Survey.*

Highlights from demographic information about the ethnicity of renters at the APC level (Figure 1-29) include:[40]

- *Latino* renters composed a majority of the renter population in all APCs with the exception of *West LA* and *South Valley* in 2006.
- *East LA* and the *Harbor* region had the highest concentrations of *Latino* renters, accounting for 80 percent and 70 percent, respectively, of the total renter populations.
- *South LA* has a growing population of *Latino* renters, and *African Americans* are over-concentrated in rental housing. The largest share of LA's *African American* residents live as renters in *South LA*.
- *West LA* and *South Valley* had largest shares of *White* renters in the City, with *White* residents over-represented in rental housing in comparison to the City as a whole.
- The proportions of renters by ethnicity in *Central LA* and *North Valley* are closest to those found City-wide. However, there is a slight over-concentration of *Asian* and smaller concentrations of *African American* renters in *Central LA* and an over-concentration of *Latino* and smaller concentrations of *African American* renters in *North Valley*.

## Educational Attainment

Figure 1-30
Educational Attainment of Renter Householders by APC

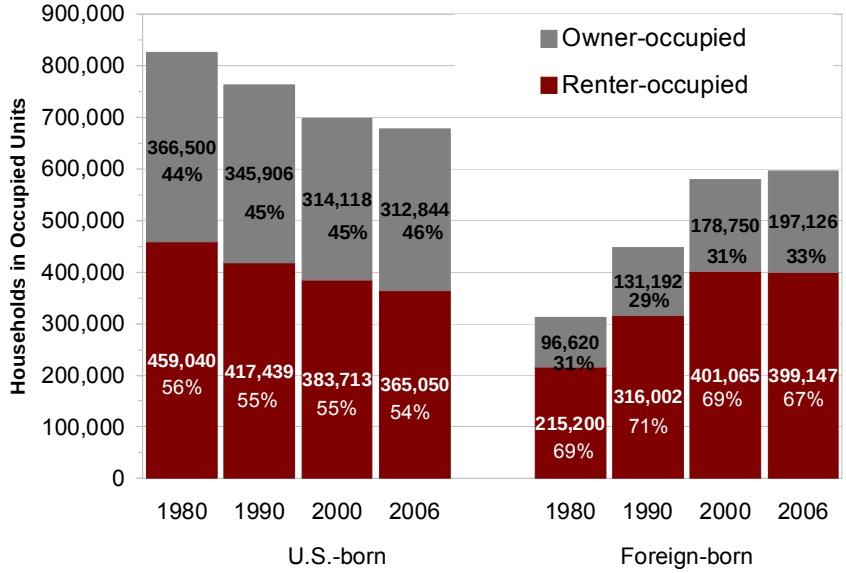



*Source: U.S. Census Bureau, 1990 and 2000. Census of Population and Housing, Public Use Microdata Sample, 5 Percent. U.S. Census Bureau, 2006. American Community Survey.*

Educational attainment, as a force that promotes economic sustainability, has immediate and long-term implications for the City's renters. Not only can it impact one's capacity to pay rent, it can restrict or expand the type and quality of housing that residents are able to obtain over the entire course of their lives.

Census data shows that the proportion of college-educated renters in the City grew from 21 percent in 1990 to 27 percent in 2006 (Figure 1-30).[41] Despite gains in educational attainment, 27 percent of renter householders still had less than a high school education in 2006. The highest levels of educational attainment were found among renters in *West LA* and *Central LA*. By 2006,a majority of renter householders in *West LA* and 36 percent in *Central LA* had at least a Bachelor's degree. The lowest levels of educational attainment, on the other hand, were found among renters in *South LA* and *East LA*, making it particularly difficult for these residents to compete for jobs paying sustaining wages and making it increasingly difficult for them to pay the rising rent. Forty-two percent of *South LA* and 37 percent of *East LA* renter householders had less than a high school education in 2006.

Figure 1-31
Nativity by Tenure



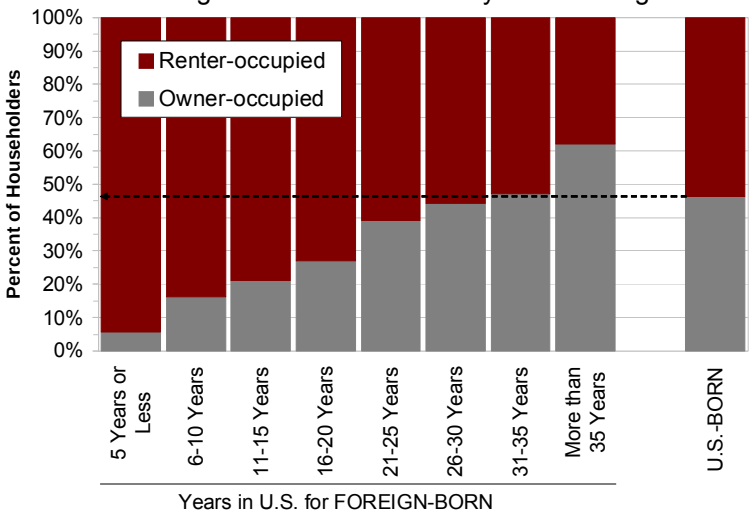

*Source: U.S. Census Bureau, 1990 and 2000. Census of Population and Housing, Public Use Microdata Sample, 5 Percent. U.S. Census Bureau, 2006. American Community Survey.*

## Nativity

The growth of Los Angeles has been driven by the hopes and hard work of foreign-born residents. From 1980 to 2006, the number of immigrant

householders grew by over 90 percent, while the share of householders who were U.S-born decreased by 18 percent. The large and growing number of immigrants in Los Angeles play a critical role in sustaining Los Angeles' economy, and their children will shape the City's future. This makes the housing conditions of immigrants, who are heavily reliant on rental housing, important not just for these residents but for the City as a whole. Are their children able to escape overcrowded living conditions? Do their children have living conditions in which they can do their homework and experience nurturing family life? The answers to these questions are important for the future of Los Angeles.

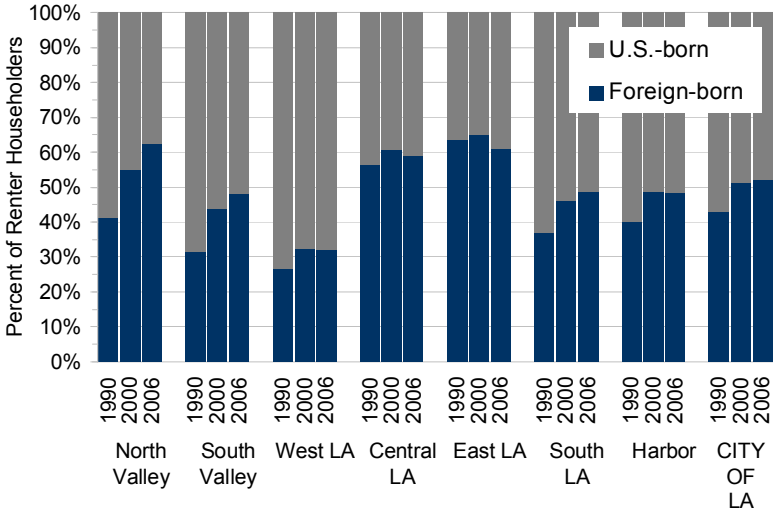
Figure 1-32
Tenure for Foreign-born Householders by Years Living in U.S.




*Source: U.S. Census Bureau, 2006. American Community Survey.*

The owner-to-renter ratio for U.S.-born residents in the City remained fairly constant from 1980 to 2006. Forty-six percent of U.S.-born residents were homeowners and 54 percent were renters in 2006 (Figure 1-31). During the same period, foreign-born residents made small gains in home ownership, which slightly decreased their representation in rental units. Home ownership rates for foreign-born residents rose from 29 percent in 1990 to 33 percent in 2006. A closer examination of foreign-born residents, broken out by date of immigration, shows that **as foreign-born residents become long-term stakeholders in their communities, home ownership rates grow** (Figure 1-32).[42] Close to 95 percent of recent immigrants, who have lived in the U.S. for 5 years or less, depend on rental units for housing. However, **after 30 years of residency, home ownership rates for foreign-born residents surpassed those of U.S.-born residents**, and after 35 years, home-ownership rates were 34 percent higher than rates for U.S.-born residents.

Figure 1-33
Nativity of Renter Householder by APC




*Source: U.S. Census Bureau, 1990 and 2000. Census of Population and Housing, Public Use Microdata Sample, 5 Percent. U.S. Census Bureau, 2006. American Community Survey.*

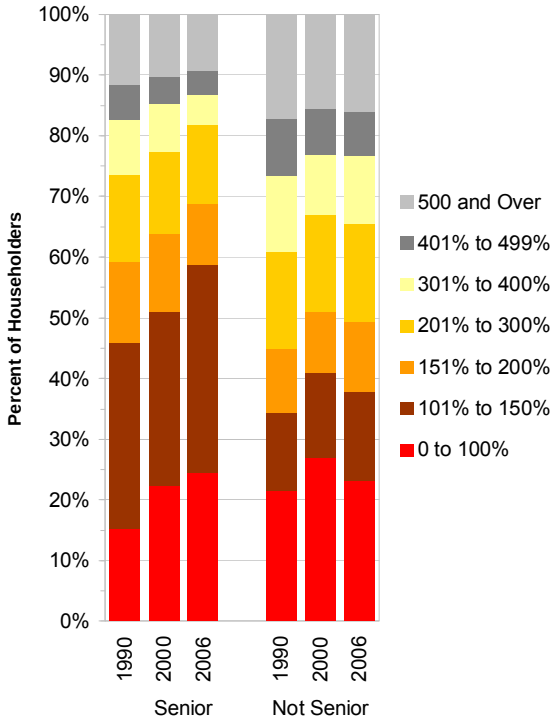
Despite gains in home ownership, rental units continue to play a crucial role in housing close to 400,000 residents who immigrated to this City. The foreign-born portion of renters in Los Angeles grew 21 percent in

the sixteen years period between 1990 and 2006 (Figure 1-33).[43] By 2000, they occupied a majority of the rental units in the City. The only area where foreign-born renters are largely under-represented is *West LA*. While foreign-born renters have historically accounted for a large portion of renters in *Central LA* and *East LA*, the largest growth of this renter population from 1990 to 2006 was seen in the *South Valley*, *North Valley*, and *South LA*. The growth in the share of foreign-born renters in these regions of Los Angeles outpaced their share citywide, growing by 53 percent, 51 percent and 32 percent, respectively.

## Vulnerable Renters

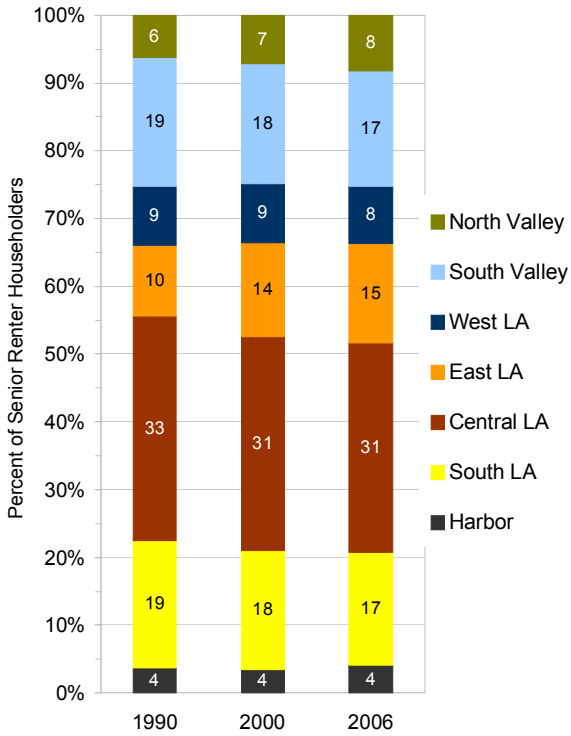
Older renters and renters with disabilities who survive on limited or fixed incomes are particularly vulnerable to rising rent costs. Not only are they more likely to have limited financial resources, their housing needs may well be different. The following sections examine the size and location, poverty status, and rent burden of *senior* renters and renters with *disabilities* in Los Angeles.

Figure 1-35
Senior Renter Householders by Poverty Status




*Source: U.S. Census Bureau, 1990 and 2000. Census of Population and Housing, Public Use Microdata Sample, 5 Percent. U.S. Census Bureau, 2006. American Community Survey.*

Figure 1-34
Senior Renter Householders by APC




*Source: U.S. Census Bureau, 1990 and 2000. Census of Population and Housing, Public Use Microdata Sample, 5 Percent. U.S. Census Bureau, 2006. American Community Survey.*

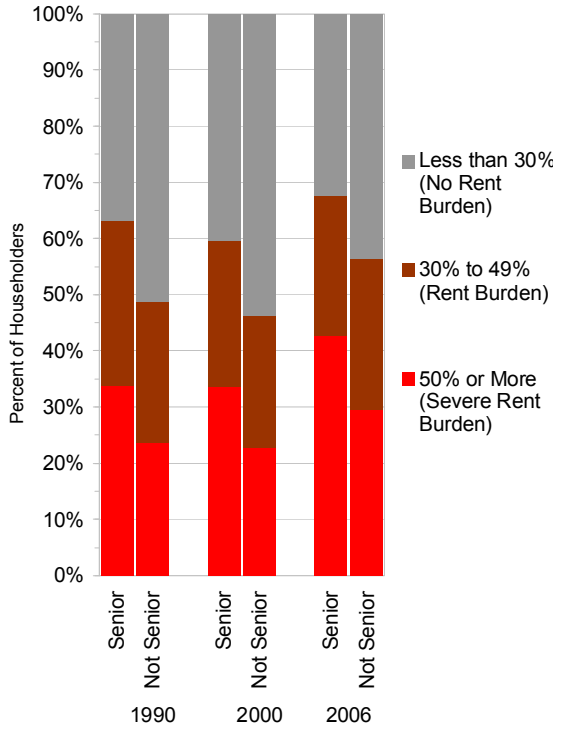
### *Senior Renters*

Since 1990, the number of *senior* owner and renter householders has declined in Los Angeles. *Senior* renter householders[44] declined from 98,500 in 1990 to 83,000 in 2006 - a 16 percent decrease. Most regions of the City experienced a decline in their share of renter householders who were *seniors*. The exceptions were the *North Valley* and *East LA* regions (Figure 1-34). *Central LA* had the largest share of *senior* renter householders,

accounting for over 30 percent of all *senior* householders in the City. The *South Valley*, *South LA*, and *East LA* regions also had substantial shares of *senior* renter householders in 2006, each accounting for roughly 15 percent of this segment of City residents.

Over the past 16 years, *senior* renters have become less financially secure and have devoted more of their household income to pay for rent. The share of senior renter householders living at or below the poverty level increased over 60 percent from 1990 to 2006 (Figure 1-35).[45] **By 2006, a quarter of *senior* householders in Los Angeles were living in poverty** and nearly 60 percent were living at or below 150 percent of the poverty level. As *senior* renters became less financially secure from 1990 to 2006, their rent burden increased. A third of all *senior* householders were severely rent burdened in 1990, that is they paid 50 percent or more of their income for rent (Figure 1-36).[46] **By 2006, over 40 percent of all *senior* renters were severely rent burdened**.

Figure 1-36
Percent of Income Spent on Rent by Senior Renter Householders




*Source: U.S. Census Bureau, 1990 and 2000. Census of Population and Housing, Public Use Microdata Sample, 5 Percent. U.S. Census Bureau, 2006. American Community Survey.*

*Renters with Disabilities*

In 2006, over 120,000 (16 percent of) LA's renter householders reported having a *disability*.[47] Of these householders with *disabilities*:

- A quarter reported difficulties with self-care
- Twenty-eight percent had vision or hearing impairments
- Two-thirds had substantial physical limitations
- Thirty-six percent had cognitive difficulties.

As shown in Table 1-8, when renter householders with *disabilities* are broken out by APC and compared to the citywide average,

Table 1-8
Disabled Renter Households by APC
*120,774 Total Householders with Disabilities, 2006*

| APC | % of Total Householders w/ a Disability |
|---|---|
| Harbor | 18% |
| South LA | 21% |
| Central LA | 14% |
| East LA | 17% |
| West LA | 10% |
| South Valley | 15% |
| North Valley | 18% |
| **City of LA** | **16%** |

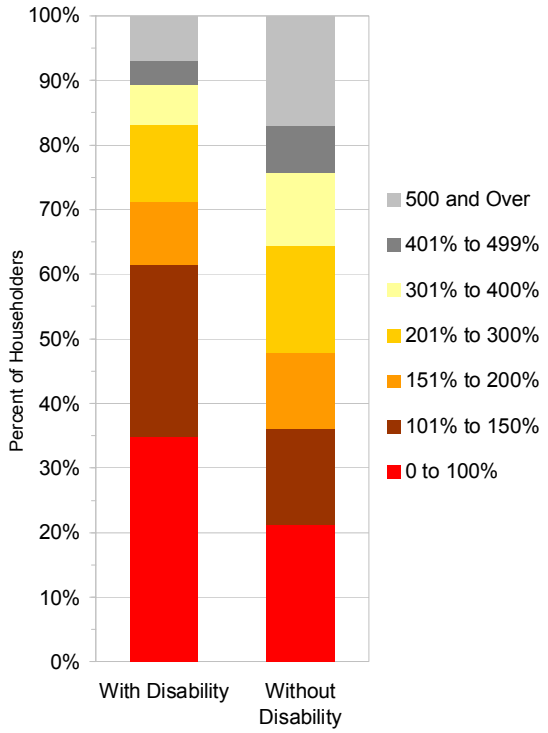
*Source: Census Bureau, 2006. American Community Survey.*

those with disabilities were:

- Heavily overrepresented in *South LA* (30 percent greater share than the City)
- Slightly overrepresented in the *Harbor*, *North Valley*, and *East LA* regions
- The smallest share of renter householders with *disabilities* lived in *West LA* - a share 34 percent smaller than what is found citywide.

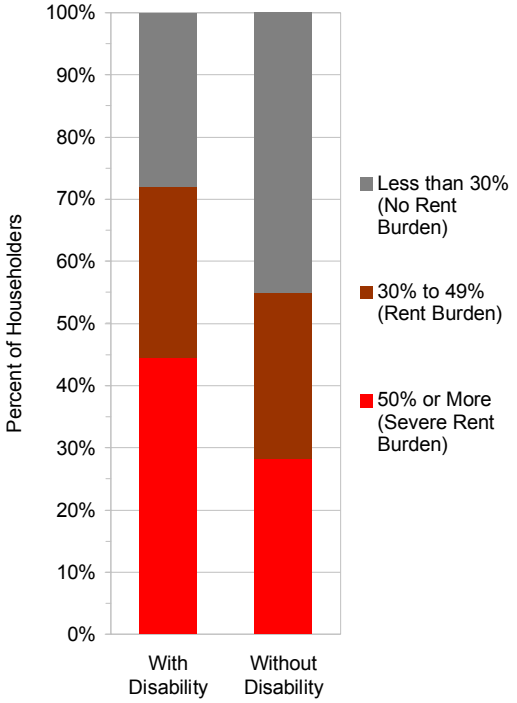
As a consequence of the difficulties many of these residents experience as they attempt to support themselves through work, poverty rates and rent burden were particularly high. **In 2006, 35 percent of householders' with *disabilities* were living in poverty** and over 60 percent were living at or below 150 percent of the poverty threshold (Figure 1-37).[48] These rates were 64 and 71 percent higher, respectively, than rates for renters without a *disability*. **Forty-five percent of all renters with *disabilities* were devoting 50 percent or more of their income to rent and another 27 percent were devoting 30 to 49 percent of their income to rent, making them one of the most vulnerable renter populations in Los Angeles** (Figure 1-38).[49]

Figure 1-37
Poverty Status of Disabled Householders




*Source: U.S. Census Bureau, 2006. American Community Survey.*

Figure 1-38
Percent of Income Spent on Rent by Disabled Householders




*Source: U.S. Census Bureau, 2006. American Community Survey.*

## OCCUPANCY OUTCOMES FOR RENTERS

### Housing Vacancy Rate

*Historic Census Bureau Data for Rental Vacancies*

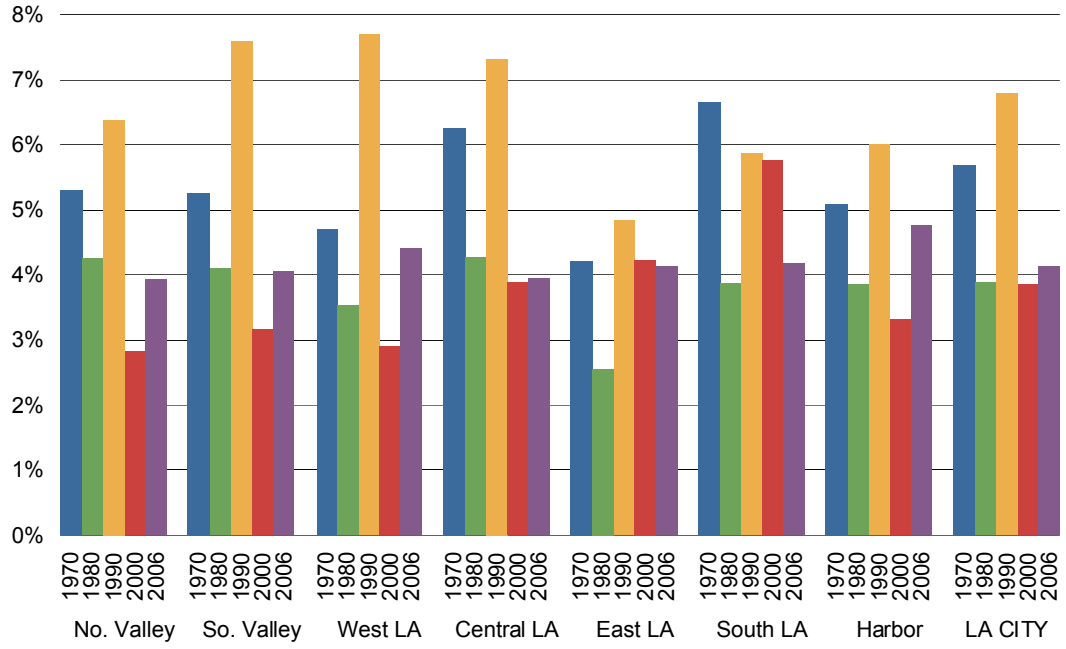
Census Bureau data provides once-a-decade, and more recently, once-a-year, snapshots of vacancy rates in rental housing. Based on the limited picture this data provides, citywide rental vacancy rates have been in the range of 4 to 7 percent for the past 36 years (Figure 1-39).[50]

Vacancies in rental housing units dropped significantly across the City between 1990 and 2000, then appeared to inch up slightly by 2006. For the City of Los Angeles as a whole, Census Bureau data shows the following rental vacancy rates from 1970 through 2006:

- 1970 5.7%
- 1980 3.9%
- 1990 6.8%
- 2000 3.8%
- 2006 4.1%

Except during the severe recession of the 1990s, Los Angeles has had a tight rental market since 1980. Census data shows that among the seven Area Planning Commission areas in 2006, the Harbor Area had the highest rental vacancy rate (4.8 percent) and the North San Fernando Valley had the lowest rate (3.9 percent).

Figure 1-39
Census Data for Vacancy Rates in All Rental Housing Units
City of Los Angeles Area Planning Commission regions 1970-2006



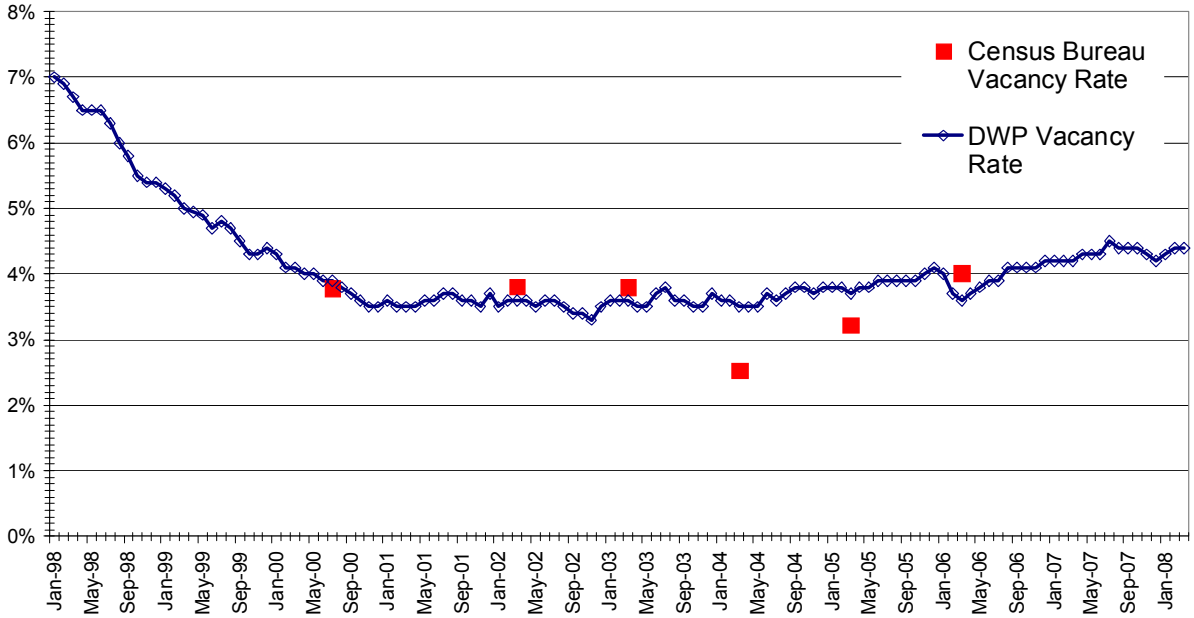

*Source: CensusCD Neighborhood Change Database (NCDB) 1970-2000 US Census Tract Data (Long Form Release 1.0), GeoLytics, Inc., East Brunswick, NJ, 2003, Data sorted descending by 2000 vacancy rates. U.S. Census Bureau, 2006. American Community Survey.*

*Recent DWP, Census Bureau and Postal Service Vacancy Rates*

The most valuable and under-utilized source of data on the city's rental housing market is the Los Angeles Department of Water and Power's (DWP) customer accounts.[51] Over 760,000 units are billed and updated monthly, capturing data that indicates the vacancy status of every housing unit in the City with an individual electricity meter, leaving out about one-tenth of units that are in buildings with master electrical meters and without meters for individual units.[52] DWP data shows the rental vacancy rate falling below 5 percent in April 1999 and remaining below this threshold through March 2008, when it was 4.4 percent. For the past eight years, since 2000, the rental vacancy rate shown by DWP data has been remarkably stable, with the low vacancy rate varying less than 1 percentage point. Census Bureau data is available for six intervals from 2000 onward and closely corroborates the vacancy rate shown by DWP data, as shown in Figure 1-40.[53]

Housing vacancy data for the City of Los Angeles during the past two years is available from three sources: 1) Los Angeles Department of Water and Power, 2) U.S. Census Bureau, 3) U.S. Postal Service (USPS).[54] All three sources report low vacancy rates, with rates for owner-occupied housing even lower than for rental housing, meaning that the overall vacancy rate for the City falls below the rental vacancy rate, as shown in Table 1-9. The U.S. Postal service reports only an overall vacancy rate for all residential units, both owner- and renter-occupied, that have been vacant 90 days or longer. The overall residential vacancy rates for all housing units reported by these three entities are: 3.1 percent by the DWP in 2008, 3.0 percent by the Census Bureau in 2006, and 1.1 percent by the Postal service in 2008. The 90-day criterion for Postal vacancies brings their vacancy rate down to roughly a third of the rate shown by DWP and

Figure 1-40
Department of Water and Power and U.S. Census Bureau Vacancy Rates for Rental Units
*DWP Data for 761,639 Multi-family Individually Metered Housing Units January 1998 to March 2008*




*Sources: DWP data produced and distributed by LAHD from data provided by the City of Los Angeles Department of Water and Power (DWP); the actual total number of vacant housing units is an estimate rather than an actual count of known vacant units. Census Bureau data is from Summary File 3 tables: 2000 H7, H8; 2002-2003 H003, H004; 2004-2006 B25003, B25004*

the Census Bureau. All three data sources support the conclusion that Los Angeles has a housing shortage.

**Rental vacancy rates for the past eight years have fallen below the 5 percent threshold established in Los Angeles Municipal Code ("LAMC") Section 12.95.2(F)(6) for suspending condominium conversions on residential rental properties of two or more units.** This Section empowers the City to deny permits for condominium conversions in a planning area if both of the following conditions occur: vacancies fall below the 5-percent threshold and the cumulative effect of condominium conversions is having a negative effect on the rental housing market.

Table 1-9
City of LA Housing Vacancy Rates
*DWP, Census Bureau and Postal Service*

| LA City Area Planning Commission (APC) Region | Vacancy Rate for All Residential Units Owner and Rental | | |
|---|---|---|---|
| | LA City DWP March 2008 | U.S. Census Bureau 2006 | U.S. Postal Service February 2008 |
| North Valley | 1.8% | 2.1% | 0.5% |
| South Valley | 2.7% | 3.2% | 0.4% |
| West LA | 3.3% | 2.6% | 1.6% |
| Central LA | 4.1% | 3.1% | 1.1% |
| East LA | 2.4% | 3.5% | 1.8% |
| South LA | 3.7% | 3.2% | 1.6% |
| Harbor | 1.9% | 3.1% | 1.3% |
| City of LA | 3.1% | 3.0% | 1.1% |

*Sources: LA City Dept of Water and Power, Information Systems. March 2008. Residential Meter Activity Report for Multi-Unit Dwellings; U.S. Census Bureau, 2006 American Community Survey U.S. Housing & Urban Development Department, Aggregated U.S. Postal Service Administrative Data on Address Vacancies in February 2008*

Figure 1-41
Vacancy Rates in All LA City Residential Units

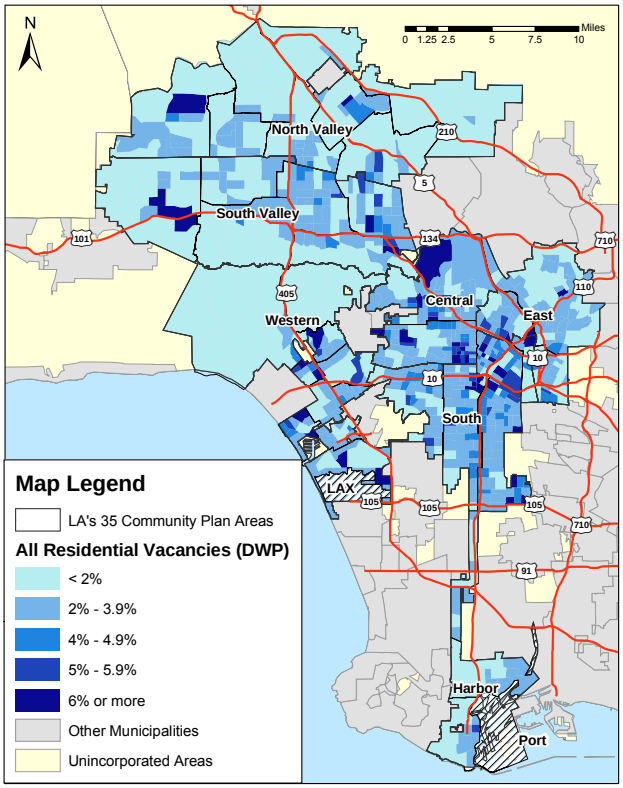
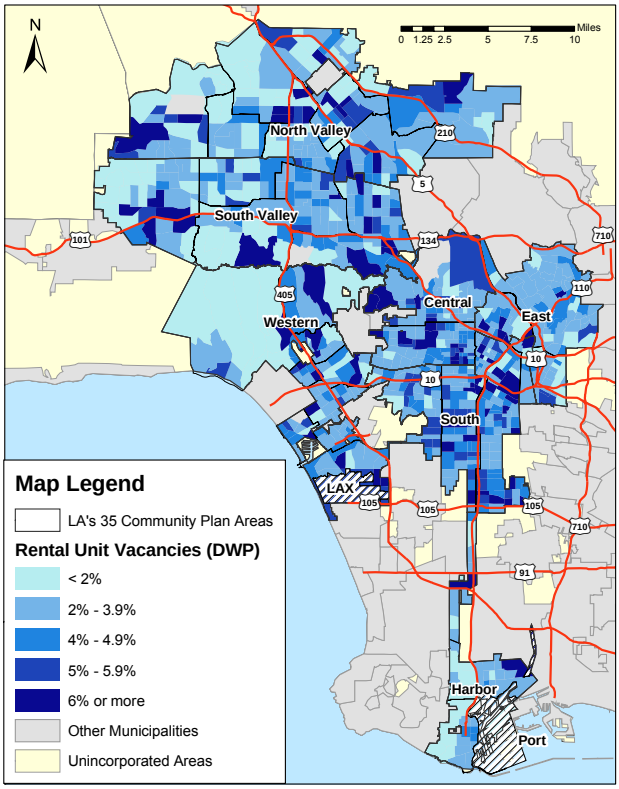



Figure 1-42
Vacancy Rates in LA City Rental Housing Units




Source: LA City Dept of Water and Power, Information Systems. March 2008, Report 91a -Residential Meter Activity by Census Tract. Universe: Individually metered housing units in residential buildings served by LADWP.

**The high rent burden for City residents, high levels of overcrowding and low vacancy rates are evidence that affordable rental housing is in short supply. Conditions that warrant denial of approval for condominium conversions have existed in the City for the past eight years. Condominium conversions have filled a need for market-rate, owner-occupied housing in the City, but often at the cost of reducing the scarce supply of rent-stabilized housing.**

The rich sources of data about housing occupancy and vacancy discussed in this section are deserving of more ongoing, detailed analysis by the City's housing planners, developers, advocates, and stakeholders. For example, DWP vacancy data can be used to estimate recent housing conditions at the community level, as seen in two maps: Figure 1-41, which shows vacancy rates for all residential units and Figure 1-42, which shows vacancy for rental units alone. Community Planning Areas at the extremes of the vacancy rate range are as follows:

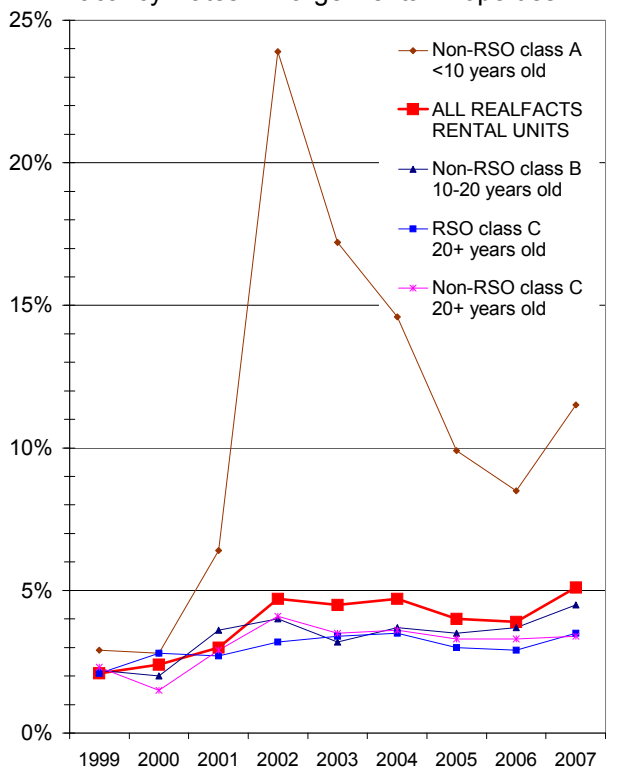
Community Planning Areas with the *lowest rental* vacancy rates:

- Wilmington-Harbor City 2.4%
- Harbor Gateway 2.6%
- Boyle Heights 2.8%

Community Planning Areas with the *highest rental* vacancy rates:

- Venice 9.4%
- Canoga Park-West Hills-Winnetka 8.6%
- Westchester-Playa Del Rey 6.3%

Figure 1-43
Vacancy Rates in Large Rental Properties




Source: RealFacts

Community Planning Areas with the *lowest vacancy rates for all types of housing*:

- Bel Air-Beverly Crest 0.9%
- Sunland-Tujunga 1.3%
- Granada Hills-Knollwood 1.4%

Community Planning Areas with the *highest vacancy rates for all types of housing*:

- Venice 6.8%
- Central City 4.6%
- South Central Los Angeles 4.3%

*Vacancy Rates in Large Rental Properties*

Information about the rental market for large properties (100+ units) is available from RealFacts, showing vacancy rates by building class and RSO status from 1999 through 2007 (Figure 1-43).[55] This sample of rental properties has had an overall vacancy rate of about 5

percent since 2002, riding about one percentage point above the vacancy rates shown in Census data. Except for Class A properties[56], which have a higher vacancy rate than other property classes, vacancy rates for RSO and non-RSO properties have been virtually identical from 1999 through 2007. Given that all RSO properties are categorized as Class C (denoting buildings that are more than 20 years old), it is logical to compare them to Class C non-RSO properties. During this period, there has never been more than one-tenth of one percentage point difference in the vacancy rate for RSO and non-RSO Class C properties.

## Number of Rooms in Rental Units

Table 1-10
Number of Bedrooms in Occupied Rental Units

| Year | No bedrooms | 1 Bedroom | 2 Bedrooms | 3 Bedrooms | 4+ Bedrooms |
|---|---|---|---|---|---|
| 1990 | 21% | 41% | 29% | 7% | 1% |
| 2000 | 26% | 39% | 27% | 7% | 2% |
| 2006 | 10% | 43% | 35% | 9% | 2% |

*Source: U.S. Census Bureau Public Use Microdata Samples 1990-2006*

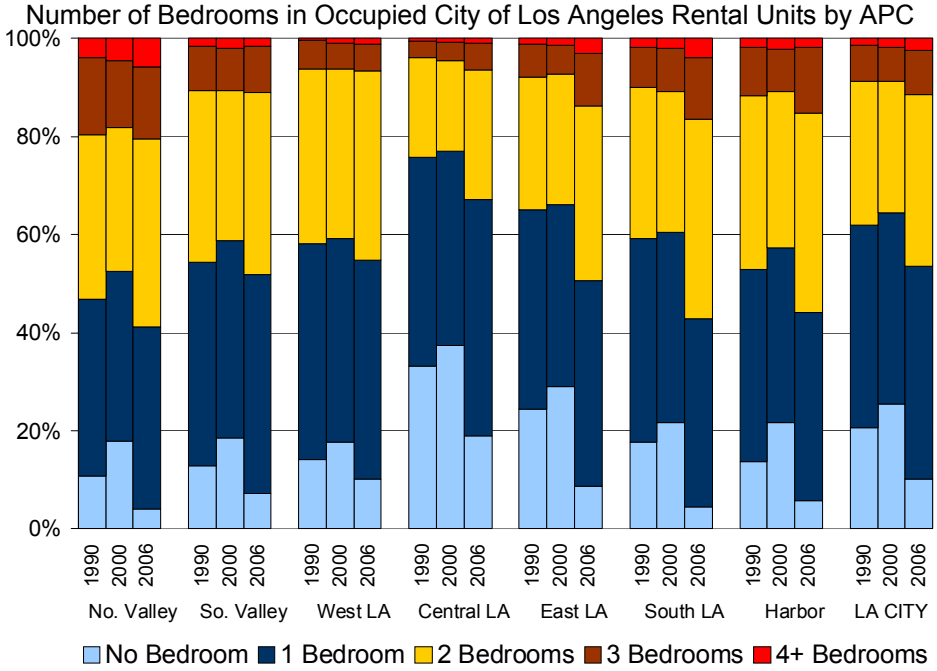
The number of studio apartments without a bedroom has declined and the number of apartments with 2 or more bedrooms has increased since 1990 (Table 1-10). The share of units with no bedroom declined from 21 percent in 1990 to 10 percent in 2006, and the share with 2 or more bedrooms has increased from 38 percent to 46 percent. These trends are broken out by planning region in Figure 1-44.[57]

**Citywide from 2000 to 2006, the net impact of demolitions and new construction was a 15 percent decline in the share of studio apartments and an 11 percent increase in the share of apartments with 2 or more bedrooms in the City's rental inventory. This made an important contribution to reducing overcrowding.**

From 2000 to 2006, the changes in the share of rental units in each planning region that are studio apartments as well as the share of units that have 2 or more bedrooms are shown in Table 1-11. Changes by planning region were as follows:

- *North Valley*: units without bedrooms accounted for 14 percent less, and units with 2 or more bedrooms 11 percent more, of all occupied rental units.
- *South Valley*: units without bedrooms accounted for 11 percent less, and units with 2

Figure 1-44
Number of Bedrooms in Occupied City of Los Angeles Rental Units by APC




*Source: U.S. Census Bureau Public Use Microdata Samples 1990-2006*

or more bedrooms 7 percent more, of all occupied rental units.

- *West Los Angeles*: units without bedrooms accounted for 8 percent less and units with 2 or more bedrooms 5 percent more, of all occupied rental units.
- *Central Los Angeles*: units without bedrooms accounted for 18 percent less and units with 2 or more bedrooms 10 percent more, of all occupied rental units.
- *East Los Angeles*: units without bedrooms accounted for 20 percent less and units with 2 or more bedrooms 15 percent more, of all occupied rental units.
- *South Los Angeles*: units without bedrooms accounted for 17 percent less and units with two or more bedrooms 18 percent more, of all occupied rental units.
- *Harbor*: units without bedrooms accounted for 16 percent less and units with 2 or more bedrooms 13 percent more, of all occupied rental units.

Table 1-11
Change in Size of Occupied Rental Units 2000-2006

| | No Bedrooms | 2+ Bedroom |
|---|---|---|
| North Valley | -14% | 11% |
| South Valley | -11% | 7% |
| West Los Angeles | -8% | 5% |
| Central Los Angeles | -18% | 10% |
| East Los Angeles | -20% | 15% |
| South Los Angeles | -17% | 18% |
| Harbor | -16% | 13% |
| LOS ANGELES CITY | -15% | 11% |

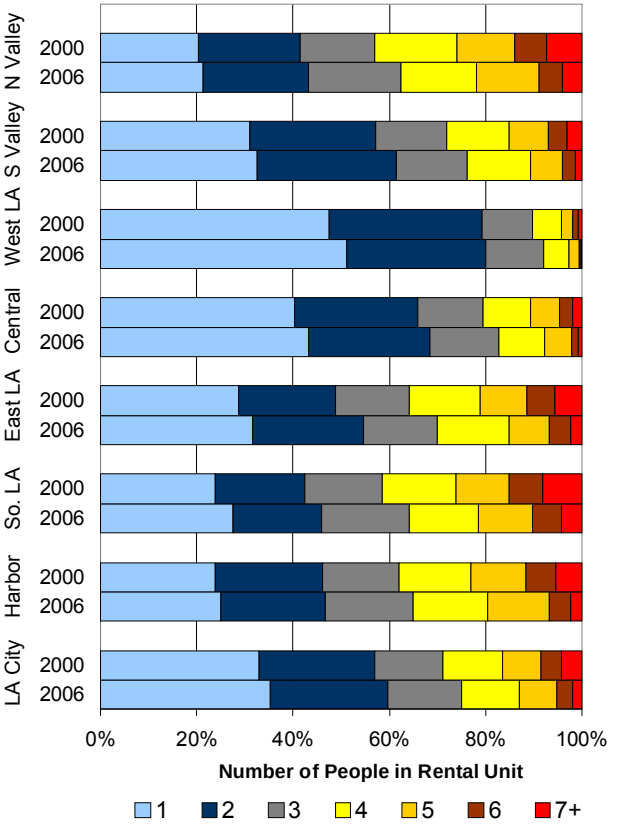
*Source: U.S. Census Bureau Public Use Microdata Sample 1990-2006*

## Size of Renter Households

When a housing unit is not big enough for the number of people occupying it, there is overcrowding. To avoid overcrowding, the number of rooms per unit in the housing inventory needs to correspond with the number of people in households (and larger households need access to larger units). The distribution of LA's renter population in 2000 and 2006, by household size is shown in Figure 1-45[58] (distribution of household sizes) and Table 1-12 (average household size).
What we see is that:

1. The share of households with just one person increased slightly from 33 percent in 2000 to 35 percent in 2006, ranging in 2006 from 20 percent in the *North Valley* to 46 percent in *West Los Angeles*. A single person can occupy a studio apartment with no bedrooms without being overcrowded.

Figure 1-45
Number of People in Renter Households 2000-2006




*Source: U.S. Census Bureau Public Use Microdata Sample 2000, 2006*

2. The share of households with 2 people remained at 24 percent in both 2000 and 2006, and in 2006 ranged from 19 percent in *South Los Angeles* to 31 percent in *West Los Angeles*. A 2-person household can occupy a 1-bedroom unit without being overcrowded.

Table 1-12
Average Size of Households Paying Cash Rent in 2000 and 2006

| Planning Region | 2000 | 2006 |
|---|---|---|
| North Valley | 3.37 | 3.41 |
| South Valley | 2.44 | 2.49 |
| West LA | 1.98 | 2.00 |
| East LA | 3.10 | 3.16 |
| Central LA | 2.48 | 2.43 |
| South LA | 3.35 | 3.37 |
| Harbor | 3.14 | 3.26 |
| CITY OF LOS ANGELES | 2.73 | 2.76 |

3. The share of households with 3 people increased slightly from 14 percent in 2000 to 15 percent in 2006, ranging in 2006 from 11 percent in *West Los Angeles* to 17 percent in the *Harbor* region. A 3-person household needs a 2-bedroom unit to avoid being overcrowded.
4. The share of households with 4 people remained at 12 percent in both 2000 and 2006, ranging in 2006 from 7 percent in *West Los Angeles* to 17 percent in the *North Valley*. A 4-person household needs a 2-bedroom unit to avoid being overcrowded.
5. The share of households with 5 people remained at 8 percent in both 2000 and 2006, ranging in 2006 from 3 percent in *West Los Angeles* to 11 percent in the *North Valley* and *East Los Angeles*. A 5-person household needs a 3-bedroom unit to avoid being overcrowded.
6. The share of households with 6 people decreased from 4 percent in 2000 to 3 percent in 2006, ranging in 2006 from 1 percent in *West Los Angeles* to 7 percent in the *North Valley* and *East Los Angeles*. A 6-person household needs a 3-bedroom unit to avoid being overcrowded.
7. The share of households with 7 or more people decreased from 4 percent in 2000 to 2 percent in 2006, ranging in 2006 from 1 percent in *West Los Angeles* to 7 percent in the *North Valley*. A household with 7 or more members needs at least a 4-bedroom unit to avoid being overcrowded, although it should be noted that some of these large households include many more than 7 people.

Overall, there was marginal change in the average size of renter households in the City; the average household size increased by 1.2 percent from 2.73 in 2000 to 2.76 in 2006. The greatest increase was 3.7 percent in the Harbor region, increasing from an average of 3.14 people to 3.26 people per household. The only area to have a small decline in average household size was Central LA, dropping 2 percent from an average of 2.48 people to 2.43 people per household.

### Ratio of Renter Population to Bedrooms

When we overlay information about number of occupants onto information about the size of housing units (Figure 1-46) we see that very little changed between 1990 and 2000 in terms of density of occupants in housing units.[59] But **important progress was achieved between 2000 and 2006 in reducing the number of renters crowded together in small quarters. A key factor contributing to this outcome was the recent increase in the typical size of rental units.** This progress was in the form of:

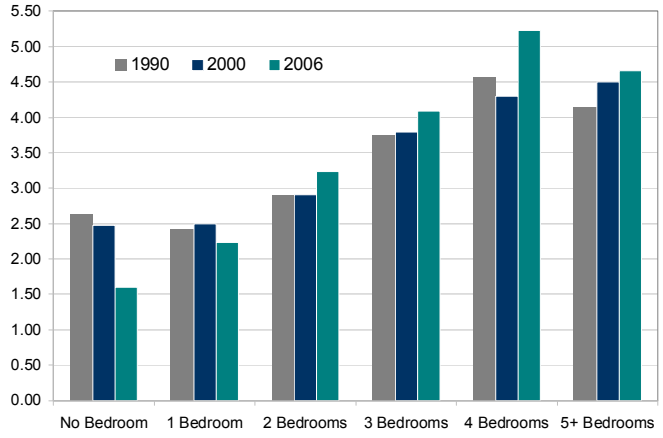
- Reduction in the average number of people in studio apartments from 2.47 in 2000 to 1.60 in 2006
- Reduction in the average number of people in 1-bedroom apartments from 2.50 people in 2000 to 2.24 people in 2006

In summary, **the City achieved substantial progress in alleviating the acute problem of large households living in very small housing units**.

It is informative to look at the occupant density changes that took place in 0- and 1-bedroom units across the City's seven planning regions (Figures 1-47 and 1-48). **Citywide, occupant density in studio or 0-bedroom rental units dropped 35 percent between 2000 and 2006** (Figure 1-47).[60] Changes in occupant density at the planning region level were as follows:

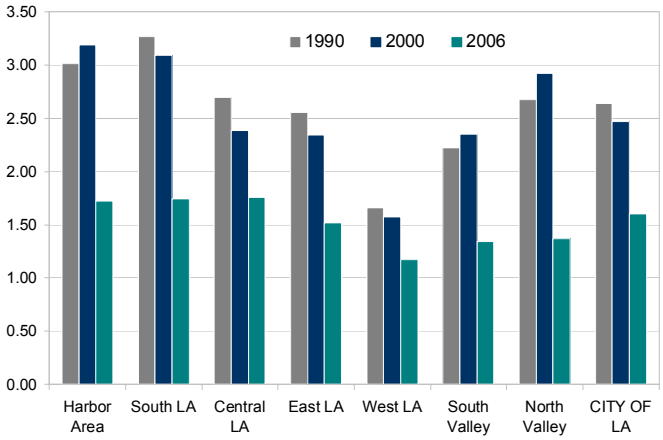
- *North Valley*: density dropped 53 percent, from 2.92 to 1.37 occupants per unit
- *South Valley*: density dropped 43 percent, from 2.35 to 1.34 occupants per unit
- *West Los Angeles*: density dropped 25 percent, from 1.57 to 1.17 occupants per unit
- *Central Los Angeles*: density dropped 26 percent, from 2.39 to 1.76 occupants per unit
- *East Los Ang*eles: density dropped 35 percent, from 2.34 to 1.52 occupants per unit

Figure 1-46
Average People per Household in Renter-occupied Units
LA City Housing by Number of Bedrooms, 1990-2006




*Source: U.S. Census Bureau Public Use Microdata Samples 1990, 2000, 2006*

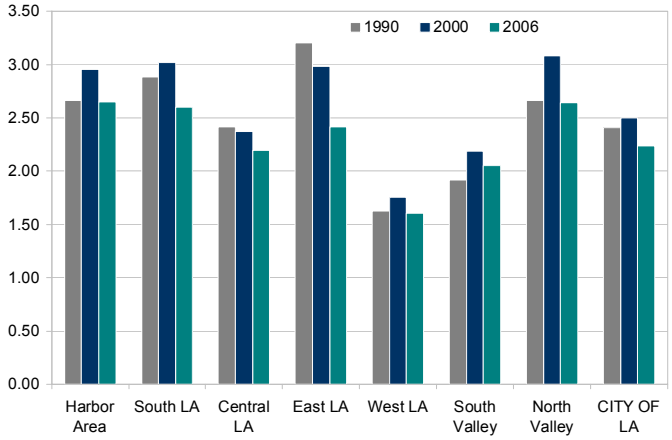
Figure 1-47
Average People per Household in 0-Bedroom Units
LA City Renter-occupied Housing, 1990-2006




*Source: U.S. Census Bureau Public Use Microdata Samples 1990, 2000, 2006*

- *South Los Angeles*: density dropped 44 percent, from 3.09 to 1.74 occupants per unit
- *Harbor*: density dropped 47 percent, from 3.19 to 1.72 occupants per unit

Figure 1-48
Average People per Household in 1-Bedroom Units
LA City Renter-occupied Housing, 1990-2006




*Source: U.S. Census Bureau Public Use Microdata Samples 1990, 2000, 2006*

**Citywide, occupant density in 1-bedroom rental units dropped 11 percent between 2000 and 2006** (Figure 1-48).[61] Changes in occupant density in 1-bedroom rental units at the planning region level were as follows:

- *North Valley*: density dropped 14 percent, from 3.08 to 2.64 occupants per unit
- *South Valley*: density dropped 6 percent, from 2.19 to 2.05 occupants per unit
- *West Los Angeles*: density dropped 9 percent, from 1.76 to 1.60 occupants per unit
- *Central Los Angeles*: density dropped 7 percent, from 2.37 to 2.20 occupants per unit
- *East Los Angeles*: density dropped 19 percent, from 2.98 to 2.41 occupants per unit
- *South Los Angeles*: density dropped 14 percent, from 3.02 to 2.60 occupants per unit
- *Harbor*: density dropped 10 percent, from 2.96 to 2.65 occupants per unit

**It is sobering to note that as recently as 2000, the average number of people living in studio apartments with no bedrooms was greater than the average number in 1-bedroom apartments in the Central Los Angeles, South Los Angeles, South Valley and Harbor planning regions. In these regions, an average of 2.76 people lived in apartments with no bedrooms and 2.64 people lived in apartments with 1 bedroom.** This is evidence of the acute difficulty that many renters have had in affording housing and their inability to pay for housing that would adequately shelter their families.

### Types of Renter Households

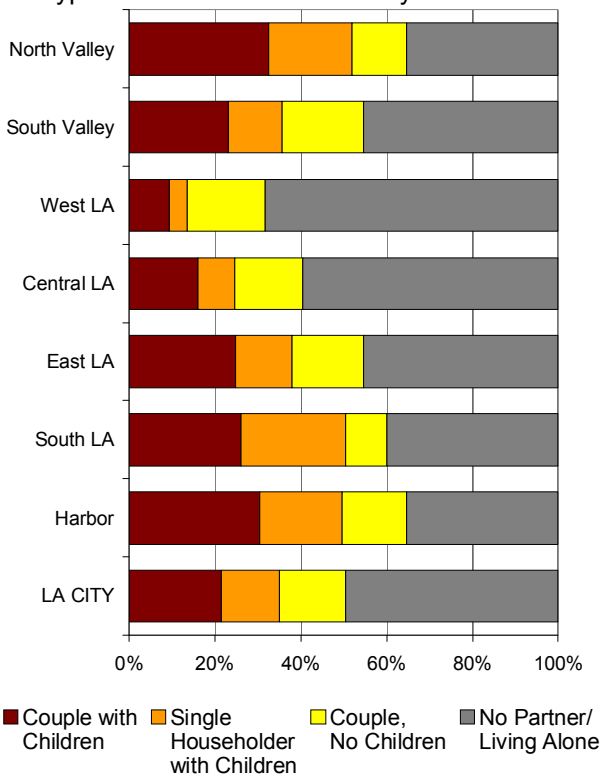
When we look at the types of households that occupied LA City rental units in 2006 we see (Figure 1-49)[62] that:

- Couples with children in the home made up 22 percent of households
- Single adults with children in the home made up 13 percent of households
- Couples with no children in the home made up 15 percent of households
- Individuals who were not in couples made up 50 percent of households; among these single individuals:
    - 71 percent are living alone
    - 29 percent are living in shared housing
- Among couples, the Census Bureau reports that:
    - 80 percent are married

- 2 percent are same sex partners
- 18 percent are two sex partners

- Among single heads of households with children in the home:
  - 20 percent are men
  - 80 percent are women

Figure 1-49
Types of Renter Households by APC in 2006




*Source: U.S. Census Bureau, ACS 2006 PUMS*

The household profile differs among planning regions:

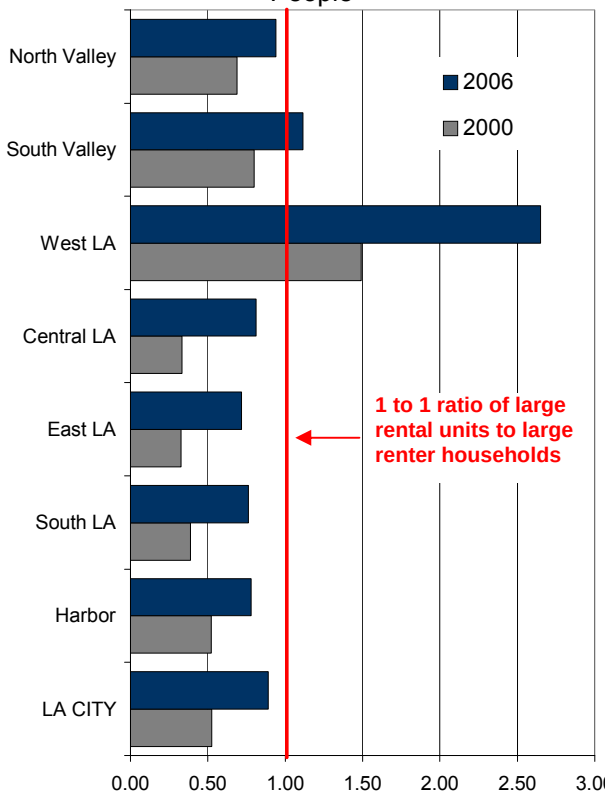
- The *North Valley* has highest rate of couples with children (32 percent) and the lowest rate of single householders (35 percent) of any planning region.
- The *South Valley* closely resembles the citywide profile, with slightly more couples without children (19 percent) and slightly fewer people living alone (45 percent) than the City.
- *West Los Angeles* has the lowest rate of couples with children (16 percent) and the highest rate of people living alone (60 percent) of any planning region.
- *Central Los Angeles* has the second lowest rate of couples with children (9 percent) and the second highest rate of people living alone (68 percent) of any planning region.
- *East Los Angeles* closely resembles the citywide profile, with slightly more couples with children (25 percent) and slightly fewer people living alone (45 percent) than the City.
- *South Los Angeles* has the highest rate of single householders with children (24 percent) and the lowest rate of couples without children in the home (10 percent) of any planning region.
- The *Harbor* region profile is similar to that of the *North Valley* with a high rate of couples with children (31 percent), a high rate of single adults with children (19 percent), and a low rate of single adults living alone (35 percent). A distinguishing attribute of this region was the largest share of same sex couples reported by the Census Bureau – 4 percent.

**Ratio of Large Renter Households to Large Rental Units**

Even though children are present in only 35 percent of LA's renter households, 57 percent of all renters live in households with children. The obvious reason is that households with children tend to be larger than those without children. An important issue for adequately housing large renter households is whether there is an adequate supply of rental units with enough bedrooms to house these families without overcrowding them. Of course, even if there

are enough large units there is a second separate issue connecting large families with those units. In this section we examine only the first issue – the ratio of renter households with 5 or more people to rental housing units with 3 or more bedrooms (Figure 1-50).[63] **Citywide, there was a dramatic improvement from 2000 to 2006 in the availability of large rental units that can accommodate large families.** In 2000, there were 0.52 rental units with 3 or more bedrooms for every renter household with 5 or more people. By 2006, this ratio had grown to 0.89 rental units per household – a 70 percent improvement.

Figure 1-50
Number of Occupied Rental Units with 3+ Bedrooms for Every Renter Household with 5+ People




*Source: U.S. Census Bureau, Census 2000 Summary File 3; ACS 2006 PUMS*

Looking at the improvement in the ratio rental units with 3 or more bedrooms to renter households with 5 or more people at the planning region level we see:

- *North Valley*: the ratio grew from 0.69 in 2000 to 0.94 in 2006, a 37 percent improvement
- *South Valley*: the ratio grew from 0.80in 2000 to 1.11 in 2006, a 39 percent improvement
- *West Los Angeles*: the ratio grew from 1.49 in 2000 to 2.65 in 2006, by far the highest ratio of any region and a 78 percent improvement
- *Central Los Angeles*: the ratio grew from 0.33 in 2000 to 0.81 in 2006, 144 percent improvement and the greatest growth of any region
- *East Los Angeles*: the ratio grew from 0.33 in 2000 to 0.72 in 2006, a 119 percent improvement and the second greatest growth of any region
- *South Los Angeles*: the ratio grew from 0.39 in 2000 to 0.76 in 2006, a 96 percent improvement
- Harbor: the ratio grew from 0.52 in 2000 to 0.78 in 2006, a 49 percent improvement

*Summary*

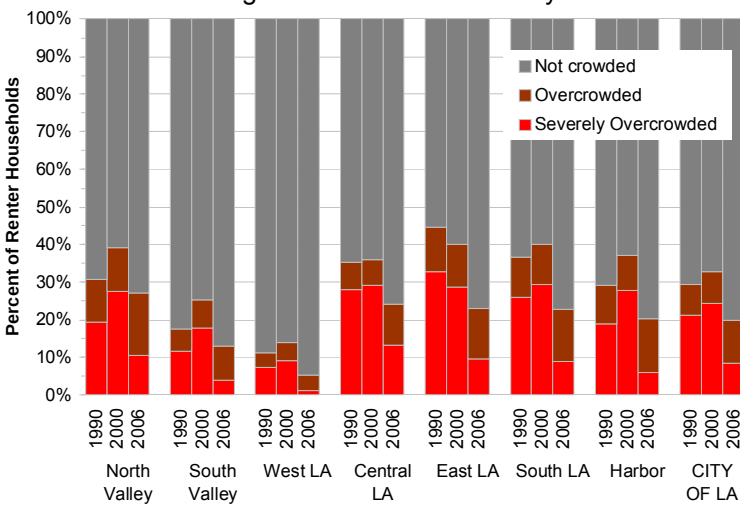
1. *In 2006, most of LA's rental housing stock was occupied; the 4.1 percent vacancy rate was at the lower end of the recent historical range.*
2. *From 2000 to 2006, the net impact of demolitions and new construction was a 15 percent decline in the share of studio apartments and an 11 percent increase in the share of apartments with 2 or more bedrooms in the City's rental inventory. This made an important contribution to reducing overcrowding.*

3. *Important progress was achieved between 2000 and 2006 in reducing the number of renters crowed together in small quarters, particularly the acute problem of large households living in very small housing units. A key factor contributing to this outcome was the recent increase in the typical size of rental units*
4. *Citywide, there was a dramatic 70 percent improvement from 2000 to 2006 in the availability of large rental units that can accommodate large families.*

## Overcrowding

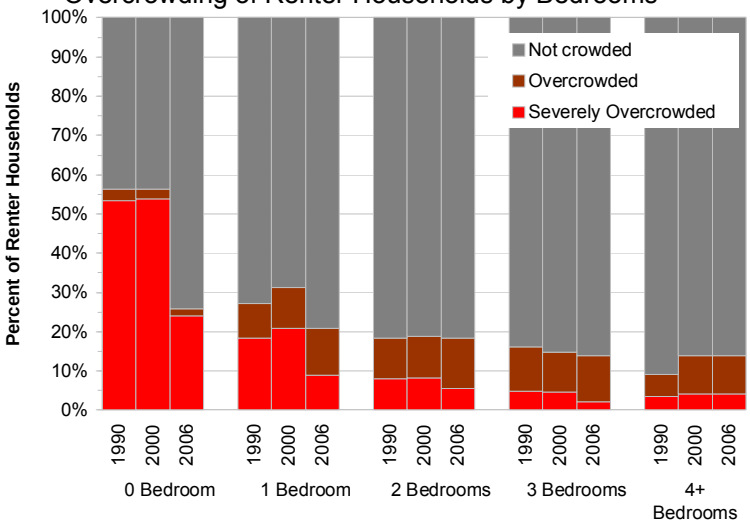
The prevalence of overcrowded rental units in Los Angeles peaked in 2000, when nearly a quarter of all rental units were severely overcrowded (a ratio of 1.51+ occupants per room) and an additional 8 percent were overcrowded (a ratio of 1.01 to 1.50 occupants per room). There is extensive documentation that these living conditions are deleterious to human well being.[64] This meant that in 2000 a third of all LA renters lived in housing with unsuitable occupant densities. Severe overcrowding was widespread throughout the City except in the *West LA* and *South Valley* regions, where overcrowding rates have been consistently lower than citywide rates (Figure 1-51).[65] Overcrowding was concentrated in the City's large stock of small rental units (units with one bedroom or less accounted for 64 percent of the City's rental housing stock in 2000). Over half of rental units without bedrooms (studio apartments) and 20 percent of one-bedroom units were severely overcrowded in 2000 (Figure 1-52).[66]

Figure 1-51
Overcrowding of Renter Households by APC




*Source: U.S. Census Bureau, 1990 and 2000. Census of Population and Housing, Public Use Microdata Sample, 5 Percent. U.S. Census Bureau, 2006. American Community Survey.*

Figure 1-52
Overcrowding of Renter Households by Bedrooms

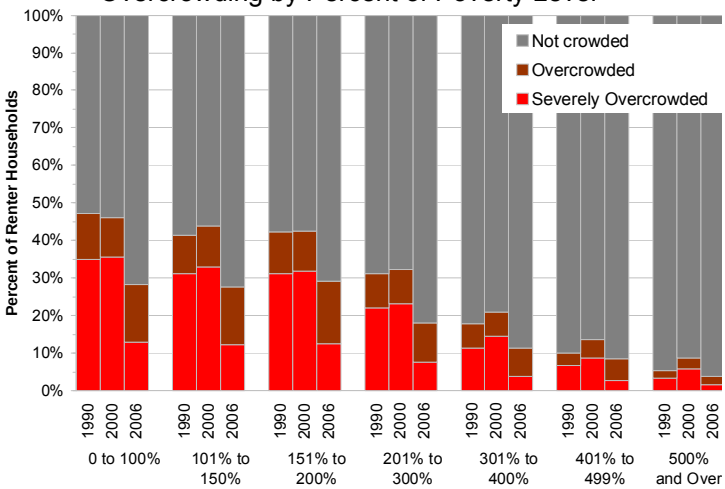



*Source: U.S. Census Bureau, 1990 and 2000. Census of Population and Housing, Public Use Microdata Sample, 5 Percent. U.S. Census Bureau, 2006. American Community Survey.*

**Between 2000 and 2006, overcrowding trends of the previous 20 years changed direction. Rates of severe overcrowding fell 65 percent from**

**2000 to 2006, leaving 8 percent of the City's renters in severely overcrowded conditions and 11 percent in overcrowded conditions.** *West LA* had the largest decline in severe overcrowding rates (86 percent decline) and *Central LA* had the smallest, yet substantial, decrease in severe overcrowding rates (55 percent decline).

Figure 1-53
Overcrowding by Percent of Poverty Level

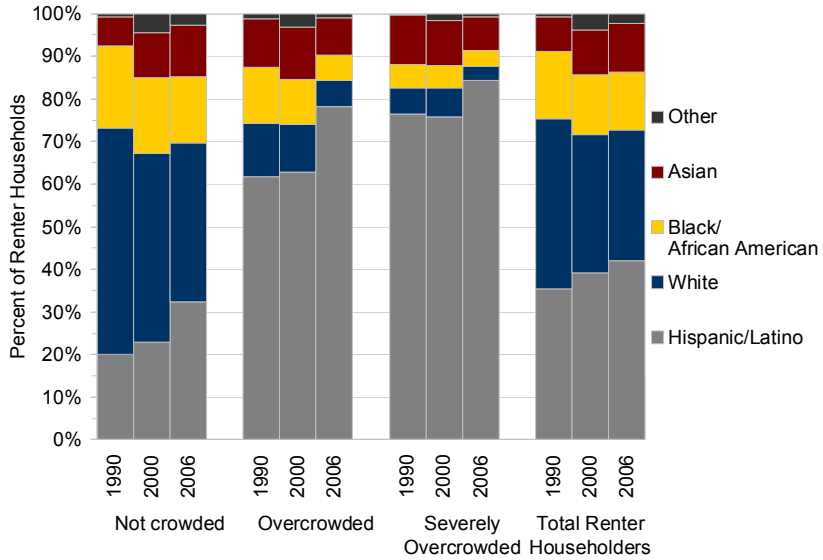



*Source: U.S. Census Bureau, 1990 and 2000. Census of Population and Housing, Public Use Microdata Sample, 5 Percent. U.S. Census Bureau, 2006. American Community Survey.*

A growing stock of larger rental units and a small decline in the renter population during this period contributed to the decline in overcrowding throughout the City. Severe overcrowding rates for units with one bedroom or less fell by over 50 percent. This decline largely accounted for the City's overall decrease in overcrowded rental units. Rates of overcrowding also decreased in units with two or more bedrooms, but the share of units that were overcrowded and severely overcrowded remained roughly the same from 2000 to 2006.

Despite the good news of decreased overcrowding in the City, data indicates that severe overcrowding still disproportionately impacts certain segments of the renter population. **Overcrowding remains widespread for low-income renters, particularly for those living at or below 200 percent of the poverty level** (Figure 1-53).[67] From 1990 to 2000, over 40 percent of renters at or below the 200 percent poverty threshold lived in overcrowded conditions. For renters living in poverty, severe overcrowding rates were ten, six, and nine times greater than the wealthiest category of renters in 1990, 2000 and 2006, respectively. Twenty-eight percent of renters in poverty were either overcrowded or severely overcrowded while only 4 percent of renters in the wealthiest category experienced similar crowding conditions in 2006. An encouraging outcome was that when we look at all degrees of overcrowding (overcrowding in general along with severe

Figure 1-54
Overcrowding of Renter Households by Ethnicity

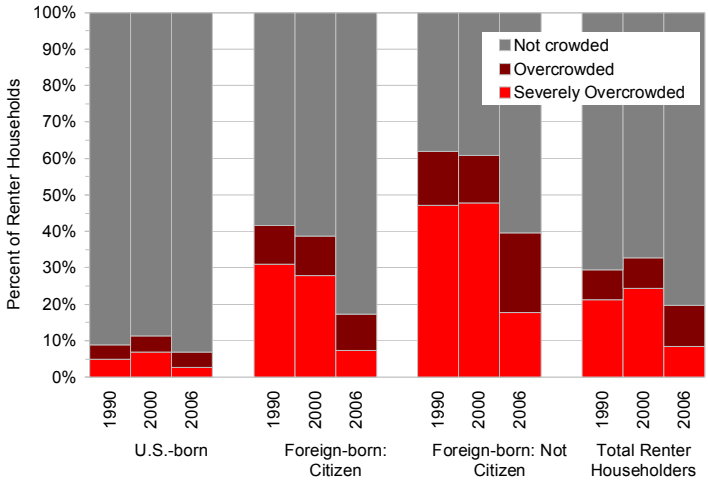



*Source: U.S. Census Bureau, 1990 and 2000. Census of Population and Housing, Public Use Microdata Sample, 5 Percent. U.S. Census Bureau, 2006. American Community Survey.*

overcrowding) the rate declined by more than 55 percent for all categories of renters between 2000 and 2006.

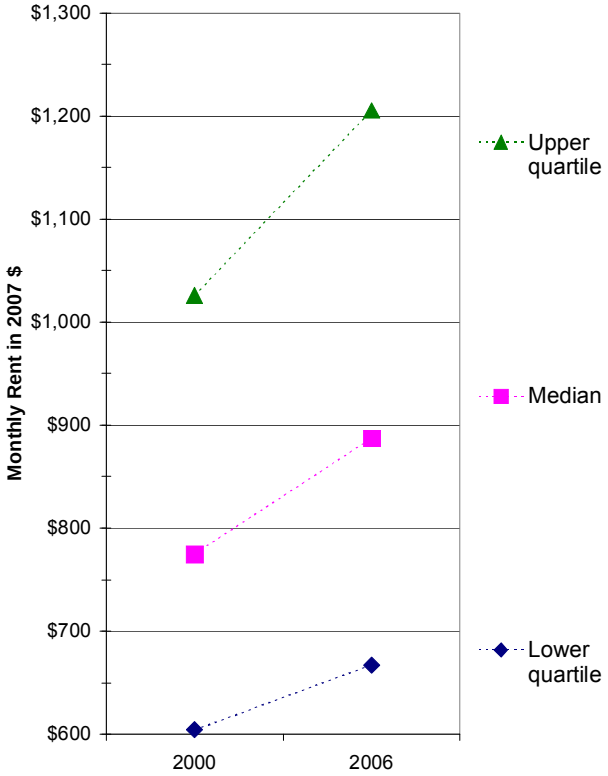
In the last 16 years, *Latino* households have accounted for over three-fourths of all severely overcrowded renters, even though they represented only 35 to 42 percent of total renters (Figure 1-54).[68] Not only were they heavily over-concentrated in overcrowded and severely overcrowded rental units, they were the only group to have a growing representation in these conditions. From 2000 to 2006, the share of *Latinos* in severely overcrowded rental units increased by 11 percent (outpacing their growth in the overall renter population where they grew by 7 percent).

Figure 1-55
Overcrowding of Renter Households by Citizenship Status




*Source: U.S. Census Bureau, 1990 and 2000. Census of Population and Housing, Public Use Microdata Sample, 5 Percent. U.S. Census Bureau, 2006. American Community Survey.*

Figure 1-56
City of Los Angeles Monthly Rent by Quartiles
2000 and 2006 - in 2007 Dollars



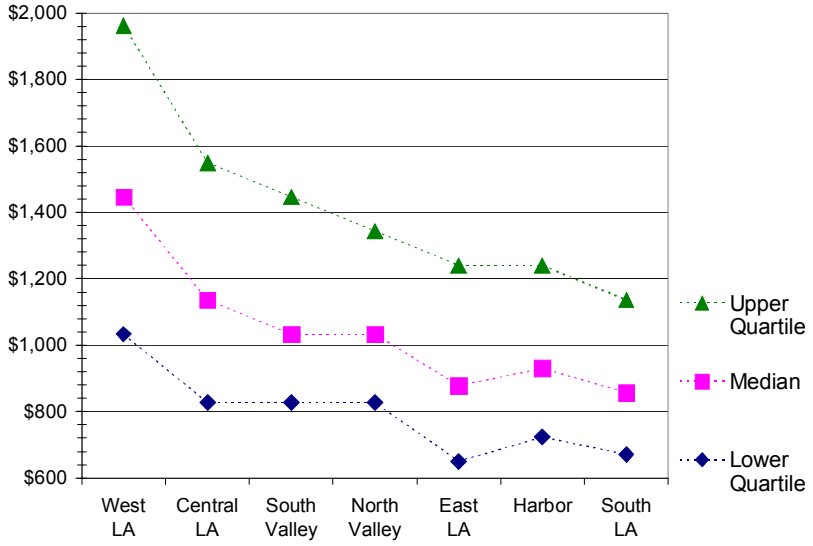

*Source: U.S. Census Bureau tables for Los Angeles City: H55, H56, H57 for 2000; B25057, B25058, B25059 for 2006*

Severe overcrowding rates for *foreign-born* renters in Los Angeles have been consistently higher than rates for their U.S.-born counterparts. In 1990, 2000 and 2006, the share of *foreign-born* renters in severely overcrowded conditions was nine, six, and five times greater than *U.S.-born* renters in similar conditions, respectively. Despite such disparities, the declining share of *foreign-born* renters living in severely overcrowded units from 2000 to 2006 is encouraging.

During this period, rates of severe overcrowding declined slightly more for *foreign-born* renters than *U.S.-born* renters - 66 percent for *foreign-born* renters and 63 percent for *U.S.-born* renters. When further disaggregating renter households by citizenship status, we found that between 2000 and 2006, *foreign-born* citizens had the largest decline in rates of severe overcrowding (Figure 1-55).[69] The share of renters in severely overcrowded units

declined by nearly 75 percent for *foreign-born* citizens and 63 percent for both *foreign-born* residents who are not U.S. citizens and *U.S.-born* renters.

Figure 1-57
Rent Quartiles for City of Los Angeles Planning Regions
2006 Rent Amounts Converted to 2007 Dollars




*Source: U.S. Census Bureau ACS Public Use Microdata Sample 2006*

## RENT

### Lower, Median and Upper Quartile Rent

It is helpful to understand variations in the rent for housing by market segment and geographic area because the rental market is not monolithic. The rent amounts paid by each quartile[70] in Los Angeles' population of renter households in 2000 and 2006 are shown in Figure 1-56.[71] In 2006:

- The rent amount paid by the bottom quartile (the household in the middle of the lower-half of rent payers) was 55 percent of the amount paid by the upper quartile (the household in the middle of the upper half of rent payers). In 2006, this amount was $646. Converted to 2007 dollars it was $667.
- The rent amount paid by the median household (the middle household in the distribution of households from lowest to highest rent amount) was 74 percent of that paid by the upper quartile. In 2006, this amount was $859. Converted to 2007 dollars it was $887.
- The rent amount paid by the upper quartile was $1,167 in 2006. Converted to $2007 dollars it was $1,205.

Rent increases from 2000 to 2006 were greater for higher rungs of the rental market. Rents increased:

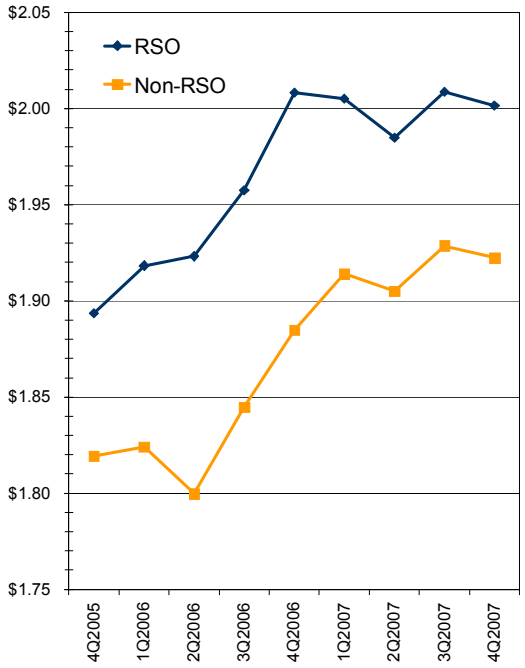
- 35 percent for the lower quartile
- 40 percent for the median
- 44 percent for the upper quartile

When we look simply at 2006 data, we see wide variation in rent in different areas of Los Angeles as well as in different segments of the rental market in each area (Figure 1-57).[72] The median rent is 69 percent higher in *West LA* ($1,446 for 2 rooms) than in *South LA* ($857 for 3 rooms), reflecting widely different income levels and housing options among different segments of Los Angeles households that rent their homes. The lowest lower quartile rent is in *East LA* ($651 for 4 rooms). The highest upper quartile rent is in *West LA* ($1,963 for 3 rooms). **West LA upper quartile renters pay three times as much as lower quartile East LA renters - for an apartment with fewer rooms. LA is not a one size fits all rental market.**

## Rent in the Upper Tier of the Market

An additional window into rent costs in the upper tier of the rental market is available from RealFacts (data for properties with 100+ units) showing rental costs per square foot in the City for RSO and non-RSO properties of roughly the same age (Figure 1-58).[73] These monthly rental costs are the averages for over 37,000 units built 20 or more years ago. When we compare rent stabilized apartments with non-rent stabilized apartments in these high-end properties, we see that tenants in rent stabilized units pay 5 percent more per square foot than tenants in non-rent stabilized units.[74]

Figure 1-58
Monthly Rent per Sq. Ft. for Apartments in Large Buildings 20+ Years Old by RSO Status
*City of Los Angeles, Quarterly Intervals, 2007 Dollars*

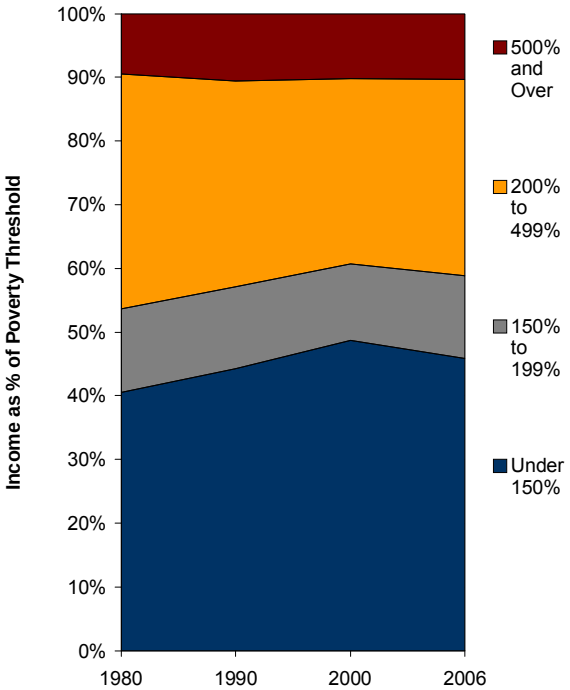



*Source: RealFacts*

## Income Distribution of Renter Households

The ability of renter households to afford decent housing is at the heart of the City's rent stabilization policies (Figure 1-59).[75] During the 20 years from 1980 to 2000, the following shifts occurred:

Figure 1-59
Income of Renters as Percent of Poverty Threshold




*Source: U.S. Census Bureau Public Use Microdata Samples 1980, 1990, 2000, 2006*

- The share of "middle income" renters – households with incomes at least twice the poverty threshold - dropped 8 percentage points
- The share of poor renters – households with incomes under 150 percent of the poverty threshold – grew 8 percentage points

Consequently, the City experienced increased overcrowding and increased numbers of precariously housed renters at risk of losing their homes because they could not make the next rent payment.

Between 2000 and 2006, a new trend may have begun to emerge:

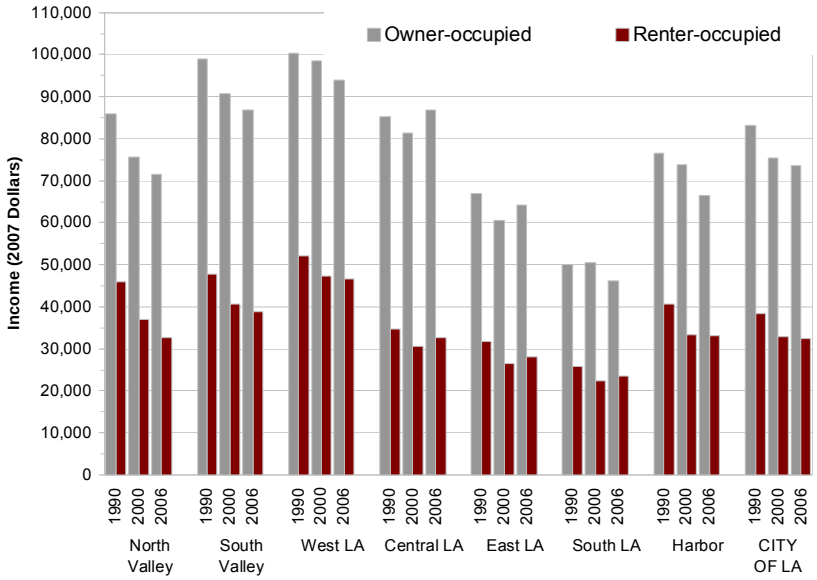
- The share of "middle income" renters grew by 2 percentage points
- The share of poor renters declined 3 percentage points

**LA's renter households are now better able to afford shelter that is not overcrowded.**[76]

## Renter Incomes

Since 2000, a majority of LA renters have had incomes below $35,000 (in 2007 dollars) and their median income has hovered around $32,000. Median incomes for renter householders have been consistently less than half that of home-owner median incomes since 1990 (Figure 1-60).[77] **In 2006, the median income (measured in 2007 dollars) was $73,000 for homeowners compared to $32,000 for renters.**

Figure 1-60
Median Income by Tenure and APC

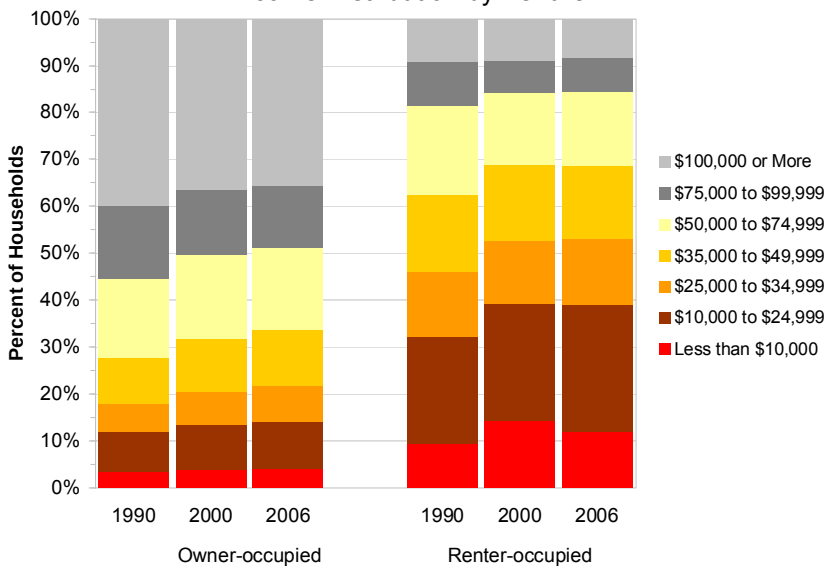



*Source: U.S. Census Bureau, 1990 and 2000. Census of Population and Housing, Public Use Microdata Sample, 5 Percent. U.S. Census Bureau, 2006. American Community Survey.*

Measured in 2007 dollars, Census data shows that in 2006, renters were less able to afford housing than they were 16 years ago. The share of renter householders with incomes below $25,000 increased from 32 percent in 1990 to almost 40 percent in 2006, and the portion of renters with incomes greater than $50,000 decreased from 37 percent in 1990 to 31 percent in 2006 (Figure 1-61).[78] The median income for renters also declined from $38,000 in 1990 to $32,000 in 2006.[79]

There is a marked difference in incomes that come to renters living in different regions of the City. Renters in *West LA* and the *South Valley* had the highest incomes. Most recently, the respective median incomes in the two areas were $47,000 and $39,000. The median income for renters in *South LA* and *East LA* were the lowest of anywhere in the City over the 16 years. In 2006, the median incomes in *South LA* and *East LA* were $24,000 and $28,000, respectively. This is 38 percent and 16 percent lower than the citywide average.

Figure 1-61
Income Distribution by Tenure



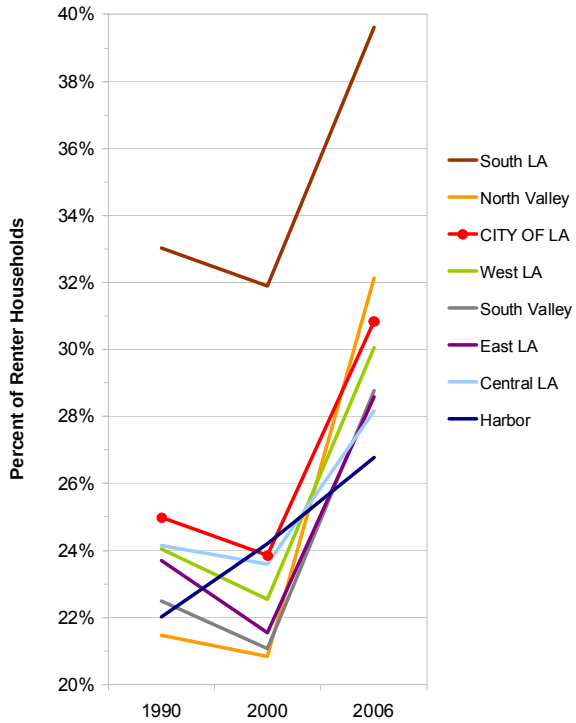

*Source: U.S. Census Bureau, 1990 and 2000. Census of Population and Housing, Public Use Microdata Sample, 5 Percent. U.S. Census Bureau, 2006. American Community Survey.*

## Rent Burden

**The share of Los Angeles residents who are severely rent-burdened[80] has increased by 23 percent in the last decade and a half.** In 1990, 25 percent of renter households in the City were severely rent-burdened, paying 50 percent or more of their income for rent (Figure 1-62).[81] After a slight decrease in 2000, the share of severely rent-burdened households increased to over 30 percent in 2006. Important trends in the share of household income paid by LA residents for rent include:

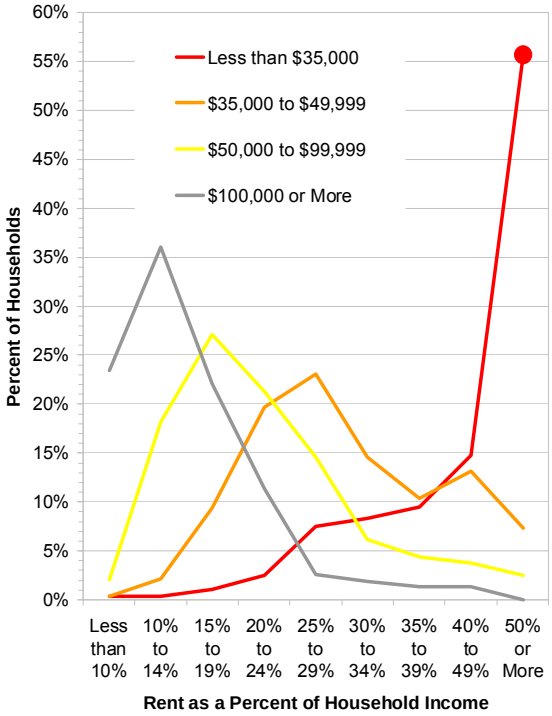
- Severely rent-burdened households were over-concentrated in *South LA* and *North Valley*.
- *South LA* had the greatest portion of severely rent-burdened households. In 2006, nearly 40 percent of renters paid 50 percent or more of household income for rent.

Figure 1-62
Renter Households Paying 50% or More of Income for Rent 1990-2006




*Source: U.S. Census Bureau, 1990 and 2000. Census of Population and Housing, Public Use Microdata Sample, 5 Percent. U.S. Census Bureau, 2006. American Community Survey.*

Figure 1-63
Rent Burden by Household Income in 2006




*Source: U.S. Census Bureau, 2006. American Community Survey.*

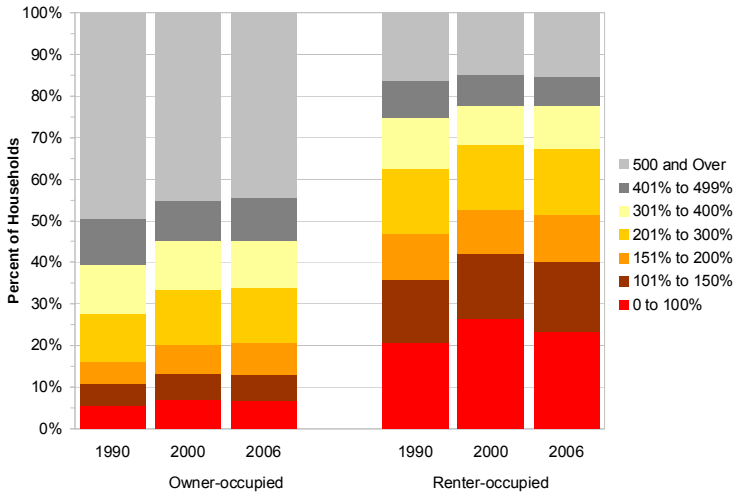
- Severe rent-burden rates were lowest in the *Harbor* and *Central LA* regions in 2006.
- Severe rent-burden rates for the *North Valley* were below the City average from 1990 to 2000; however, by 2006, rates had risen above the City average.

As expected, severe rent-burden falls heavily upon the shoulders of poor renters. In 2006, 56 percent of households with incomes less than $35,000 used 50 percent or more of their income for rent (Figure 1-63).[82] The severe rent burden rate for the poorest category of renters was at least eight times greater than rates for other categories of renters with higher incomes.

Census data shows that paying for rent is more manageable for households that have incomes $35,000 and over. Less than 7 percent of

households with incomes surpassing this threshold were severely rent-burdened in 2006. While certain households, particularly those closer to the $35,000 break point, may well have to sacrifice the location and overall suitability of the housing they rent, most are able to find housing without assuming unmanageable rent burdens. These findings highlight the precarious housing situation of LA's poorest residents and demonstrate the need to provide decent, affordable housing for a population of households that makes up over 50 percent of all renters in Los Angeles.

Figure 1-64
Poverty Rates by Tenure

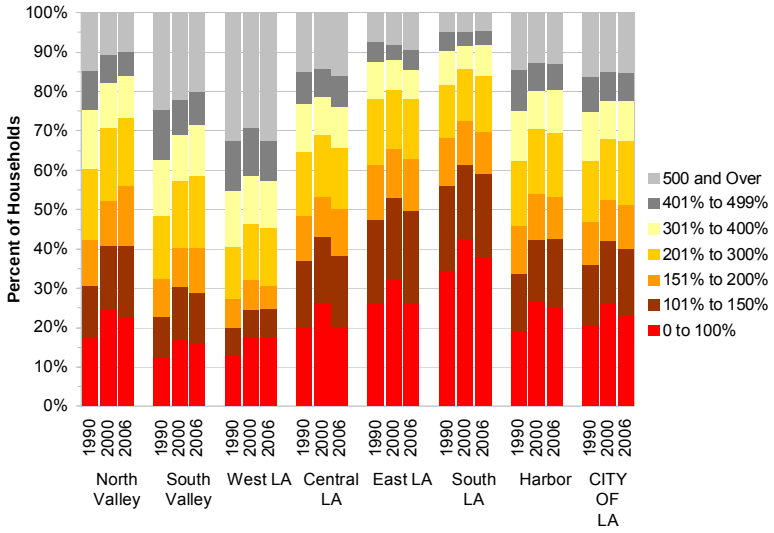



*Source: U.S. Census Bureau, 1990 and 2000. Census of Population and Housing, Public Use Microdata Sample, 5 Percent. U.S. Census Bureau, 2006. American Community Survey.*

## Impoverished Renters

From 1990 through 2006, poverty rates for LA renters were three to four times greater than for homeowners (Figure 1-64).[83] **In 2006, nearly a quarter of all renters were living below the federal poverty threshold (as defined by federal guidelines) and 40 percent were living at or below 150 percent of the poverty threshold.** This is a 13 percent and 10 percent increase, respectively, over 1990 poverty rates. Despite overall growth since 1990 in the share of renters living in poverty, there was a small drop in poverty rates among renters between 2000 and 2006.

Figure 1-65
Poverty Rates for Renter Households by APC



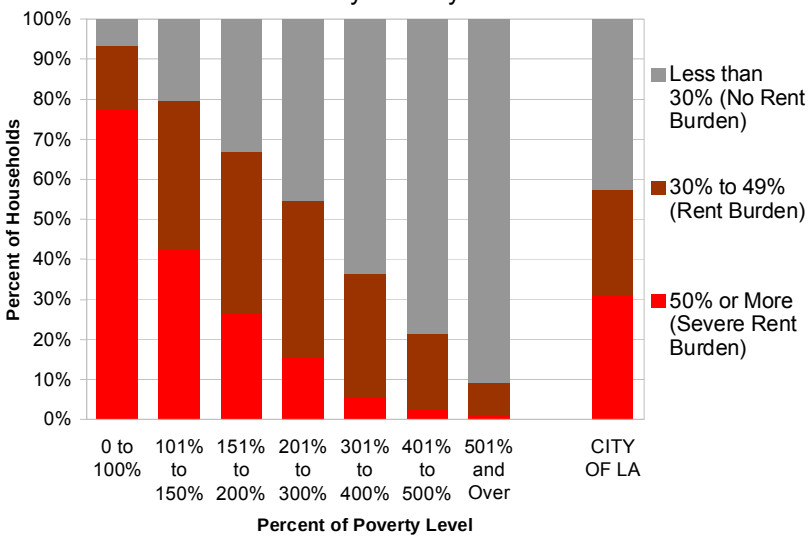

*Source: U.S. Census Bureau, 1990 and 2000. Census of Population and Housing, Public Use Microdata Sample, 5 Percent. U.S. Census Bureau, 2006. American Community Survey.*

In 2006, *East LA*, *South LA* and the *Harbor* region all had poverty rates greater than the City average (Figure 1-65).[84] Poverty rates were highest among renters in *South LA*. Thirty-eight percent of *South LA* renters were in poverty and nearly 60 percent had incomes less than 150 percent of the poverty threshold in 2006. The lowest poverty rates for renters have been consistently found in the *South Valley* and *West LA* where 16 and 17 percent of renters, respectively, lived in poverty in 2006.

As a direct consequence of austere financial circumstances, a majority of LA renters with incomes at or below 300 percent of the poverty threshold found themselves devoting at least 30 percent of their income to rent (Figure 1-66).[85] In 2006, the following shares of LA renters had rent burden rates above the City average:

- Nine-tenths of renters in poverty
- Four-fifths of renters with incomes between 101 and 150 percent of the poverty threshold
- Two-thirds of renters with incomes between 151 and 200 percent of the poverty threshold

Figure 1-66
Rent Burden by Poverty Rate in 2006




*Source: 2006. American Community Survey.*

**Rent Savings**

The primary purpose of the Rent Stabilization Ordinance is to moderate rent increases during periods of rapid rent escalation. An ancillary expectation is that long-term tenants will have lower rent than new tenants, resulting in rent savings. It is important but difficult to determine the extent to which these outcomes are actually occurring. It is clear from survey data and focus group information that rent savings are occurring for some renters, the challenge is to estimate system-wide savings. Fluctuations in the rental market create a variety of circumstances that affect trend data as owners try to keep their units occupied and renters try to find the best housing opportunity:

- In a depressed market, new renters may get their units at a lower cost than longer-term renters in the same building
- In a tight market, in the absence of rent regulation, long-term renters whose rent was discounted when they took their units may get large increases, and new tenants may pay much higher rent than older tenants.

Comparing rent changes for RSO units with those for non-RSO units is further complicated by likely differences in unit size and amenities, given that RSO units are older.

Census Bureau data provides a partial window into rent outcomes for RSO and non-RSO renters. It enables us to make comparisons at several discrete points in time of rents paid by RSO and non-RSO renters, and by renters in each group who have been in their units different lengths of time. It is important to understand, however, that *Census data is an imperfect tool for this task* – it is akin to studying a hilly road through your rearview mirror, trying to gauge the overall speed of cars behind you, some going uphill and others down hill at the moment when you see them.

We produced three different comparisons of rents, using Census Bureau data from three different years: 1990, 2000, and 2006. Rent of tenants in units built before 1980 (a close proxy for rent-stabilized units) was compared to rent for tenants in more recently built (i.e., non-RSO) units, and rents of tenants in each group with different durations of occupancy were compared.[86] M*edian* rent data, which describes the middle or typical renter is shown in Table 1-13; *average* rent data, which summarizes information for all renters is shown in Table 1-14. Both tables aggregate rent data for all sizes of units and then breakout rent data for 1-bedroom units to provide a comparison of RSO and non-RSO rents for units of comparable size. One-bedroom units are the most common size and provide the largest sample of rentals with a common size.

What we see in the three snapshots of median rents in 1990, 2000 and 2006 shown in Tables 1-13 and 1-14 is that **the rent for RSO tenants is less than the rent for non-RSO tenants, and the gap is greater when we look at average rents than when we look at median rents**.[87] These tables show the same pattern of rent differentials for 1-bedroom RSO units and non-RSO units. With rents converted to 2007 dollars, the rent differentials for all units were:

Table 1-13

***Median*** Gross Rent by RSO Status and Years in Unit in 1990, 2000 and 2006

*Universe: Apartments and single-family attached units occupied for cash rent*

***2006 American Community Survey Data - Rents in 2007 Dollars***

| Rent Stabilization Status of Housing Unit | Median Rent All Units | Median Rent by Years in Unit, All Units | | | | Median Rent 1-Bdrm Units | Median Rent by Years in Unit, 1-Bedroom | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Less than 2 Years | 2 to 4 Years | 5 to 9 Years | 10+ Years | | Less than 2 Years | 2 to 4 Years | 5 to 9 Years | 10+ Years |
| Non-RSO | $1,021 | $1,204 | $1,033 | $857 | $847 | $919 | $1,051 | $898 | $806 | $697 |
| RSO | $908 | $1,062 | $949 | $819 | $796 | $857 | $1,011 | $898 | $766 | $735 |
| *RSO Rent Differential* | *-$113* | *-$143* | *-$84* | *-$39* | *-$51* | -$61 | *-$41* | *$0* | *-$41* | *$38* |
| Rent for long-term tenants as % of start-up tenants | Non-RSO | 100% | 86% | 71% | 70% | | 100% | 85% | 77% | 66% |
| | RSO | 100% | 89% | 77% | 75% | | 100% | 89% | 76% | 73% |

***2000 Census Data - Rents in 2007 Dollars***

| Rent Stabilization Status of Housing Unit | Median Rent All Units | Median Rent by Years in Unit, All Units | | | | Median Rent 1-Bdrm Units | Median Rent by Years in Unit, 1-Bedroom | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Less than 2 Years | 2 to 4 Years | 5 to 9 Years | 10+ Years | | Less than 2 Years | 2 to 4 Years | 5 to 9 Years | 10+ Years |
| Non-RSO | $873 | $925 | $863 | $833 | $681 | $851 | $917 | $830 | $815 | $567 |
| RSO | $761 | $779 | $779 | $765 | $680 | $773 | $797 | $783 | $771 | $687 |
| *RSO Rent Differential* | *-$112* | *-$145* | *-$84* | *-$68* | *-$1* | *-$78* | *-$120* | *-$47* | *-$44* | *$120* |
| Rent for long-term tenants as % of start-up tenants | Non-RSO | 100% | 93% | 90% | 74% | | 100% | 90% | 89% | 62% |
| | RSO | 100% | 100% | 98% | 87% | | 100% | 98% | 97% | 86% |

***1990 Census Data - Rents in 2007 Dollars***

| Rent Stabilization Status of Housing Unit | Median Rent All Units | Median Rent by Years in Unit, All Units | | | | Median Rent 1-Bdrm Units | Median Rent by Years in Unit, 1-Bedroom | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Less than 2 Years | 2 to 4 Years | 5 to 9 Years | 10+ Years | | Less than 2 Years | 2 to 4 Years | 5 to 9 Years | 10+ Years |
| Non-RSO | $1,101 | $1,149 | $1,060 | $726 | - | $1,033 | $1,072 | $993 | $682 | . |
| RSO | $901 | $993 | $937 | $836 | $715 | $899 | $993 | $918 | $815 | $693 |
| *RSO Rent Differential* | *-$200* | *-$156* | *-$122* | *$110* | - | *-$133* | *-$79* | *-$75* | *$133* | - |
| Rent for long-term tenants as % of start-up tenants | Non-RSO | 100% | 92% | 63% | - | | 100% | 93% | 64% | - |
| | RSO | 100% | 94% | 84% | 72% | | 100% | 92% | 82% | 70% |

*Source: U.S. Census Bureau, 1990 and 2000 decennial census, 2006 American Community Survey*

| | *Median Differential* | *Average Differential* |
|---|---|---|
| • 2006 | - $113 | - $142 |
| • 2000 | - $112 | - $126 |
| • 1990 | - $200 | - $221 |

Based on 2006 Census data, the median rent for an RSO unit was $113 less a month or $1,356 less a year than the median rent for a non-RSO unit, and the average differential for all renters was $142 a month or $1,704 a year. While tenants in RSO units citywide paid lower rents, the amount of the savings that is directly attributable to the RSO is uncertain. The differentials in median and average rents identified in Tables 1-13 and 1-14 appear to have resulted from a combination of two factors: 1) the inherent difference between rents for older RSO units and newer non-RSO rental units that exists in the market place, and 2) RSO policies that limit annual rent increases.

Table 1-14

***Average*** Gross Rent by RSO Status and Years in Unit in 1990, 2000 and 2006

*Universe: Apartments and single-family attached units occupied for cash rent*

***2006 American Community Survey Data - Rents in 2007 Dollars***

| Rent Stabilized Status of Housing Unit | Average Rent All Units | Average Rent by Years in Unit, All Units | | | | Average Rent 1-Bdrm Units | Average Rent by Years in Unit, 1-Bedroom | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Less than 2 Years | 2 to 4 Years | 5 to 9 Years | 10+ Years | | Less than 2 Years | 2 to 4 Years | 5 to 9 Years | 10+ Years |
| Non-RSO | $1,124 | $1,318 | $1,122 | $924 | $919 | $953 | $1,150 | $928 | $797 | $683 |
| RSO | $981 | $1,174 | $1,014 | $873 | $810 | $891 | $1,076 | $907 | $786 | $733 |
| *RSO Rent Differential* | -$142 | $143 | $108 | $51 | $109 | -$63 | $75 | $21 | $11 | -$51 |
| Rent for long-term tenants as % of start-up tenants | Non-RSO | 100% | 85% | 70% | 70% | | 100% | 81% | 69% | 59% |
| | RSO | 100% | 86% | 74% | 69% | | 100% | 84% | 73% | 68% |

***2000 Census Data - Rents in 2007 Dollars***

| Rent Stabilized Status of Housing Unit | Average Rent All Units | Average Rent by Years in Unit, All Units | | | | Average Rent 1-Bdrm Units | Average Rent by Years in Unit, 1-Bedroom | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Less than 2 Years | 2 to 4 Years | 5 to 9 Years | 10+ Years | | Less than 2 Years | 2 to 4 Years | 5 to 9 Years | 10+ Years |
| Non-RSO | $949 | $1,011 | $940 | $876 | $696 | $888 | $956 | $884 | $820 | $612 |
| RSO | $823 | $863 | $839 | $804 | $719 | $804 | $850 | $821 | $782 | $694 |
| *RSO Rent Differential* | *-$126* | *$148* | *$100* | *$71* | *-$23* | *-$84* | *$106* | *$63* | *$39* | *-$82* |
| Rent for long-term tenants as % of start-up tenants | Non-RSO | 100% | 93% | 87% | 69% | | 100% | 92% | 86% | 64% |
| | RSO | 100% | 97% | 93% | 83% | | 100% | 97% | 92% | 82% |

***1990 Census Data - Rents in 2007 Dollars***

| Rent Stabilized Status of Housing Unit | Average Rent All Units | Average Rent by Years in Unit, All Units | | | | Average Rent 1-Bdrm Units | Average Rent by Years in Unit, 1-Bedroom | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Less than 2 Years | 2 to 4 Years | 5 to 9 Years | 10+ Years | | Less than 2 Years | 2 to 4 Years | 5 to 9 Years | 10+ Years |
| Non-RSO | $1,168 | $1,236 | $1,124 | $786 | - | $1,059 | $1,132 | $1,024 | $676 | - |
| RSO | $946 | $1,056 | $987 | $869 | $764 | $900 | $1,032 | $928 | $821 | $711 |
| *RSO Rent Differential* | *-$221* | *$180* | *$138* | *-$83* | - | *-$159* | *$100* | *$96* | *-$145* | - |
| Rent for long-term tenants as % of start-up tenants | Non-RSO | 100% | 91% | 64% | - | | 100% | 90% | 60% | - |
| | RSO | 100% | 93% | 82% | 72% | | 100% | 90% | 80% | 69% |

*Source: U.S. Census Bureau, 1990 and 2000 decennial census, 2006 American Community Survey*

An alternative to examining the absolute difference between RSO and non-RSO rents is to look at the degree to which current rents of RSO tenants differ by renters' length of tenancy and to compare this to differences in rent among non-RSO tenants. Because owners of RSO units are limited to annual rent increases set by the ordinance[88] and owners of non-RSO units have the option to raise rent to levels the market will bear, we would expect the margin of difference between rent prices for tenants who recently moved into their unit and long-term tenants to be greater for tenants of RSO units than tenants of non-RSO units. In other words, we would expect the discount on rent to be larger for long-term tenants of RSO units than for long-term tenants of non-RSO units.

Using rents for tenants living in their units for less than 2 years as a base year, we calculated the percentage by which rents for longer-term tenants differed from tenants who most recently moved into their units (base year). As shown in Tables 1-13 and 1-14, this calculation was made using data from three different census years: 1990, 2000 and 2006. **Contrary to expectations, Census data suggests that over time, typical tenants of RSO units generally receive smaller discounts on rent than non-RSO tenants as length of tenancy increases.** Summarizing some of the information in Tables 1-13 and 1-14, in 2000 and 2006, long-term renters (10+ years) pay the following percent of the rent paid by new renters:

| | 2000 | | 2006 | |
|---|---|---|---|---|
| | *Median Differential* | *Average Differential* | *Median Differential* | *Average Differential* |
| RSO | 87% | 83% | 75% | 69% |
| Non-RSO | 74% | 69% | 70% | 70% |

In 3 out of the 4 rent differential comparisons shown above, and in 30 out of the 32 total comparisons of rent differentials for tenants with 5-9 and 10 or more years of tenancy shown in Tables 1-13 and 1-14, the discounts for extended tenancy are greater for non-RSO tenants than for RSO tenants. Overall, Census data suggests that while rent for RSO units is generally lower than for non-RSO units, tenants in non-RSO units receive larger discounts in rent over time.

Shifting our focus to data for 2006 in Table 1-14, the differential in the average rent of all RSO units compared to all non-RSO units was $142 or 12.6 percent. One piece of evidence that cautions against attributing all of this 12.6 percent rent differential to the Rent Stabilization Ordinance is that the average assessed value of non-RSO units is 25 percent greater than for RSO units.[89] However, even this Assessor's data about the comparative value of RSO and non-RSO units is uncertain because RSO properties have 4-year older average sales dates than non-RSO properties (1994 vs. 1998).

Setting aside all of the uncertainties about using Census data to estimate rent differentials and *assuming that RSO and non-RSO tenants are renting comparable units*, we can project the differential in average gross rents in 2006 onto all occupied units to estimate annual rent savings that result from the RSO. Based on a 96 percent occupancy rate for the 636,817 units in the RSO inventory, the average monthly differential of $142 in 2006 amounted to annual savings for RSO renters of $1.04 billion.

*The issue of rent savings is revisited in Chapter 2, which presents data from the renter survey. This survey provides additional and more useful data for analyzing rent savings.*

## RENTAL CONDITIONS

### Inspection Results

The Housing Department is LA's lead agency for inspecting the habitability of rental units. Additional inspection services are provided by the City Department of Building and Safety and the Environment Health Services Section of the County's Health Department. The Housing Department's Systematic Code Enforcement Program (SCEP) is charged with ensuring correction of substandard, unsafe and unsanitary living conditions in rental units, with field inspectors operating out of five regional offices. Roughly speaking, SCEP is responsible for properties with multiple rental units, Building and Safety is responsible for inspecting capital improvements that require building permits, and the Health Department is responsible for conditions that create disease risks. All residential properties with two or more rental housing units are inspected on a four-year cycle. Property owners pay an inspection fee of $35.52 per unit each year to fund SCEP. This fee can be passed on to tenants.

The SCEP program began in 1998 as a systematic effort to inspect all occupied multi-unit rental properties in the City of Los Angeles. Seventy percent of all properties subject to SCEP inspections are located in South, Central and East Los Angeles. These three regions are home to the oldest buildings, with median construction dates between 1923 and 1928. Table 1-15 breaks out the total housing inventory subject to SCEP inspections and the number of violations from April 2005 through June 2008, showing a citywide average of 1.5 violations per unit. The ratio of violations to total units by APC is:

- North Valley 1.8
- South Valley 1.3
- West LA 0.6
- Central LA 1.0
- East LA 2.0
- South LA 2.7
- Harbor 1.6
- LA CITY 1.5

Table 1-15

SCEP Properties and Code Violations by APC 2005-2008

| APC | Properties Inspected by SCEP | Median Year Built | Units on SCEP Properties | Case Type | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Complaint Intake | | SCEP Inspections | | Other Types | | Total Violations | |
| | | | | Count | **Percent** | Count | **Percent** | Count | **Percent** | Count | **Percent** |
| North Valley | 4,151 | 1953 | 53,435 | 5,597 | 6% | 83,932 | 9% | 6,083 | 6% | 95,612 | 8% |
| South Valley | 9,972 | 1956 | 125,336 | 11,510 | 12% | 138,138 | 15% | 9,541 | 10% | 159,189 | 14% |
| West LA | 11,199 | 1954 | 92,172 | 5,936 | 6% | 49,307 | 5% | 1,879 | 2% | 57,122 | 5% |
| Central LA | 23,003 | 1928 | 234,927 | 23,417 | 24% | 206,774 | 22% | 13,940 | 15% | 244,131 | 21% |
| East LA | 19,491 | 1923 | 77,532 | 13,026 | 13% | 126,334 | 13% | 12,907 | 13% | 152,267 | 13% |
| South LA | 34,264 | 1923 | 138,113 | 33,197 | 34% | 295,633 | 31% | 47,470 | 49% | 376,300 | 33% |
| Harbor | 6,858 | 1948 | 33,309 | 3,827 | 4% | 46,706 | 5% | 4,086 | 4% | 54,619 | 5% |
| LA CITY | 109,144 | 1929 | 757,677 | 96,510 | 100% | 946,824 | 100% | 95,906 | 100% | 1,139,240 | 100% |

*Source: LAHD. July 2008. CCRIS Systematic Code Enforcement Program (SCEP), CODE Inspection File. Some Column percents do not add up to 100% due to rounding errors.*

What types of violations are SCEP inspections identifying? There are over 120 different types of SCEP violations. The 20 most commonly cited violations, accounting for 70 percent of all violations, are shown in Table 1-16. The most frequent violations include:

- Deteriorated interior walls
- Inoperable or missing smoke detectors
- Windows or doors requiring maintenance
- Unsafe floor coverings (tripping hazard)

There is no noticeable variation across the city's seven APCs in the types of violations that inspectors found.

Table 1-16
Twenty Most Common SCEP Violations

| Violation Type | Frequency | Percent |
|---|---|---|
| Inter-Walls-Ceiling | 141,527 | 12% |
| Smoke Detectors | 124,961 | 11% |
| Window-Door Maintenance | 72,318 | 6% |
| Floor Covering | 68,855 | 6% |
| Caulking | 50,736 | 4% |
| Unit Access | 43,818 | 4% |
| Fixture Defective, Leaky | 37,335 | 3% |
| Ground Fault Interruption Rec. | 27,631 | 2% |
| Plumbing Fixture Surface | 25,780 | 2% |
| Water Heater Temp Pressure | 25,126 | 2% |
| Insect Screens | 25,112 | 2% |
| General Maintenance | 21,450 | 2% |
| Exterior Paint | 19,576 | 2% |
| Loose Fixtures | 19,472 | 2% |
| Light Fixture | 18,294 | 2% |
| Water Heater Strap-Secure | 17,839 | 2% |
| Counter-Drain Board | 17,699 | 2% |
| Covers-Switch-Receptacle | 17,132 | 1% |
| Infestation | 17,061 | 1% |
| Unapproved Construct | 16,537 | 1% |

*City of Los Angeles Housing Department SCEP CCRIS Historical File (April 2005 to June 2008)*

## Building and Safety Inspection Services

### *All Residential Properties*

The City of Los Angeles Department of Building and Safety (LADBS) inspects permit related work, often discovered through enforcement efforts of the SCEP inspectors. Both SCEP and LADBS code enforcement inspectors work to "preserve and enhance the safety, appearance and economic stability of our community through the diligent enforcement of applicable ordinances and land use regulations." Vacant and dilapidated buildings fall under their purview. Inspection data compiled since 2000 shows that LADBS inspectors often review exterior structural work.

Many of the most common Building Code problems identified through all LADBS property inspections by are associated with housing cost and scarcity. **The most frequent code violation, found in 18 percent of the *notices to comply* issued by LABDS, is for construction work (both in-progress and completed) that was done without a permit, often to increase the size and occupant capacity of housing units. The second most frequent type of violation, found in 9 percent of cases (6,461 notices), is for garage conversions that were done without a building permit, typically to create rental housing that in some cases was found to be substandard.**

### *RSO Rental Properties*

What about problems cited by LADBS inspectors on RSO-regulated properties? Unpermitted construction, in-progress and completed, are two most common problems cited, and garage conversions ranked sixth (Table 1-17). Interestingly, **there have been 441 cases from 2002 through early 2008 in which RSO property owners were cited for converting an apartment building or property to another use.** This is the third most frequent violation found at RSO properties. The years in which these notices were issued are as follows:

- 2002 51
- 2003 116
- 2004 107
- 2005 74
- 2006 35
- 2007 52
- 2008 6 (partial year)

Other frequently cited problems in RSO units included:

- Operating and/or advertising an unpermitted business
- Problems with general upkeep.

Table 1-17
Most Common Violations Cited by the Los Angeles Department of Building and Safety for RSO-Regulated Buildings

| | Type of Violation | Frequency | Percent |
|---|---|---|---|
| 1. | Construction *Done* without Permits or Inspections | 455 | 9% |
| 2. | Construction *in Progress* without Permits or Inspections | 448 | 9% |
| 3. | Building or Property Converted To Another Use | 441 | 9% |
| 4. | Miscellaneous Complaints | 418 | 9% |
| 5. | Outdoor Advertisement (Signs) of Goods or Services Available | 405 | 8% |
| 6. | Garage Converted to a Dwelling or any other Use | 347 | 7% |
| 7. | People Selling Products Outside of an Enclosed Building | 320 | 7% |
| 8. | Abandoned or Vacant Building Left Open To The Public | 300 | 6% |
| 9. | Trash or Debris on Private Property | 293 | 6% |
| 10. | Buildings in Need of General Repair | 270 | 6% |
| 11. | Fences Walls and Hedges That are too High | 156 | 3% |
| 12. | Overgrown or Excessive Vegetation | 145 | 3% |
| 13. | Automobile Repair Conducted on Residential Property | 132 | 3% |
| 14. | Open Storage of Vehicles that cannot be Legally Operated | 130 | 3% |
| 15. | Parking Automobiles In The Front Yard (Other Than Driveway) | 109 | 2% |
| 16. | Business Operated from a House or Garage | 89 | 2% |
| 17. | Storage of Items Outdoors | 75 | 2% |
| 18. | Any Problems that only occur at Night or on Weekends | 62 | 1% |
| 19. | Graffiti on the Building, Fences or Walls | 56 | 1% |
| 20. | Any Changes Done to a Property in an Historical Area | 42 | 1% |

*Source: LA Department of Building and Safety. 2008. LADBS Code Enforcement Information System (CEIS). Based upon 70,457 CSR Problems Identified by LADBS Inspectors as of February 2008.*

The most significant trends found in the 441 cases of RSO-regulated buildings or properties converted to illegal uses identified by LADBS are shown in Table 1-18. Seventy percent (313) of the cases were found in the Central, East and South LA regions, which have just 56 percent of the City's rental housing units. Most citations were issued during the peak years of the recent real estate boom.

Table 1-18
RSO-Regulated Buildings or Properties Converted to Illegal Uses Violations Identified by LABDS, by Year Cited and APC

| | Area Planning Commission (APC) | | | | | | | City of LA |
|---|---|---|---|---|---|---|---|---|
| Year Cited by LADBS | North Valley | South Valley | West LA | Central LA | East LA | South LA | Harbor | |
| Pre-2002 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2002 | 9 | 3 | 0 | 7 | 9 | 20 | 3 | 51 |
| 2003 | 18 | 9 | 5 | 6 | 27 | 48 | 3 | 116 |
| 2004 | 8 | 13 | 5 | 14 | 26 | 36 | 5 | 107 |
| 2005 | 9 | 7 | 1 | 8 | 13 | 31 | 5 | 74 |
| 2006 | 3 | 4 | 1 | 5 | 4 | 17 | 1 | 35 |
| 2007 | 4 | 5 | 4 | 10 | 11 | 17 | 1 | 52 |
| 2008 | 1 | 0 | 1 | 2 | 0 | 2 | 0 | 6 |
| Total | 52 | 41 | 17 | 52 | 90 | 171 | 18 | 441 |

*Source: LA Department of Building and Safety. 2008. LADBS Code Enforcement Information System (CEIS). Based upon 441 "Illegal Use" CSR cases identified by LADBS Inspectors as of February 2008.*

Nine percent of all citations, involving 441 buildings, were for unpermitted conversions of apartment buildings into offices or other commercial uses. In addition, there were citations for apartment buildings converted into for-sale housing, as well as construction of additional rental units without the required permits. Across Los Angeles, most

unpermitted conversions of RSO-regulated rental housing occurred in older buildings (Table 1-19). This was most frequent in East LA, and also found often in the Central LA, South LA and Harbor regions. Conversion of older, RSO-regulated apartment buildings to other use reduced the supply of affordable rental housing.

Table 1-19
Average Year Built of RSO-Regulated Buildings or Properties Converted to Illegal Uses, by Year Cited and APC

| | Area Planning Commission (APC) | | | | | | | City of LA Average |
|---|---|---|---|---|---|---|---|---|
| Year Cited by LADBS | North Valley | South Valley | West LA | Central LA | East LA | South LA | Harbor | |
| Pre-2002 | - | - | - | - | - | - | - | - |
| 2002 | 1936 | 1952 | - | 1936 | 1934 | 1929 | - | 1933 |
| 2003 | 1958 | 1960 | 1960 | 1926 | 1931 | 1932 | 1927 | 1938 |
| 2004 | 1957 | 1943 | 1958 | 1937 | 1921 | 1933 | 1924 | 1934 |
| 2005 | 1945 | 1960 | - | 1936 | 1941 | 1934 | 1934 | 1937 |
| 2006 | - | - | 1978 | 1936 | 1920 | 1943 | 1959 | 1941 |
| 2007 | 1959 | 1954 | 1916 | 1923 | 1928 | 1937 | - | 1934 |
| 2008 | - | - | 1941 | 1941 | - | 1965 | - | 1949 |
| Total | 1953 | 1952 | 1952 | 1932 | 1930 | 1934 | 1934 | 1936 |

*Source: LA Department of Building and Safety. 2008. LADBS Code Enforcement Information System (CEIS). Based upon 441 "Illegal Use" CSR cases identified by LADBS Inspectors as of February 2008. LA County Assessor's Effective Year Built is used in this table.*

## Conversions and Demolitions

Apartment buildings and/or units are sometimes removed from the rental market. Apartment buildings that previously were owned by a single landlord are converted into condominium units, with each unit sold and owned separately. With some modifications (such as upgrading plumbing or electrical wiring), apartment buildings can gain value when converted into for-sale condominiums. **The number of apartment buildings converted to condominiums has increased annually since 2003, with more than 100 former apartment buildings converted each year since 2005** (Table 1-20). Of these, 62 percent of the permits issued by the City were in West LA and the South Valley, while only 12 percent were in East LA, South LA, or the Harbor. This geographic pattern mirrors the variation in household incomes and employment across the City.

Table 1-20
Permits Issued to Convert Apartment Buildings into Condominiums by APC

| | Area Planning Commission (APC) | | | | | | | City of LA |
|---|---|---|---|---|---|---|---|---|
| Permit Issue Year | North Valley | South Valley | West LA | Central LA | East LA | South LA | Harbor | |
| 1997 | 0 | 0 | 5 | 1 | 0 | 0 | 0 | 6 |
| 1998 | 7 | 2 | 9 | 0 | 0 | 2 | 4 | 24 |
| 1999 | 0 | 2 | 13 | 2 | 0 | 0 | 0 | 17 |
| 2000 | 0 | 7 | 7 | 0 | 1 | 0 | 0 | 15 |
| 2001 | 0 | 1 | 15 | 0 | 0 | 0 | 0 | 16 |
| 2002 | 0 | 14 | 22 | 4 | 0 | 5 | 0 | 45 |
| 2003 | 2 | 5 | 8 | 4 | 1 | 1 | 0 | 21 |
| 2004 | 3 | 15 | 16 | 17 | 0 | 0 | 0 | 51 |
| 2005 | 4 | 30 | 25 | 15 | 1 | 0 | 39 | 114 |
| 2006 | 17 | 37 | 33 | 31 | 3 | 3 | 5 | 129 |
| 2007 | 13 | 63 | 68 | 48 | 4 | 7 | 3 | 206 |
| All Years | 46 | 176 | 221 | 122 | 10 | 18 | 51 | 644 |
| | 7% | 27% | 34% | 19% | 2% | 3% | 8% | 100% |

*Source: LA Department of Building and Safety. 1997-2007. Building Permit Data from the Plan Check and Inspection System (PCIS). Based upon 664 permits to convert property use from apartments to condominiums.*

Another scenario for older apartment buildings, instead of conversion, is demolition. This is in preparation for the redevelopment of a

parcel, where the existing apartment building is not deemed worth converting, but is instead removed so that some new type of housing (or other use) may be built on the plot of land. Across the entire city, the number of apartment building demolitions increased every year since 1998, with more than 100 apartment buildings permitted for demolition every year since 2003 – five years running (Table 1-21). The distribution of these demolitions is more evenly distributed across the City's seven APCs than the previously discussed condo conversions, but is still skewed towards three areas: West LA, Central LA and the South Valley.

Table 1-21
Permits Issued to Demolish Existing Apartment Buildings by APC

| Permit Issue Year | Area Planning Commission (APC) | | | | | | | City of LA |
|---|---|---|---|---|---|---|---|---|
| | North Valley | South Valley | West LA | Central LA | East LA | South LA | Harbor | |
| 1997 | 2 | 3 | 6 | 16 | 26 | 15 | 1 | 69 |
| 1998 | 1 | 0 | 16 | 8 | 23 | 2 | 1 | 51 |
| 1999 | 2 | 3 | 15 | 15 | 34 | 10 | 0 | 79 |
| 2000 | 0 | 18 | 42 | 13 | 1 | 14 | 2 | 90 |
| 2001 | 0 | 11 | 28 | 15 | 2 | 9 | 0 | 65 |
| 2002 | 0 | 9 | 24 | 16 | 12 | 6 | 1 | 68 |
| 2003 | 0 | 19 | 44 | 13 | 1 | 4 | 69 | 150 |
| 2004 | 0 | 35 | 47 | 22 | 3 | 6 | 0 | 113 |
| 2005 | 3 | 20 | 50 | 51 | 3 | 1 | 0 | 128 |
| 2006 | 2 | 65 | 75 | 52 | 15 | 9 | 20 | 238 |
| 2007 | 0 | 56 | 76 | 47 | 8 | 5 | 1 | 193 |
| All Years | 10 | 239 | 423 | 268 | 128 | 81 | 95 | 1,244 |
| | 1% | 19% | 34% | 22% | 10% | 7% | 8% | 100% |

*Source: LA Department of Building and Safety. 1997-2007. Building Permit Data from the Plan Check and Inspection System (PCIS). Based upon 1,244 permits to demolish properties previously used is as apartment buildings.*

## Housing at the Margins

What are the indicators of substandard housing units in LA's rental housing market? Who lives in these units? Are these units growing or declining as a share of the rental market?

We get clues about answers to these questions, but not complete answers, from the US Census Bureau, which asks households: Do you have COMPLETE plumbing facilities, that is: hot and cold piped water, a flush toilet, and a bathtub or shower? Do you have COMPLETE kitchen facilities: that is, a sink with piped water, a range or stove, and a refrigerator?

Units that lack these facilities (excluding hotels and motels) may well be substandard housing without occupancy permits. It is likely that the Census Bureau does not find or survey a significant share of these unauthorized dwelling units because typically people attempt to conceal illegal activities, including illegal housing, but those units that are identified help map communities where substandard housing is most prevalent.[90]

**Citywide in Los Angeles, the Census Bureau reported that 3 percent of units lacked complete kitchens and 2 percent lacked complete plumbing facilities.** We combine these two indicators and show the percent of units without these rudimentary facilities in each of the 35 Community Planning Areas in Figure 1-67.[91]

Setting aside the Central City area, which has a large inventory of single room occupancy rental units that meet building code requirements without having separate bathrooms and kitchens, in 2000:

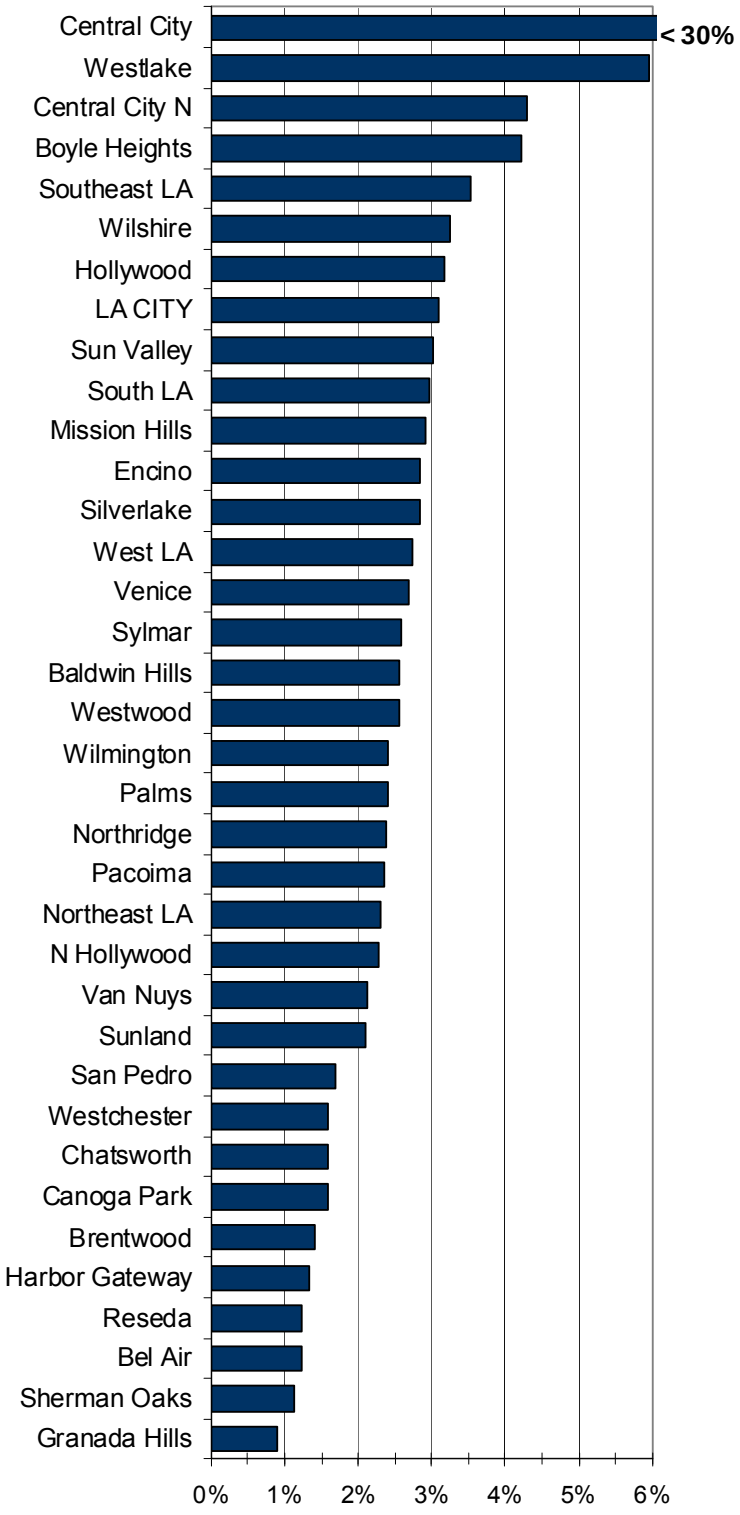
- Westlake/Pico-Union had by far the highest rate of substandard units – 6 percent
- Granada Hills had the lowest rate – 0.9 percent
- **There is a direct connection between the income level in a community and the number of substandard dwelling units reported.**

Looking at 2000 Census data we see that 3.5 percent of renters in the City reported living in substandard housing units.[92] We can say three things about these individuals with some degree of confidence:

1. They are more likely to be extremely poor – with household incomes that are **24 percent or less of the poverty threshold** (5.9 percent)
2. They are more likely to be **disabled** (5.2 percent)
3. They are more likely to be **linguistically isolated** (4.8 percent)

The encouraging finding is that there appears to have been a **significant decline in the number of households living in substandard housing from 2000 to 2006**. The number of records provided by the Census Bureau for 2006 is too small to support a reliable quantified estimate of the amount of the reduction, but it is evidence that the decline was significant.[93] This improvement has coincided with implementation of the SCEP program, which began in 1998.

Figure 1-67
Rental Units with Incomplete Plumbing or Kitchen in 2000




*Source: Census 2000, Summary Files H22, H51*

## *SUMMARY*

*Major Trends in LA's Rental Housing Market*

- Much of the current housing scarcity emerged in the 1980s, a decade when LA's population grew 17 percent but its housing inventory grew only 9 percent – about half of the population growth rate. In the following decade, population growth slowed but the margin of disparity between new residents and new housing remained the same.
- Los Angeles residents rent their homes at about double the national rate.
- The shift toward greater home ownership seen in New York and Chicago may also be seen in Los Angeles in the coming decade as immigrants who arrived in the 1990s continue to make economic gains and are increasingly able to buy homes.
- Since 1997, the increase in rents in the Los Angeles region has been much greater than the increase in other consumer costs.
- Price increases since 1997 for rental housing in the Los Angeles area have been 270 percent greater than increases in all other consumer costs.

*Inventory and Characteristics of LA'S Rental Housing Stock*

- Los Angeles has 764,197 renter-occupied housing units. This is roughly 60 percent of the City's occupied housing.
- The Rent Stabilization Ordinance (RSO) covers 118,254 rental properties with 638,051 housing units, or two-thirds of LA's rental inventory.
- Seventy-nine percent of the RSO-regulated inventory of rental housing units was purchased by the current owners after the RSO ordinance went into effect.
- Since 1997, the net outcome from demolition, renovation and new construction of rental properties was a growing inventory of rental housing until 2004. The subsequent spike in condominium conversions resulted in a net loss of rental units by 2006.
- Most rental property owners are small landlords. Sixty-nine percent of rental properties in the City of Los Angeles have just one unit and only 3 percent have 20 or more units.
- Two-thirds of all rental units are on properties with 10 or more units, with managers with a sufficiently large scale of operations to apply professional capabilities to managing their properties.

*Characteristics of Renters*

- As foreign-born residents become long-term stakeholders in their communities, home ownerships rates grow. After 30 years of residency, home ownership rates for foreign-born residents surpassed those of U.S.-born residents.
- In 2006, a quarter of senior householders in Los Angeles were living in poverty and over 40 percent of all senior renters were severely rent burdened.
- In 2006, 35 percent of householders' with disabilities were living in poverty. Forty-five percent of all renters with disabilities were devoting 50 percent or more of their income to rent and another 27 percent were devoting 30 to 49 percent of their income to rent, making them one of the most vulnerable renter populations in Los Angeles.

*Occupancy Outcomes for Renters*

- Rental vacancy rates for the past eight years have fallen below the 5 percent threshold established in Los Angeles Municipal Code ("LAMC") Section 12.95.2(F)(6) for suspending condominium conversions on residential rental properties of two or more units.
- The high rent burden for City residents, high levels of overcrowding and low vacancy rates are evidence that affordable rental housing is in short supply. Conditions that warrant denial of approval for condominium conversions have existed in the City for the past eight years. Condominium conversions have filled a need for market-rate, owner-occupied housing in the City, but often at the cost of reducing the scarce supply of rent-stabilized housing.
- The geographic distribution of condominium conversions reflects the distribution of household wealth in the City. Citywide, buyers have two and a half times more income than renters, with the incomes of both renters and buyers being highest in West LA and the South Valley.
- Citywide from 2000 to 2006, the net impact of demolitions and new construction was a 15 percent decline in the share of studio apartments and an 11 percent increase in the share of apartments with 2 or more bedrooms in the City's rental inventory. This made an important contribution to reducing overcrowding.
- Occupant density in studio or 0-bedroom rental units dropped 35 percent and in 1-bedroom units dropped 11 percent between 2000 and 2006. A key factor contributing to this outcome was the recent increase in the typical size of rental units.
- Between 2000 and 2006, overcrowding trends of the previous 20 years changed direction. Rates of severe overcrowding fell 65 percent from 2000 to 2006, leaving 8 percent of the City's renters in severely overcrowded conditions and 11 percent in overcrowded conditions.
- Overcrowding remains widespread for low-income renters, particularly for those living at or below 200 percent of the poverty level.

*Rent*

- Between 2000 and 2006, a new trend may have begun to emerge: the share of "middle income" renters grew by 2 percentage points and the share of poor renters declined 3 percentage points.
- A large income divide still separates owners and renters: in 2006, the median income (measured in 2007 dollars) was $73,000 for homeowners compared to $32,000 for renters.
- In 2006, over 30 percent of renter households in the City were severely rent-burdened, paying 50 percent or more of their income for rent. The share of Los Angeles residents who are severely rent-burdened has increased by 23 percent in the last decade and a half.
- In 2006, nearly a quarter of all renters were living below the federal poverty threshold (as defined by federal guidelines) and 40 percent were living at or below 150 percent of the poverty threshold.

- The median rent for RSO tenants is less than the median rent for non-RSO tenants, and the gap in average rents is even greater. In 2006, the median and average differentials were $113 and $142, respectively. The rent differential for RSO units appears to have resulted from two factors: 1) the inherent difference between rents for older RSO units and newer non-RSO rental units that exists in the market place, and 2) RSO policies that limit annual rent increases.
- Contrary to expectations, Census data suggests that over time, typical tenants of RSO units generally receive smaller discounts on rent than non-RSO tenants as the length of tenancy increases. *The issue of rent savings is explored further using renter survey data in Chapter 2. This survey provides additional and more useful data for analyzing rent savings.*

*Conditions in Rental Housing*

- From April 2005 through June 2008, the SCEP inspection program identified an average of 1.5 violations in each of the 757,677 rental units that were inspected throughout the City of Los Angeles.
- The most common SCEP violations are: deteriorated interior walls, inoperable or missing smoke detectors, windows or doors requiring maintenance, and unsafe floor coverings.
- The most frequent code violation, found in 18 percent of Building and Safety notices to comply issued, is for construction work that was done without a permit, often to increase the size and occupant capacity of housing units. The second most frequent type of violation, found in 9 percent of cases, is for garage conversions that were done without a building permit, typically to create rental housing that in some cases was substandard.
- There have been 441 cases from 2002 through early 2008 in which RSO property owners were issued notices by the LA Department of Building and Safety for converting an apartment building or property to another use.
- The number of apartment buildings converted to condominiums has increased annually since 2003, with more than 100 former apartment buildings converted each year since 2005.
- Citywide in Los Angeles, the Census Bureau reported that 3 percent of units lacked complete kitchen facilities and 2 percent lacked complete plumbing facilities.
- There is a direct connection between the income level in a community and the number of substandard dwelling units reported – individuals in substandard units are likely to be extremely poor, disabled and/or linguistically isolated.

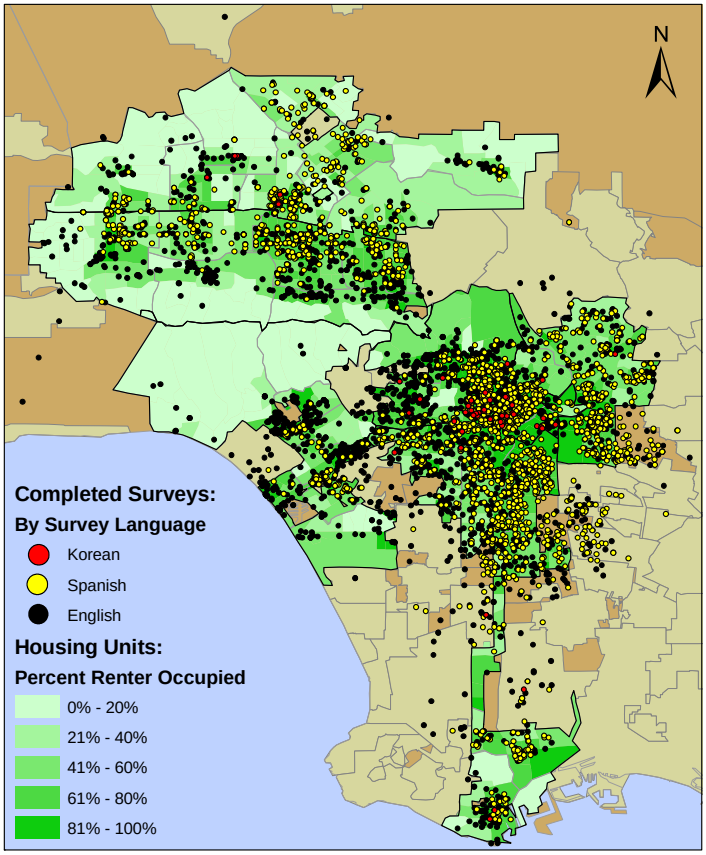
Chapter 2

# Survey of Renters Living in the City of Los Angeles

## ABOUT THE SURVEY

A sample of 4,859[1] randomly selected renters completed a telephone-based questionnaire, providing new information about their attitudes, finances, and experiences as home renters. The survey achieved a 44.4 percent overall response rate and was conducted in three languages - Spanish, English and Korean.[2] Respondents to the renter survey live all over the City, and by design were contacted more frequently in areas where renter-occupied units make up a higher percentage of the housing stock (Figure 2-1). The completed surveys of renters include 2,948 respondents in rent-stabilized units, 1,257 respondents in market-rate units, and 654 respondents in units where the rent-stabilization status could not be determined by information obtained through the telephone survey. Ten percent of respondents live in neighborhoods outside but near the City of Los Angeles, and are used for comparative analysis. Survey collection and analysis of survey data were carried out following protocols approved by the Economic Roundtable's Institutional Review Board to ensure protection of human subjects, keeping all identifying information about individual respondents confidential.[3]

Figure 2-1
Respondents Completing the City of LA Renter Survey, Overlaid on Rental Units as a Percent of All Housing




*Source: Economic Roundtable 2007-08 City of Los Angeles Renter Survey. Note: Map shows residential location of renter survey respondents for whom address or ZIP code information was collected. N = 4,859.*

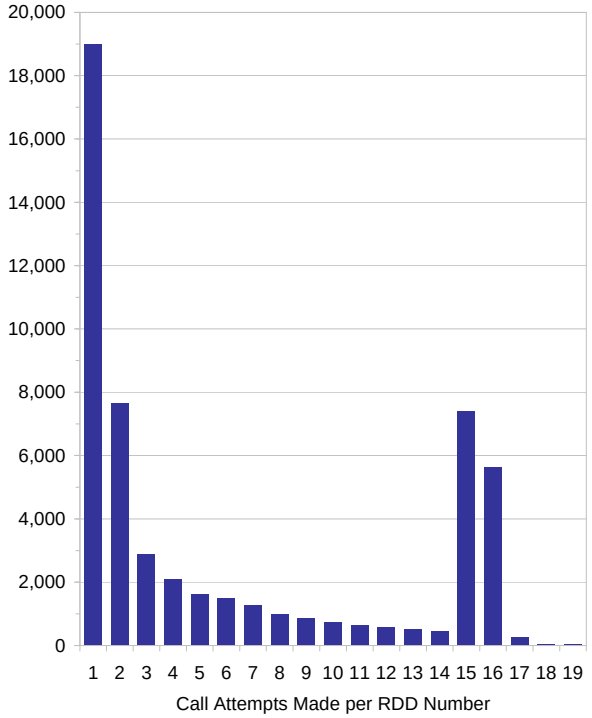
### Telephone Survey Methodology

The survey used random digit dialing (RDD) to reach a random and representative sample of LA renters. Ten replicates[4] of RDD residential telephone numbers, providing 54,250 randomly sampled numbers, were obtained from Scientific Telephone Samples for use in this survey. These included both unlisted telephone numbers, as well as listed telephone numbers (i.e. those where phone customers self-select to make their addresses known). Estimated ZIP codes based on telephone prefixes were used to determine whether

unlisted numbers were located in the City.[5]

The location of telephone numbers *within* different parts of the City was tracked, allowing the survey sample to be geographically post-stratified. The tracking confirms that the distribution of interviews was generally comparable to proportions of rental units in the City's 35 Community Plan Areas, as calculated from the 2000 Census.[6]

Figure 2-2
Phone Call Attempts Made to Each RDD Number




*Source: Economic Roundtable. 2008. SSRC Final Sample Report.*

### Carrying Out the Telephone Survey

The telephone survey was conducted by the Social Science Research Center (SSRC) at California State University, Fullerton, using computer-assisted telephone interviewing, with sampling overseen by the study statistician, Gerald Sumner. The survey began in September 2007 and ended in April 2008.[7] Renters were reached on home landline telephones 85 percent and on cellular telephones 15 percent of the time. Each interview took approximately 15 minutes to complete. Respondents received $10 gift cards for participating.[8] **Thirty percent of respondents chose to donate the value of their gift card to LA's Affordable Housing Trust Fund**.

Persistent efforts were made to reach each randomly selected number in order to ensure the randomness of the sample. Up to fifteen attempts were made to reach residents at each number, typically at noontime and in the early evening; a total of 335,514 attempts were made during the survey effort. The plurality of RDD telephone numbers were called once, while over 10,000 numbers were called 15 or 16 times, and some as many as 21 times before being retired from further use (Figure 2-2).[9] This work yielded roughly 1.5 completed surveys for every 100 attempted calls.[10] A copy of the questionnaire used to screen and interview survey respondents appears in Appendix D.[11]

## WHO RESPONDED TO THE SURVEY?

### Benchmarking the Renter Survey against Census Data

The central questions with any survey are whom does it represent? And, how reliable is the information? The answers come in several forms - documentation of rigorous efforts to ensure a random survey, data from a large sample of respondents, and benchmarking the survey against other comparable surveys. The renter survey can be benchmarked by comparing it with

data from the U.S. Census Bureau's 2006 American Community Survey (ACS) for renters in the City of Los Angeles.

The Housing Department's inventory of 638,051 RSO units is 21 percent larger than the inventory of 527,537 (total occupied and unoccupied) RSO units shown in the Census Bureau's 2006 American Community Survey (ACS) data. This indicates that there is incomplete or inaccurate data either in the Census Bureau's sampling frame, which is derived from the US Postal Service's current address file, or in the ACS variables used to identify RSO housing units (year built and type of building). There is little doubt about the accuracy of data in the Housing Department's files that were used for sampling - it is a property-by-property inventory based on Assessor and Planning Department data, and accepted by property owners whose rental options are constrained by this designation. This raises the possibility that the telephone survey reached a more complete population of renters than was reached by the ACS.

The renter survey obtained responses from two-thirds as many renter households in LA as the 2006 ACS, using telephone interviews rather than mailed survey questionnaires. Telephone interviews encourage disclosures of information that are more spontaneous, but sometimes less detailed than a printed survey that arrives in the mail. Furthermore, the renter survey provided a small monetary incentive – a $10 gift card ($12 if our call was to a cell phone number), whereas the Census Bureau uses the force of law to require responses.[12]

Our bottom line assessment is that the two surveys captured large representative populations of respondents that are similar on ten of the benchmarking criteria shown in Table 2-1 and that vary somewhat on three benchmarks.[13]

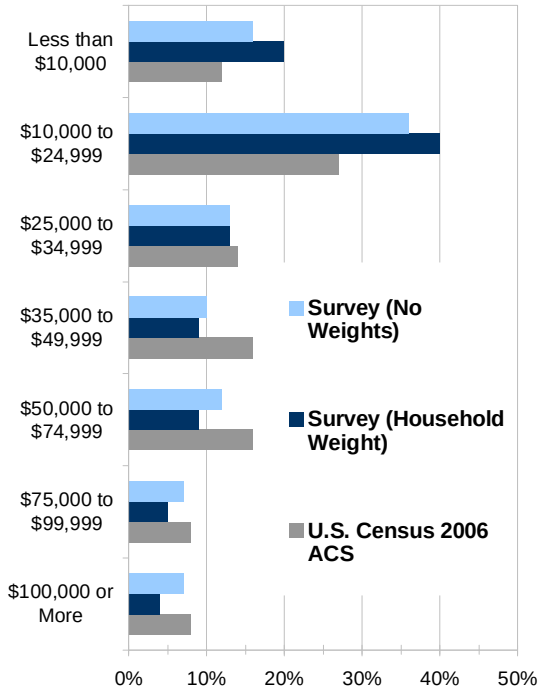
The ten benchmarks with close similarity are:

1. *Geographic distribution across the City of all respondents*
2. *Share of Los Angeles households in rent-stabilized units*
3. *Geographic distribution across the City of rent-stabilized units*
4. *Rent*
5. *Ethnicity of the head of household*
6. *Age of the head of household*
7. *Number of wage earners in the household*
8. *Type of building*
9. *Number of rooms in the unit*
10. *People in household*

The three benchmarks where the population characteristics differ are:

1. *Household income – average income in the renter survey is 83 percent of ACS 2006*
2. *Ratio of adults to children in household – households in the renter survey have more children – 1 child per 1.9 adults vs. 1 child per 2.5 adults in ACS 2006*

Figure 2-3
LA City Renters by Income
*Renter survey with and without weights and ACS 2006*




*Source: Economic Roundtable 2007-08 City of Los Angeles Renter Survey; U.S. Census Bureau, 2006 American Community Survey, converted to 2007 dollars*

Table 2-1

Benchmarking Table – Comparison of Respondents to Renter Survey and 2006 Census ACS

| Benchmarks | | Survey Sample | | 2006 Census |
|---|---|---|---|---|
| | | *Household Weight* | *Individual Weight* | |
| *Geographic Distribution*:* | North Valley | | 10% | 11% |
| | South Valley | | 18% | 18% |
| | West LA | | 8% | 10% |
| | Central LA | | 25% | 28% |
| | East LA | | 11% | 10% |
| | South LA | | 24% | 19% |
| | Harbor | | 4% | 4% |
| *RSO Units* | | 66% | | 66%** |
| *RSO Distribution* | | | | LAHD Data |
| | North Valley | 8% | | 6% |
| | South Valley | 16% | | 15% |
| | West LA | 7% | | 12% |
| | Central LA | 27% | | 31% |
| | East LA | 12% | | 11% |
| | South LA | 27% | | 21% |
| | Harbor | 3% | | 4% |
| *Ethnicity of Householder:* | Hispanic Latino | | 54% | 57% |
| | White | | 22% | 20% |
| | Black/African American | | 13% | 11% |
| | Asian | | 6% | 10% |
| | Other | | 5% | 2% |
| *Age of Householder* | 18-24 Years | | 6% | 7% |
| | 25-34 Years | | 22% | 27% |
| | 35-44 Years | | 25% | 26% |
| | 45-64 Years | | 32% | 29% |
| | 65+ Years | | 15% | 11% |
| *Household Income (Average)* | | $37,039 | | $44,393 |
| *Monthly Contract Rent (Average)* | | $951 | | $962*** |
| *No. of Wage Earners:* | Average | 1.49 | | 1.57**** |
| | Median | 1 | | 1 |
| *Building Type* | Apartment building | 71% | | 80% |
| | Single-family detached home | 20% | | 15% |
| | Single-family attached (duplex, triplex) | 8% | | 5% |
| | Mobile home | 0.7% | | 0.15% |
| | Other | 0.4% | | 0.06% |
| *Number of Rooms:* | Average | 3.48 | | 3.37 |
| | Median | 3.00 | | 3.00 |
| *People in Household:* | Average | 2.99 | | 2.76 |
| *Ratio of Adults (18 years and over) to Children (0-17 Years)* | | 1.9 to 1 | | 2.5 to 1 |
| *Overcrowding:* | Overcrowded (1.01 to 1.5 occupants per room) | 12% | | 11% |
| | Severely Overcrowded (1.51+ occupants per room) | 18% | | 8% |
| *Language other than English Spoken at Home by Householder* | | | 35% | 57% |
| Ability to Speak English "Very Well" or "Well" | | | 70% | 58% |
| *Number of Renter Households in the City of Los Angeles in Sample* | | | *Unweighted Count of Sample* 4,336 | 6,603 |

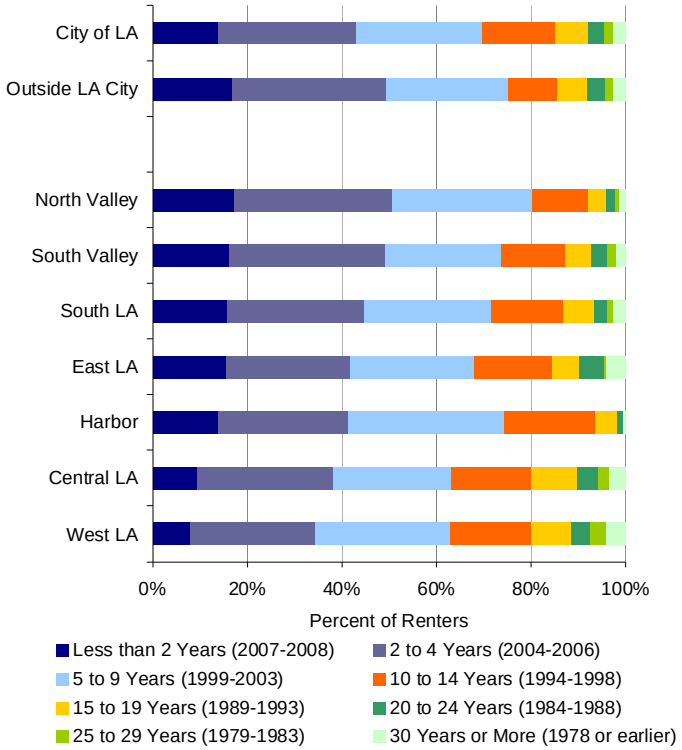
**2006 Census figures represent the renter population 18 years or older*
***Properties with 2+ rental units built 1979 or earlier: apartments, single-family houses attached and mobile homes, 2006 ACS*
**** Figure represents contract rent reported by the Census. Contract rent does not include estimated average monthly costs of utilities and fuels, which are included in gross rents reported in Chapter 1 of the study.*
*****Rent Contributors = count of people in a household that have annual personal incomes of $1,000 or more*

3. *English fluency – the renter survey has more respondents who speak English well and fewer who speak a language other than English at home*

The practical reality is that every survey has sampling biases. The American Community Survey has lower success rates in obtaining responses from renters, low-income households, and residents in urban areas.[14] The types of households that the Census Bureau has the greatest difficulty reaching – low-income renters – are the households from which the renter survey obtained higher representation. This comparison of survey respondents by income distribution is shown in Figure 2-3.[15] A telephone interview with a modest gift card in the offing may be more effective in reaching these households than a Census Bureau's survey that comes in the mail. On the other hand, it is plausible that some household incomes reported in the renter survey are understated. The American Community Survey asks a series of questions to capture various sources of income generated by all household members. The renter survey asked only one question about income.

The practical effect of the different responses obtained by the two surveys is that the renter survey shows a somewhat higher number of rent-burdened and overcrowded households. The differences between the renter survey and the 2006 ACS are associated with reported socioeconomic status. The possibly greater representation of low-income renters in the renter survey would account for the more

Figure 2-4
Length of Stay at Current Rental Unit, by APC
*Calculated Using Household Weights (p<.001)*




*Source: Economic Roundtable 2007-08 City of Los Angeles Renter Survey*
*Notes: The p value represents the probability that the difference between the groups shown in the graph is the result of random chance rather an actual difference. The more reliable the data, the lower the p value. In this case the value is p<.001, which means that the probability that the differences between the groups shown in the graph is a random statistical event rather than an actual difference is less than 0.1 percent.*

Table 2-2
Length of Stay at Current Rental Unit, Comparing the City of Los Angeles to Non-Rent-Stabilized Neighboring Areas
*Calculated Using Household Weights*

| Length of Stay in Current Unit | City of Los Angeles | Non-Rent Stabilized Cities and Unincorporated Areas |
|---|---|---|
| Less than 2 Years (2007-2008) | 13% | 16% |
| 2 to 4 Years (2004-2006) | 29% | 33% |
| 5 to 9 Years (1999-2003) | 28% | 24% |
| 10 to 14 Years (1994-1998) | 15% | 16% |
| 15 to 19 Years (1989-1993) | 7% | 5% |
| 20 to 24 Years (1984-1988) | 3% | 4% |
| 25 to 29 Years (1979-1983) | 2% | 1% |
| 30 Years or Longer (1978 or earlier) | 3% | 1% |
| Total | 100% | 100% |

*Source: Economic Roundtable 2007-08 City of Los Angeles Renter Survey*

children[16] and increased overcrowding that is shown by the survey.[17] The sample of respondents captured by the renter survey ensures that it provides reliable insights about the large segment of City renters that faces social, economic and housing obstacles. We present data from both surveys in this report and both sets of data tell similar stories.

## HOW LONG DO RENTERS STAY AND WHERE?

### Length of Stay/Tenure

Tenants were asked when they had moved into their unit. **Citywide, 70 percent of the renter survey respondents have lived in their current units less than ten years.** West LA (37 percent), Central LA (37 percent) and East LA (32 percent) have the greatest shares of renters living in their current units ten years or longer – since 1998 or earlier. Renters in the Harbor and San Fernando Valley, by comparison, have shorter stays in their current units, as show in Figure 2-4 (*p* values, which are a measure of data reliability, are explained below the chart).[18] Overall, this data is generally similar to the duration of tenancy data collected in the owner survey (Chapter 3).[19]

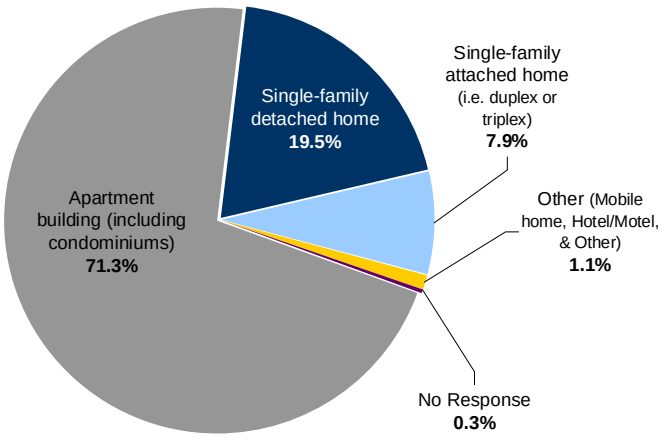
Survey respondents who live outside the City of Los Angeles in non-rent-stabilized areas report living in their units for shorter periods than Angelenos (Table 2-2). This comparison excludes a small number of surveys completed by residents of West Hollywood, Beverly Hills and Santa Monica – which border Los Angeles and have their own versions of rent stabilization laws (see Chapter 5 for more on this subject).

The point of divergence between the City of Los Angeles and its non-rent-stabilized neighbors is the percent of renters whose length of stay is less than five years versus those in their current units five years or more. Fifty-eight percent of RSO residents report living in their unit 5 or more years, versus 51 percent among renter respondents living in non-rent stabilized areas adjacent to Los Angeles.

### Building Type and Unit Size

Over 70 percent of survey respondents live in apartment buildings, twenty percent live in single-family detached homes (stand-alone homes), and another 8 percent live in single-family attached homes (i.e. duplex or triplex), as shown in Figure 2-5.

Figure 2-5
Survey Respondents by Rental Type
*Calculated Using No Weight*




*Source: Economic Roundtable 2007-08 City of Los Angeles Renter Survey*

Renters were also asked to report the size of their units by number of rooms. Rooms are defined as bedrooms, kitchens, living rooms, family rooms, or dining rooms. Table 2-3 contains this information along with data from the 2006 Census. The *comparable unit* category

was created to transform unit size by rooms to unit size by bedrooms, a category more tangible to readers. While the room distribution data from the survey and 2006
Census vary somewhat, both indicate that:

- approximately a quarter of all rental units in the City of Los Angeles are very small, studio style units (with only 1 or 2 rooms)
- a little over half of all rental units have 3 to 4 rooms (1 or 2 bedroom units with a kitchen and living room)
- 11 to 15 percent of units have 5 rooms (3 bedroom units with a kitchen and living room)
- less than 10 percent are larger units with 6 or more rooms

Table 2-3
Units Size - City of Los Angeles
*Calculated Using Household Weights*

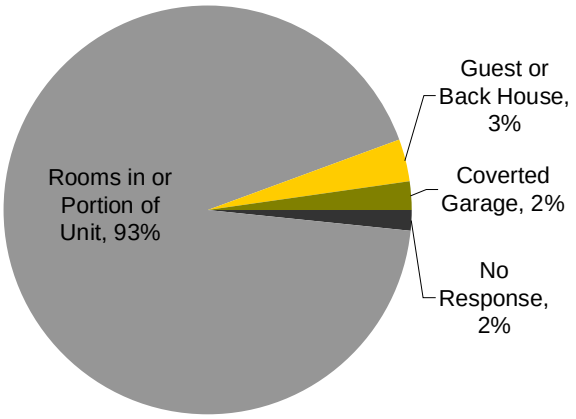
| Rooms | Comparable Unit | Survey | 2006 Census |
|---|---|---|---|
| 1 Room | Studio w/out Kitchen | 13% | 7% |
| 2 Rooms | Studio w/ Kitchen | 12% | 19% |
| 3 Rooms | 1 Bedrm w/ Kitchen & Living Rm | 25% | 31% |
| 4 Rooms | 2 Bedrm w/ Kitchen & Living Rm | 27% | 25% |
| 5 Rooms | 3 Bedrm w/ Kitchen & Living Rm | 15% | 11% |
| 6+ Rooms | 4 Bedrm + w/ Kitchen & Living Rm | 9% | 6% |

*Source: Economic Roundtable 2007-08 City of Los Angeles Renter Survey*

## Renters in Partial Units

Low-income renters, faced with the high cost of rent, often cannot afford to rent entire units to house themselves and their families. One in ten renters we surveyed is renting a portion of a dwelling unit. While some of these cases may include roommate-type of arrangements, not characterized by housing desperation or hardship, the profile of these renters largely indicates that they face economic hardship and struggle to find adequate living accommodations.

Figure 2-6
Partial Rented Units by Type

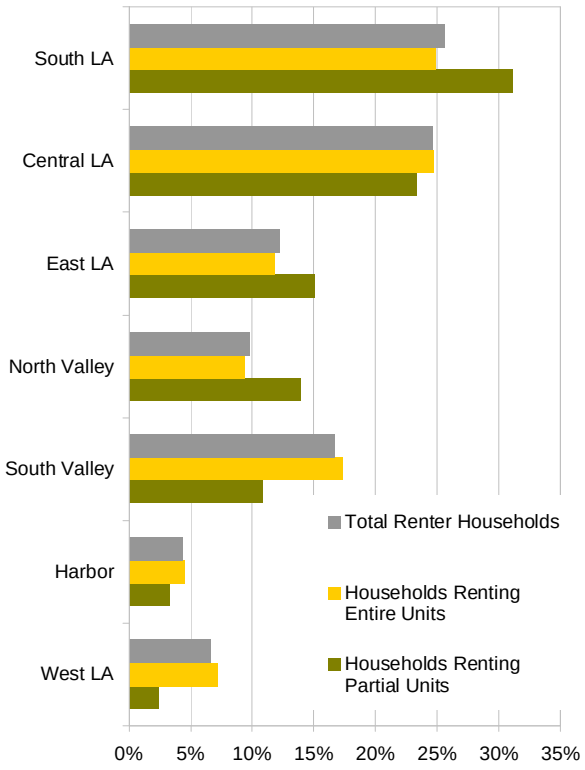



*Source: Economic Roundtable 2007-08 City of Los Angeles Renter Survey*

Of those renting partial units, 43 percent are living in apartment buildings and 56 percent are living in single-family homes. Over 90 percent of these renters report renting portions of entire units ranging from multiple rooms to a living room, and a small share (5 percent) rent non-traditional spaces, such as converted garages and guest houses (Figure 2-6).

Renters in partial units are overrepresented in South LA, East LA and the North Valley and underrepresented in West LA and the South Valley, regions with more affluent residents (Figure 2-7).[20] Together, South LA, East LA and the North Valley account for 48 percent of the City's renter households, but 60 percent of renters living in partial units. On the other hand, the West LA and the South Valley regions account for 24 percent of renter households, but only 13 percent of renters living in partial units. Latino renters are the only ethnic group to be overrepresented in the population of renters living in partial units. Latino households account for approximately 55 percent of the City's renter households, but account for over three-quarters of the households renting a portion of a unit.

Figure 2-7
Breakout by APC of Total Renter Households, Households Living in Entire Units and in Partial Units




*Source: Economic Roundtable 2007-08 City of Los Angeles Renter Survey*

The profile of renters in partial units (Table 2-4) shows that these households face considerable economic challenges to finding affordable and adequate housing. The average household has an income that is $13,000 less than the average household that rents an entire unit, limiting their access to healthy living environments with adequate space and complete plumbing and kitchen facilities. Thirty-eight percent of households renting partial units live in severely overcrowded conditions; this is over twice the rate of severe overcrowding for renters living in entire units. Make-shift living quarters, garages, and sub-divided units offer limited access to complete plumbing and kitchen facilities, with the result that these households are living in substandard units. Seven percent of renters living in shared quarters do not have access to complete plumbing facilities and 11 percent do not have access to complete kitchen facilities. By comparison, a respective 1 percent and 4 percent of renters living in entire units report incomplete plumbing and kitchen facilities.

Table 2-4
Profile of Renters living in Entire Units vs. Partial Units

| | Rent Entire Unit | Rent Partial Unit |
|---|---|---|
| **Average Household Income** | $37,140 | $23,506 |
| **Overcrowding** | | |
| *Overcrowding* | 12% | 11% |
| *Severe Overcrowding* | 16% | 38% |
| **Rental Unit Does NOT have Complete:** | | |
| *Plumbing Facilities* | 1% | 7% |
| *Kitchen Facilities* | 4% | 11% |
| **Written Lease or Rental Agreement** | 75% | 43% |

*Source: Economic Roundtable 2007-08 City of Los Angeles Renter Survey*

Households living in substandard rental units often are in partial units.

Fifty-one percent of all households without complete plumbing facilities and 26 percent of all households without complete kitchens live in partial units.

Interestingly, only 43 percent of renters living in partial units report having a lease or rental agreement. This is substantially less that the 75 percent of renters living in entire units who report having a similar document, suggesting that many low-income renters must resort to finding inadequate or prohibited living arrangements to house themselves and their families in the City's expensive housing market.

Table 2-5
Average Size of Household by APC
*Calculated Using Household Weights*

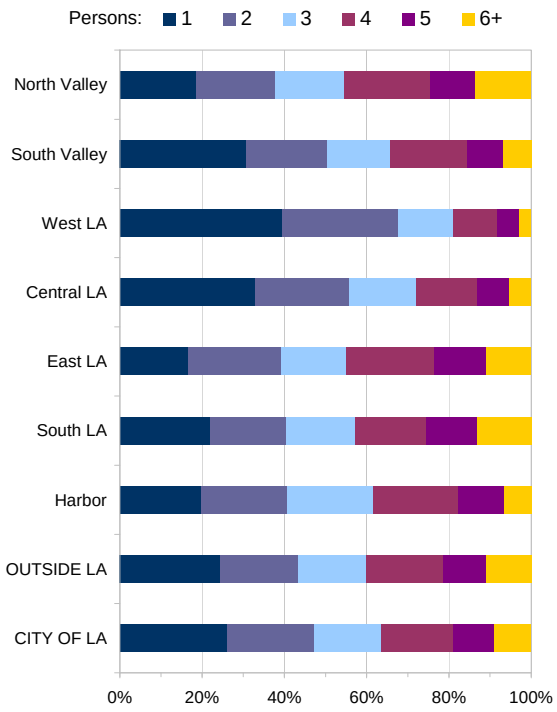
| APC | Survey | 2006 Census |
|---|---|---|
| North Valley | 3.4 | 3.2 |
| South Valley | 2.8 | 2.5 |
| West LA | 2.2 | 1.8 |
| Central LA | 2.6 | 2.2 |
| East LA | 3.4 | 2.7 |
| South LA | 3.3 | 3.0 |
| Harbor | 3.1 | 2.9 |
| OUTSIDE LA | 3.1 | - |
| *CITY OF LA* | *3.0* | 2.5 |

*Source: Economic Roundtable 2007-08 City of Los Angeles Renter Survey; U.S. Census Bureau, 2006 American Community Survey*

## HOUSEHOLD SIZE TO UNIT SIZE: MATCH OR MISMATCH?

### Number of Persons in Renter Households

Figure 2-8
Household Size by APC
*Calculated Using Household Weights (p<.001)*




*Source: Economic Roundtable 2007-08 City of Los Angeles Renter Survey*

The average household size in the City of Los Angeles declined 8 percent from 2.7 persons in 2000 to 2.5 persons in 2006. This is based on U.S. Census data and is reported in Chapter 1 of this study. The results from our survey of renters show slightly larger average household sizes for the City. The average renter household in the City is 3.0 persons, a half person larger than what is reported by the Census. The greatest differences in average household sizes are seen in *East LA*, *West LA* and *Central LA*; the survey shows average household sizes that are 20 percent or more larger than Census figures for each of these areas (Table 2-5).

The smallest household sizes were reported by respondents in *West LA*, where the average household size is 2.2 persons and over two-thirds of renter households have 2 or less people (Figure 2-8).[21] The largest household sizes were reported by respondents in the *North Valley*, *East LA*, and *South LA regions*. The average household size for both the *North Valley* and *East LA* is 3.4 persons with *South LA* following closely behind with 3.3 persons per

household. Nearly a quarter of all renter households in the three regions are composed of 5 persons or more. *The Central LA* and *South Valley* regions are characterized by smaller households. The average household sizes are 2.6 and 2.8 persons, respectively, and a majority of households in both regions had 2 or less people. The average household size for respondents in the *Harbor* region was virtually on par with that of the City, just over 3 persons per household.

The variations in household sizes found across the City and the amount by which households are shrinking or growing have serious implications for a central issue facing Los Angeles renters - *overcrowding*. Are renters living in units that adequately house all members of their household, and to what degree is overcrowding an issue? These issues are explored in the following section.

## Overcrowding

When we overlay household size and unit size data, we are able to examine the degree to which there is a healthy amount of space for all household members. The U.S. Census defines overcrowding as 1.01 to 1.50 people per room and severe overcrowding as more than 1.50 people per room. When the number of rooms per unit corresponds with or exceeds the number of people in the household, the unit is considered adequate or not crowded. As a point of reference, a 5-person household that occupies a 1-bedroom apartment with a living room and kitchen (3 rooms) is considered to be living in overcrowded conditions, and a 6-person household in the same size unit is living in severely overcrowded conditions.

Data from the survey provides another layer of evidence showing that **the overcrowding problem in the**

Table 2-6
Overcrowding - City of Los Angeles
*Calculated Using Household Weights*

| | U.S. Census | | Survey |
|---|---|---|---|
| | 2000 | 2006 | |
| Severely Overcrowded | 25% | 8% | 18% |
| Overcrowded | 8% | 11% | 12% |
| Not Crowded | 66% | 80% | 70% |

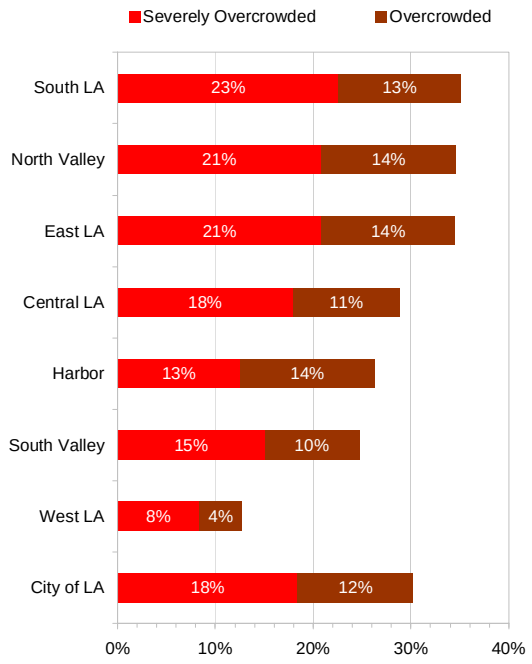
*Source: Economic Roundtable 2007-08 City of Los Angeles Renter Survey; U.S. Census Bureau, 2000 Census of Population and Housing, 2006 American Community Survey*

Text Box 2-1
Focus Group Comments about Overcrowding

- *There is severe overcrowding in the building because a single mother with four kids cannot afford to pay the current high rent, and thus she has brought other occupants into the unit in order to share rent cost.*
- *If we can't afford to pay for high rents we have to live all crowded.*
- *Two big families with 7 to 9 people each are living in studio apartments.*
- *The owner is aware of overcrowding and doesn't do anything about it.*
- *Overcrowding is a problem. The landlord may not know about it, but the manager does. Overcrowding also creates a problem with parking.*
- *There is difficulty in enforcing the maximum number of tenants allowed to live in each unit.*
- *Many families live in bedrooms and this doesn't allow them any privacy.*
- *Up to 5 families live in a single family unit.*
- *Overcrowding restrictions should be enforced so that shared resources like parking and laundry aren't impacted as much.*

**City has improved since 2000**. In Chapter 1, we reported Census data showing that severe overcrowding fell approximately 65 percent from 2000 to 2006. While not as encouraging as 2006 Census data, survey data indicates that 18 percent of renters live in severely overcrowded conditions; this is 28 percent less than 2000 Census figures, but over double the most current Census figures (Table 2-6). One likely reason why our survey found more overcrowding than the 2006 American Community Survey is that our survey reached a renter population with lower incomes than the Census Bureau, making it more likely that our respondents have greater difficulty affording adequate housing. Despite the fact that there is still a significant share of renters living in overcrowded and severely overcrowded conditions, there are signs that overcrowding in general has not worsened in the City over the last 7 years. An estimated 70 to 80 percent of renter households citywide are housed without overcrowding.

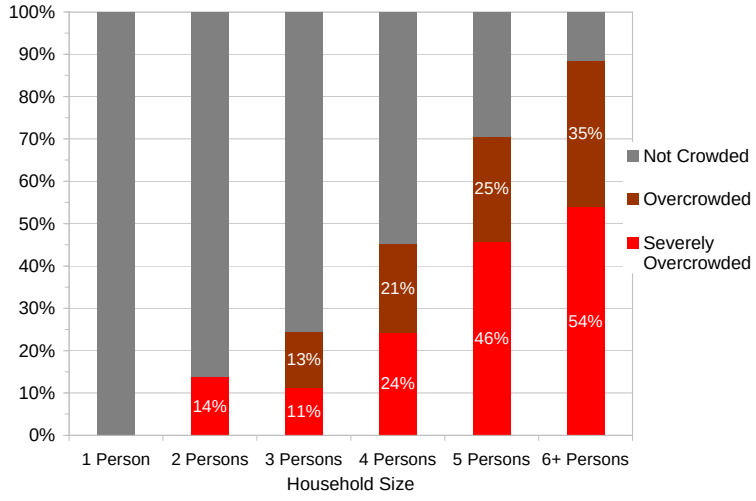
Figure 2-9
Overcrowding by APC
*Calculated Using Household Weights*




*Source: Economic Roundtable 2007-08 City of Los Angeles Renter Survey*

Overcrowding is widely acknowledged by renters in most areas of the City. A sampling of focus group comments about overcrowding is shown in Text Box 2-1.

Figure 2-10
Overcrowding by Household Size - City of Los Angeles
*Calculated Using Household Weights*




*Source: Economic Roundtable 2007-08 City of Los Angeles Renter Survey*

*Overcrowding by Geography*

**Overcrowding and severe overcrowding are most prevalent in the *South LA*, *East LA* and *North Valley* regions**, as shown in Figure 2-9. Over a third of households in each of these regions are living in overcrowded or severely overcrowded conditions. The *Central LA*, *Harbor* and *South Valley* regions each have slightly smaller shares of renter households living in overcrowded and severely overcrowded conditions compared to the citywide average. Twenty-nine percent, 27 percent and 25 percent of households, respectively, experience some level of

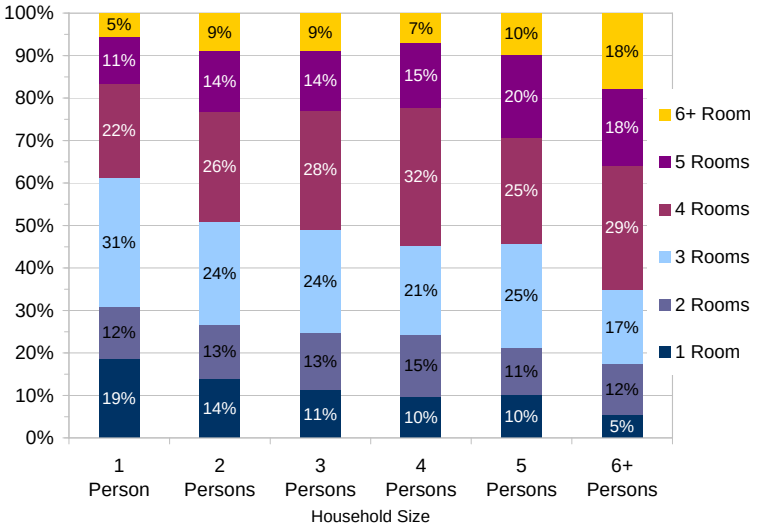
overcrowding in these regions. Lastly, overcrowding is least prevalent in *West LA*. Only 8 percent of renter households in this region live in severely overcrowded conditions and 4 percent live in overcrowded conditions.

*Overcrowding by Household Size*

Overcrowding rates by household size are shown in Figure 2-10 and the match between household size and unit size for respondents in the City of Los Angeles is shown in Figure 2-11. Again, 70 percent of respondents citywide are living without overcrowding, that is, with household size and unit size matched at a ratio of 1 or less occupants per room. The remaining 30 percent of renters are living in overcrowded (12 percent) or severely overcrowded (18 percent) conditions. A closer examination of overcrowding with respect to household size reveals:

- Nearly 40 percent of single person households occupy units with 4 or more rooms. This is a unit equivalent to or larger than a 2 bedroom unit with a living room and kitchen. While overcrowding is never an issue for a single renter, a single person in a unit larger than 4 rooms may be considered an inefficient use of space, particularly when 43 percent of respondents in households with 4 or more people rent units with 3 or less rooms.
- Fourteen percent of 2-person renter households are severely overcrowded. On the other end of the mismatch spectrum, 23 percent of 2-person households occupied units with 5 or more rooms (equal to or larger than a 3 bedroom unit with kitchen and living room).
- A little over 10 percent of 3-person households live in 1-room units leaving them in severely overcrowded conditions. Another 13 percent live in overcrowded 2-room units.
- Forty-five percent of all 4-person renter households live in overcrowded and severely overcrowded units with 3 rooms or less (smaller than or equal to a 1 bedroom unit with a living room and kitchen).

Figure 2-11
Household Size by Rooms in Unit - City of Los Angeles
*Calculated Using Household Weights (p<.001)*




*Source: Economic Roundtable 2007-08 City of Los Angeles Renter Survey*

- **A majority of renter households with 5 or more people live in units with inadequate space. Seventy percent of 5-person households live in overcrowded or severely overcrowded units with 4 rooms or less, and almost 90 percent of households with 6 or more people lived in inadequate densities.**

Survey data reveals a mismatch at two ends of a spectrum. At one end, the household size to unit size ratio is too high, leaving renters in overcrowded or severely

overcrowded housing densities. At the other end of the spectrum, the mismatch comes in the form of inefficiencies, where smaller renter households occupy larger units. This highlights two main issues. Most importantly, it highlights the acute difficulty renters have in affording housing that adequately shelters their families. Renters faced with declining wages and rising rents are doubling- or tripling-up in units or renting smaller, inadequately sized units to minimize their rent burden. Second, while it is absolutely important to increase the supply of rental housing in the City (particularly larger, affordable rental units designed to house families), an approach designed to maximize existing units with many rooms by creating a more efficient match between household size and unit size might be considered. Such an approach would be a departure from a purely market-driven approach to matching renters with housing and would require linking large low-income renter households with a source of rent subsidies, but it would be congruent with policies aimed at creating a more sustainable City.

## ARE RENTERS KNOWLEDGEABLE ABOUT THE RSO?

### Awareness of Their Unit's RSO Status

Renter's awareness of whether or not their unit is covered by the Rent Stabilization Ordinance is uneven, although the majority of renters who are indeed living in units covered by the RSO know about it. To be covered by this City law, an apartment must meet the following 3 criteria:

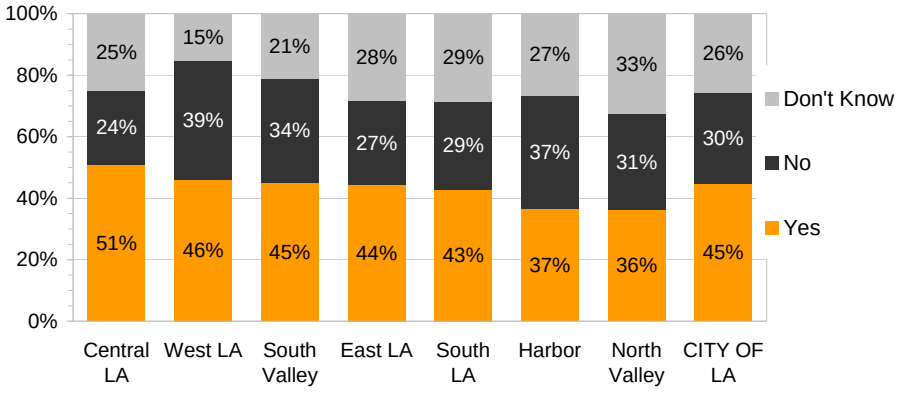
- The property must be within the City of Los Angeles
- There must be two or more units on the lot
- The building must have a Certificate of Occupancy issued on or before October 1, 1978

Table 2-7
Is your unit under rent stabilization?
*Calculated Using Individual Weights*

| | Number | Percent |
|---|---|---|
| **Yes** | 2,040 | 42.30 |
| **No** | 1,511 | 31.33 |
| **Don't Know/ No Response** | 1,248 | 25.87 |
| **Refused** | 24 | 0.51 |
| **Total** | 4,823 | 100.00 |

*Source: Economic Roundtable 2007-08 City of Los Angeles Renter Survey*

Figure 2-12
Is your unit under rent stabilization? By APC
*Calculated Using Individual Weights (p<.001)*



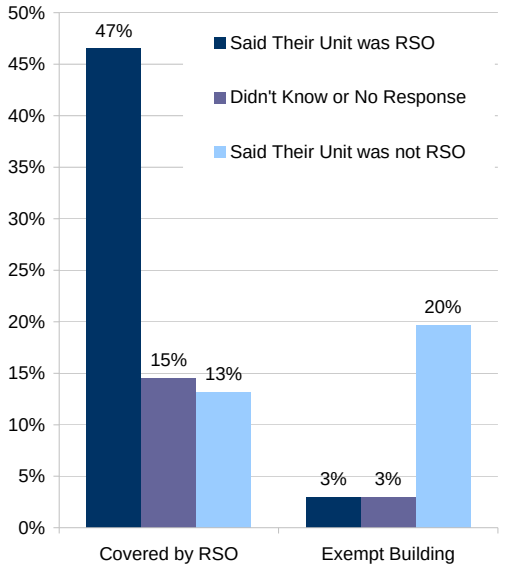

*Source: Economic Roundtable 2007-08 City of Los Angeles Renter Survey, RSO Study)*

In the RSO Study's telephone survey of renters, all respondents were asked if their housing unit is under rent stabilization. Overall, 42 percent of renters say their unit is under the RSO, while another 31 percent say their unit is not, and 26 percent did not know or did not respond (Table 2-7). Renter respondents' awareness

of the RSO status of their units varies somewhat across the City; it is higher in areas with more of RSO units, and lowest in areas with fewer units, such as the *Harbor* and *North Valley* (Figure 2-12).

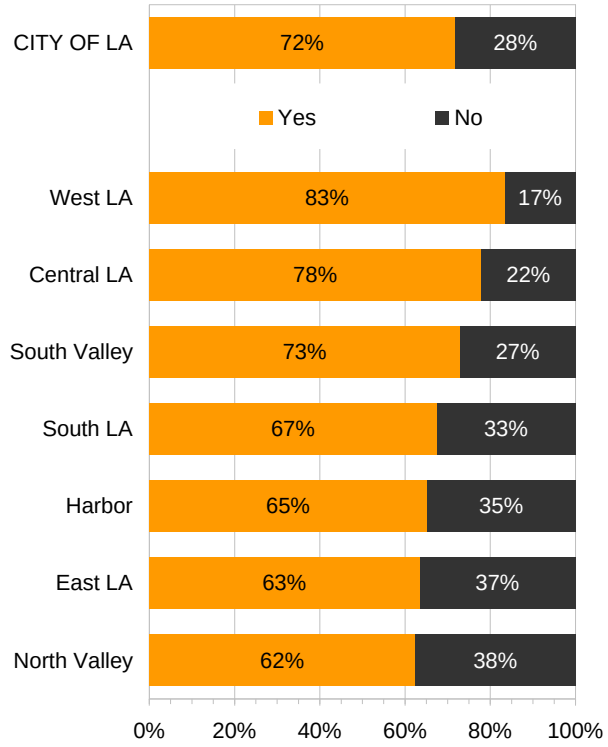
Not all renters know with certainty the RSO status of their units or buildings, so how accurate are their answers? Renters' answers about the RSO status of their units were compared to the Los Angeles Housing Department's database, which is the definitive source for identifying properties and units that are covered under the RSO. The results of this comparison are shown in Figure 2-13. Over 45 percent of renters who live in units covered by the RSO are aware of it. That said, **34 percent of renters are incorrect about, or unaware of, the RSO status of their unit**. This includes occupants of both RSO and non-RSO units, although the latter are less likely to be incorrect or unsure about their unit's status. The remaining 19 percent of respondents not living in RSO units are aware they live in exempt units not under the ordinance. Focus group sessions with renters echoed this uncertainty about rent stabilization, with some tenants suggesting that the Housing Department distribute more information to those in units cover by the RSO, either directly by mail or through their landlords.

Figure 2-13
Renter's Awareness of RSO Status of their Units, compared with actual Status
*Calculated Using Individual Weights*




*Source: Economic Roundtable. 2007-08 City of Los Angeles Renter Survey Study; LAHD City of Los Angeles Housing Department: General RSO Property Data for Each Property with 2 or More Units. Universe: survey respondents residing in the City of Los Angeles.*

Figure 2-14
Did you know that Rent Stabilization limits the amount of Annual Rent Increases?
*Calculated Using Individual Weights (p<.001)*




*Source: Economic Roundtable 2007-08 City of Los Angeles Renter Survey*

## Awareness of Ordinance Regulating Rent Increases [22]

One of the four major parts of the Rent Stabilization Ordinance is the determination of the annual allowable rent increase, within a range of three to eight percent per year. This rent adjustment is based on the annual change in the Consumer Price Index[23] for the Los Angeles region. Rental property owners and managers in

turn use this percentage to determine increases in rents for RSO units year by year, if they decide to make increases. But are renters aware that the City's rent stabilization law limits the amount of annual rent increases?

Renter survey respondents were asked if they know that the rent stabilization law limits the amount of rent increases, and 72 percent say "yes." There is some variation in response to this question by geography. *West LA* renters are most aware of this policy, followed by *Central LA* and the *South Valley*. *North Valley* and *East LA* renters are the least aware (Figure 2-14).

Awareness that the City's rent stabilization law limits the amount of rent increases varies by the language in which the respondent completed this survey, with a high percentage of English-speaking respondents answering "yes":

- English: 69%
- Spanish: 41%
- Korean: 26%

The RSO Study's Renter Survey was conducted in these three languages, and respondents were also asked how well they speak and read English. Respondents who are fluent in English are the most aware (over 65 percent) of the RSO's function of limiting rent increases each year. **Only 41 percent of renter survey respondents who say that they speak English "Not well" or "Not at all" are aware of this function of the RSO.**

Table 2-8
Awareness of RSO Role in Limiting Rent Increases per Year by Total Household Income
*Calculated Using Individual Weights*

| | Q19: Did you know that rent stabilization law limits the amount of rent increases? | | | | |
|---|---|---|---|---|---|
| **Q35. Total Household Income?** | Yes | No | Don't Know | Refused | Percent Yes |
| Less than $10,000 | 131 | 90 | 5 | 0 | 58% |
| $10,000 to $24,999 | 334 | 150 | 11 | 0 | 67% |
| $25,000 to $34,999 | 137 | 35 | 4 | 0 | 77% |
| $35,000 to $49,999 | 104 | 15 | 3 | 0 | 85% |
| $50,000 to $74,999 | 121 | 15 | 3 | 0 | 87% |
| $75,000 to $99,999 | 70 | 9 | 3 | 0 | 85% |
| $100,000 or More | 40 | 5 | 0 | 0 | 89% |

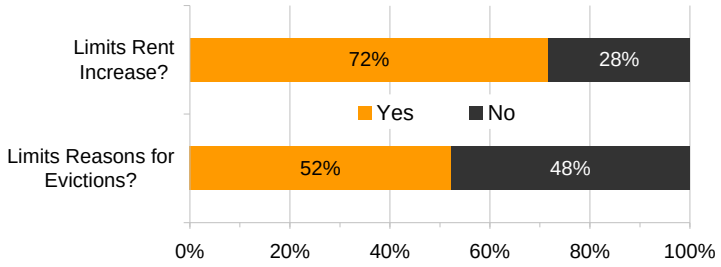
*Source: Economic Roundtable 2007-08 City of Los Angeles Renter Survey*

Table 2-9
Awareness of the RSO's Limit on Reasons for Eviction, by Total Household Income
*Calculated Using Individual Weights*

| | Q20: Did you know that rent stabilization law limits the reasons for evicting tenants? | | | | |
|---|---|---|---|---|---|
| **Q35. Total Household Income?** | Yes | No | Don't Know | Refused | Percent Yes |
| Less than $10,000 | 100 | 113 | 12 | 0 | 44% |
| $10,000 to $24,999 | 244 | 236 | 15 | 0 | 49% |
| $25,000 to $34,999 | 87 | 82 | 8 | 0 | 49% |
| $35,000 to $49,999 | 74 | 45 | 3 | 0 | 60% |
| $50,000 to $74,999 | 96 | 43 | 0 | 0 | 69% |
| $75,000 to $99,999 | 44 | 35 | 3 | 0 | 54% |
| $100,000 or More | 29 | 15 | 1 | 0 | 64% |

*Source: Economic Roundtable 2007-08 City of Los Angeles Renter Survey*

Figure 2-15
Tenants' Awareness of RSO Limiting the amount of Annual Rent Increases and Reasons for Eviction
*Calculated Using Individual Weights*




*Source: Economic Roundtable 2007-08 City of Los Angeles Renter Survey*

Renters with higher household incomes are more likely to know that the RSO limits the amount of rent increases for their units (Table 2-8).[24] Approximately 86 percent of renters in households with incomes greater than $35,000 per year say they are aware of the RSO's function in limiting rent increases each year. Even higher percentages of respondents from households with higher incomes say they aware of this, which again corresponds with responses voiced in focus groups sessions with renters. The savings on rent for high-income tenants (annual household incomes of $50,000 or more) is quite substantial, and many of these more affluent renters are keenly aware of this benefit.

**Reasons Limiting Evictions**

Compared to tenants' awareness of rent stabilization's limit on annual rent increases, far fewer are aware of the limitations on possible reasons for eviction. There are twelve legal reasons for evicting tenants who live in units covered by the City's RSO, yet only 52 percent of renter respondents say they know about this (Figure 2-15). This is 20 percent fewer than the number of renters who are aware of the limit on annual rent increases, and may be due to the limited number of overall renters who encounter the eviction process, either first hand or second hand. Focus group

Text Box 2-2
Focus Group Comments about Tenant Education

- *Renters don't know what their rights are; each renter should get a handbook.*
- *Most people don't have access to information about their housing rights.*
- *It is important to let tenants know if they are in a rent-controlled building - make notification of RSO status part of signing the lease.*
- *The City should have a phone number where tenants can access resources through out the City, should include eviction info, homelessness info, emergency shelter info, to be able to make anonymous complaints of unsafe and unhealthy buildings.*
- *There is a lack of information about the legal rights of renters.*
- *Educate the public on housing matters*
- *It's hard get educated about housing rules and people don't know their rights, this is really important.*
- *Invest into educating people on how to take care of their environment.*
- *Educate and make people more aware of how to take care of their community and environment.*
- *Make rules more clear.*
- *Some people need education about how to be a good tenant – housing projects have people who do this.*
- *A manual of rules and regulations is needed for both owner and tenant.*
- *There should be guidelines to follow when situations arise, for example a procedure to request repairs. This should be something in writing so that owner and tenant are on the same page.*
- *Renters should be aware of their rights in regards to City inspections.*
- *There should be community meetings to educate, build awareness and teach renters about their rights.*
- *Educate and motivate renters on what is happening with the housing crisis now.*
- *Many renters are afraid to speak out.*
- *Communities need to be educated about their rights as tenants.*
- *Some people are afraid to speak out because they are not aware of their rights*
- *Renters are afraid to speak out- many don't know their rights as renters*

sessions with renters support this conclusion – many participants say they have never been involved in eviction proceedings and are uncertain about what protections from eviction the RSO provides.

Awareness that the City's rent stabilization law limits the reasons for evictions also varies by the language in which respondents answered the survey, with a higher percentage of English-language respondents saying "yes" than Spanish- or Korean-language respondents:

- English: 49%
- Spanish: 32%
- Korean: 20%

Knowledge of the twelve legal reasons for eviction also varies by household income, with greater awareness among renters in more affluent households (Table 2-9). **Only 48 percent of renters with household incomes less than $25,000 per year know that the RSO limits the legal reasons for eviction.**

Renters frequently commented about their lack of knowledge about renters' rights and the need to disseminate this information. Some focus group comments on this issue are shown in Text Box 2-2.

## EVICTIONS

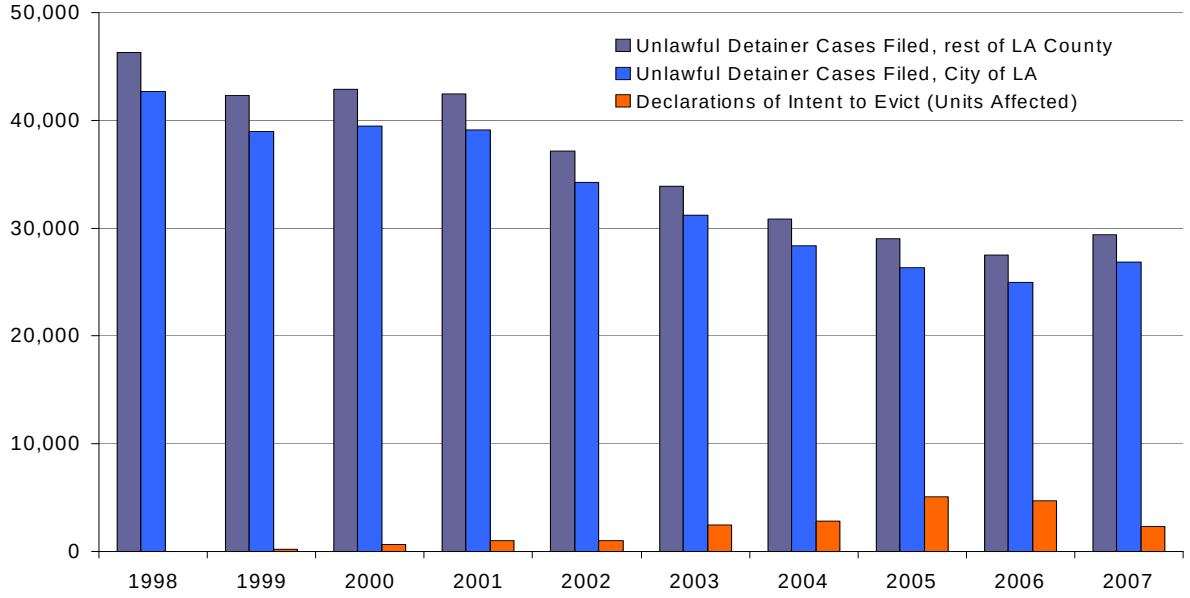
Evictions occur when the property owner or manager seeks to end the tenancy of a renter household due to non-compliance with the lease, such as when rent is not paid, property is damaged, other tenants and neighbors are regularly disturbed by nuisance behavior, or illegal activities occur on the premises. Tenants may also be evicted if the owner wants to end the use of the unit as rental housing, seeking to demolish the structure or convert it to a condominium, although properties covered by the RSO require approval from the City in order to do this. Lastly, evictions can occur illegally when the renter household is entitled to continue the tenancy, but pressured by the property owner or manager to leave, such as when vacancy decontrol of rents is sought for rent stabilized units.

In California, the legal process for carrying out an eviction involves the landlord first giving a written notice to the tenant(s), asking ask them to correct their violation of the lease within a specified period (3-days, 30-days, etc.). If the tenant(s) do not comply with the notice in that period, the landlord can then file an "unlawful detainer" civil case in the superior court, where a judge decides the case. If the judge agrees with the landlord's case or the tenant fails to appear, the court will order the county sheriff to evict the tenant(s) from the unit. However, a variety of scenarios can occur when landlords seek to evict a tenant.[25]

Each year, tens of thousands of evictions reach the Los Angeles Superior Court as unlawful detainer cases (Figure 2-16).[26] There were a higher number of these standard civil cases in the mid-1990s, but they have declined in more recent years. Also shown is the LA Housing Department's number of "Landlord Declarations of Intent to Evict."[27] These declarations are required to be filed by a landlord for properties covered by the RSO, and where the landlord seeks to vacate a unit for the following reasons:

- The owner, owner's family member, or resident manager's seeks to occupy the unit.

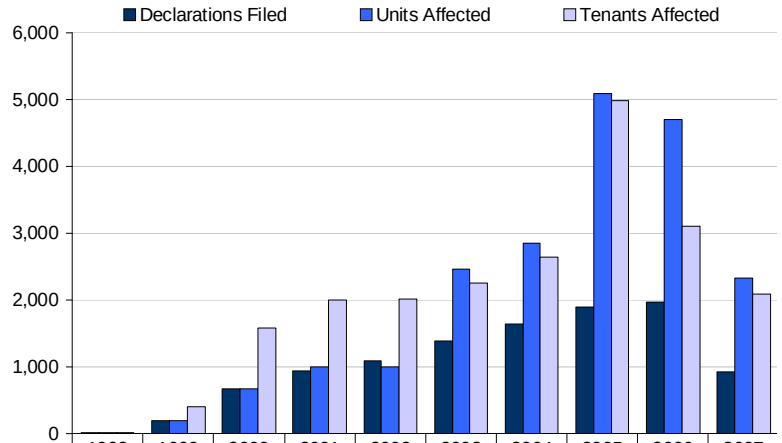
Figure 2-16
Unlawful Detainer Cases Filed in the Los Angeles Superior Court,
Landlord Declarations of Intent to Evict Filed with the City, 1998-2007




*Source: Los Angeles Superior Court, Management Systems Analysis Unit, 2008; Los Angeles Housing Department, 2008. Note: The proportions of unlawful detainer cases in the City of Los Angeles and the balance of LA County are estimated based upon the distribution of rental housing measured by the US Census and American Community Survey, based on county totals.*

- Permanent removal and demolition of the unit from the rental market (demolition, etc.).
- To comply with a governmental order regarding habitability or other violation.
- Nuisance created or illegal use of unit, related to illegal drug or gang activity.

Figure 2-17
Landlord Declarations of Intent to Evict RSO Tenants by Year Case Opened




| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|---|---|---|
| Declarations Filed | 7 | 187 | 670 | 932 | 1,081 | 1,392 | 1,632 | 1,895 | 1,965 | 925 |
| Units Affected | 6 | 193 | 663 | 995 | 990 | 2,459 | 2,845 | 5,082 | 4,707 | 2,320 |
| Tenants Affected | 11 | 402 | 1,583 | 1,996 | 2,013 | 2,249 | 2,642 | 4,981 | 3,098 | 2,084 |

*Source: Los Angeles Housing Department, 2008*

This special subset of eviction cases in the City **surged from 2000 onwards, peaking in 2005, counter to the downward trend in overall unlawful detainer cases.** The number of Landlord Declarations to Evict filed in 2007 –

measured in properties, units and tenants – dropped off as compared to 2006, although this was still higher than the late 1990s (Figure 2-17).[28]

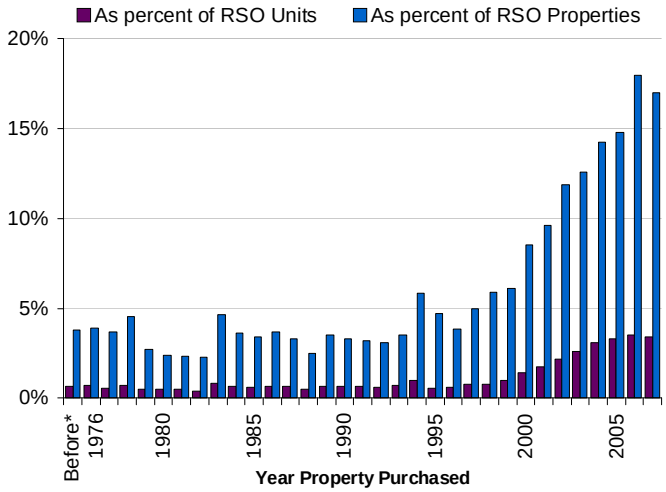
It is informative to look at these landlord declarations of intent to evict broken out by the year in which the RSO-regulated property was purchased by the current owner. Recent purchasers of RSO properties have filed more evictions than owners who have owned their properties ten years or longer, both as a percent of all RSO units and properties purchased (Figure 2-18).[29] The average number of evictions declared with LAHD from 1998 onwards, based on when properties were purchased, is as follows:

- 1976-1993 49 evictions
- 1994-1996 85 evictions
- 1997-1999 155 evictions
- 2000-2002 391 evictions
- 2003-2004 840 evictions
- 2005-2006 1,208 evictions
- 2007-2008 793 evictions

This rapid run up in evictions corresponds with the decline in cap rates discussed in Chapter 6. Cap or capitalization rates are the ratio between the cash flow produced by a property and the purchase price of the property. Lower cap rates on rental properties mean that rent is paying a smaller share of the mortgage and that owners are harder pressed to break even on their investment.

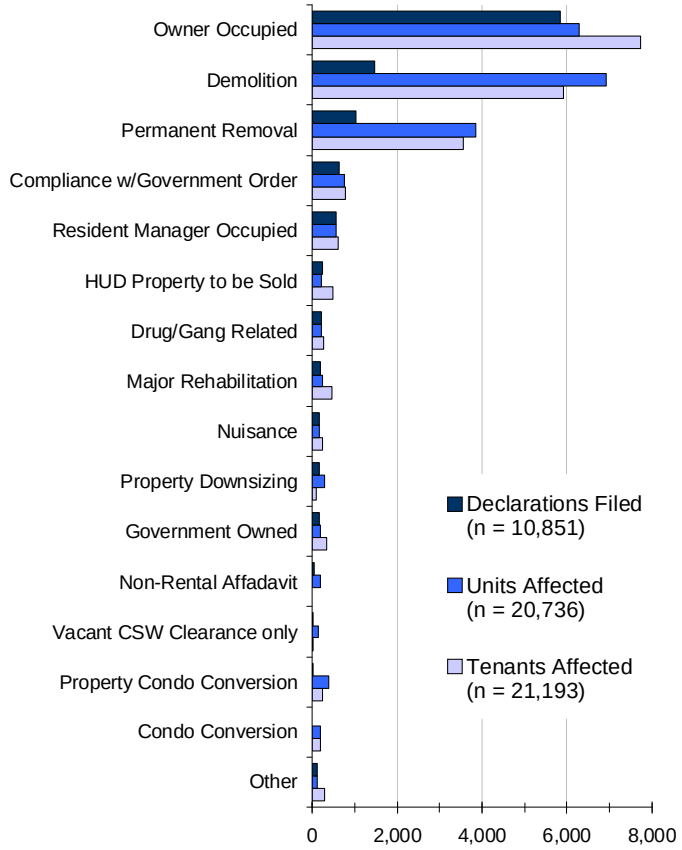
For apartments, cap rates have fallen from more than 8.5 percent in 2001 to close to 6 percent in 2006. Many owners who have assumed mortgages for rental properties during this decade have found that the debt service

Figure 2-18
Landlord Declarations of Intent to Evict Filed with LAHD as a Percent of Total RSO Properties and RSO Units, by Year of Purchase by Current Owner




*Source: Los Angeles Housing Department, 2008, covering Landlord Declarations filed 1998-2007; LA County Assessor's Office, Local Roll. Note: * = Year of purchase before 1976, is not broken out in the Assessor's data, and thus shown as one bar.*

Figure 2-19
Landlord Declarations of Intent to Evict by Type:




*Source: Los Angeles Housing Department*

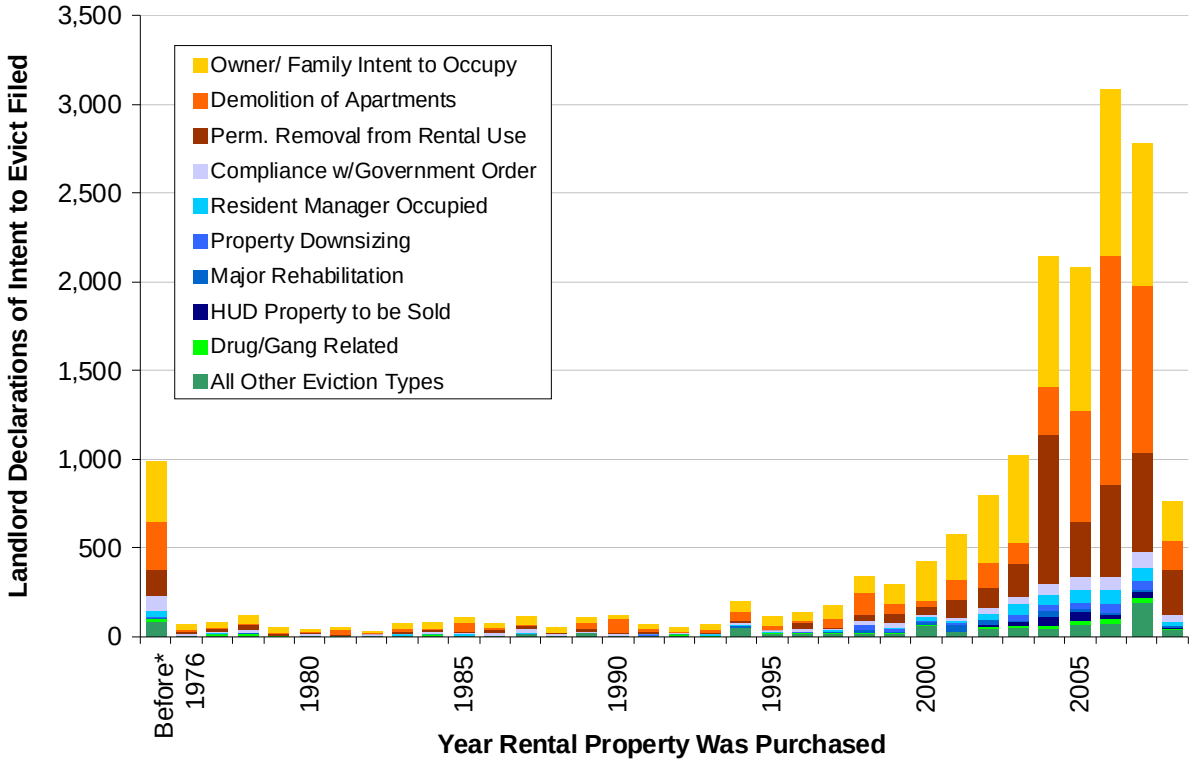
associated with their property has consumed a larger share of their cash flows than was the case for properties purchased in the preceding decade.[30] Evicting tenants and converting properties into up-scale rentals or condominiums are ways of increasing revenue from speculative investments in rental property.

Table 2-10
Eviction Types: No-Fault and At-Fault Evictions

| No-Fault Eviction Types | At-Fault Eviction Types |
|---|---|
| • Owner Occupied<br>• Demolition<br>• Permanent Removal from Rental Use<br>• Compliance w/Government Order<br>• Resident Manager Occupied<br>• Major Rehabilitation<br>• Property Downsizing<br>• Property Conversion to Condo | • Drug/Gang Related<br>• Nuisance<br>• Government Order |

The three most common types of evictions – vacating the unit for occupancy by the owner's family, demolition of apartment buildings, and the permanent removal of units or entire buildings from rental use – make up 75 percent of evictions (Figure 2-19).[31] While the rule allowing the eviction of existing tenants in order to allow members of the owner's family to occupy a unit has legitimate uses, it also may be a strategy for circumventing RSO restrictions on evictions to evict tenants from RSO units in order to de-control and raise the rent up to current market rates. Another top reason for eviction is condo conversions, which is split across three

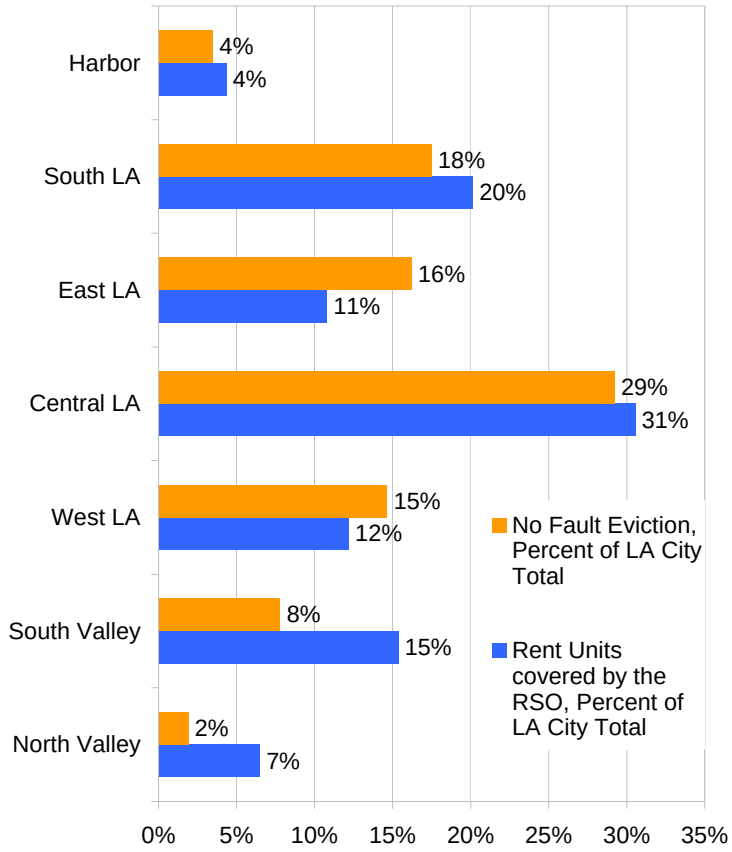
Figure 2-20
Evictions by Type and Year Purchased by Present Owners




*Source: Los Angeles Housing Department. 2008. Dataset 6: Landlord Declarations of Intent to Evict; LA County Assessor's Office, Local Roll. Note: * = Year of purchase before 1976, which is not broken out in the Assessor's data, and thus shown as one bar.*

types of evictions shown in Figure 2-19: "permanent removal," "demolition" and "property condo conversion." These **evictions related to condominium conversion account for 54 percent of all evictions recorded by the Housing Department.**

Figure 2-21
No-Fault Evictions by APC, 1998-2008, Compared to Current Distribution of the RSO Inventory




*Source: Los Angeles Housing Department. 2008. Cases Opened for Landlord Declarations of Intent to Evict, by Month. Administrative Dataset (6); LA City Housing Department*

## At-Fault and No-Fault Evictions

Many evictions do not require owners to file a *declaration of intent to evict* with the Housing Department. When declarations are filed, they fall into two categories: no-fault and at-fault evictions.[32] Landlord declaration types are listed in Table 2-10.

Most of the increase in eviction filings occurring since the late 1990s is attributable to no-fault evictions, where the owner is seeking to remove the tenant, but not due to non-payment of rent or nuisance behavior (Figure 2-20).[33] No-fault evictions account for 91 percent of all landlord declarations recorded by the Housing Department, at-fault evictions account for 4 percent, and administrative processes[34] account for 5 percent.

The distribution of eviction cases across the City of Los Angeles generally mirrors the distribution of RSO units, although ***East LA* and *West LA* standout as having disproportionately more cases of no-fault evictions during the period 1998-2008**. The *San Fernando Valley* has a disproportionately lower number of no-fault eviction cases during this period (Figure 2-21). The geographic distribution of evictions shown in Figure 2-21 has remained constant since 1998.

Most comments about evictions heard in focus groups expressed support for evicting problem tenants who diminish the quality of life for other renters. A sampling of these comments is provided in Text Box 2-3. The RSO mandates that tenants displaced from rent-stabilized units through no-fault eviction cases are compensated by the property owner. This subject is reviewed in the next section.

Text Box 2-3
Focus Group Comments about Evictions

*Problem Tenants*

- *People who are a danger to other people or disruptive should not be allowed. Other tenants should not disturb your "quiet enjoyment."*
- *It should be easier to evict anti-social tenants. Tenants don't want to testify against other renters who create problems because they are scared or they are working.*
- *It is hard to evict a troublesome tenant. We've tried everything but it just doesn't work. We only want to live in peace and rest.*
- *Gang members invaded the building making it unsafe and unsuitable to live. The manager was too scared to call the police. A sixteen-year-old boy had to die before authorities then stepped in to evict the gang members.*
- *It's hard for managers to evict bad tenants because they are scared.*
- *We all have to live under rules and regulations - it's okay to evict tenants for problem behavior.*
- *The manager was able to evict a drug dealer and it was easy. In 3 days he was out.*
- *I don't have a problem with fair rules for evicting problem tenants.*
- *Yeah, we have anti-social tenants, LAPD always coming, they're always arguing, break stuff and they never get evicted. I don't know why.*
- *Some landlords avoid dealing with problem tenants; they say that it is police matter and not a management matter.*
- *Owners shouldn't permit unsafe illicit uses in the properties such as prostitution, vandalism and drug use, or loud music.*
- *It should be easier to evict tenants who make problems in the building, for example, loud tenants and those who created an unsafe living environment.*
- *If an eviction is served, they still have 6 months to move out. This gives a renter a chance to get an attorney and public assistance. Once we had a manager that needed to evict a problem tenant, he paid all the fees to process the eviction and he STILL did not get rent from that tenant in the six months they took to move out.*

*Demolitions and Relocation*

- *They are demolishing buildings and projects and a lot of evictions have occurred.*
- *What is LA trying to do by all these demolition? Is it trying to get people out of LA?*
- *The relocation money doesn't compensate the difficulty on families and their communities - the children have to leave their school and their community.*

*General*

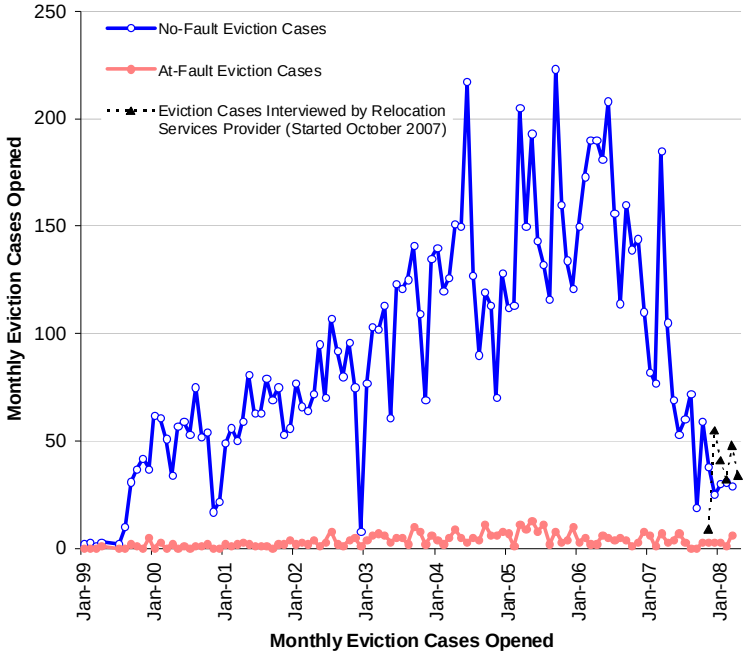
- *Many people are asked to leave their apartments and this becomes a crisis since it is difficult to find an affordable place to live in LA.*
- *Many owners want to evict old tenants so later they can raise the rents for new tenants.*
- *Don't make people homeless – a paper trail of eviction can be very harmful.*
- *Maybe there should be something like the three strikes law where tenants have a certain number of chances before their rights are taken away. Also, with each documented incident, they create a traceable paper trail to establish a history. Another possibility is to create a point system that leads to eviction.*
- *Since rents are so high in the City of Los Angeles, tenants prefer to stay quiet because they are afraid of being evicted and having to search for another costlier apartment.*

## Tennant Relocation Assistance Program

*Background*

Beyond requiring landlords to pay their tenants a relocation fee in cases of no-fault eviction, the Los Angeles Housing Department began providing relocation assistance services as well, starting in late October 2007. Evicted households are referred out to a contracted housing relocation search provider as part of the City's response to the upsurge in no-fault evictions occurring since 2000 (Figure 2-22). The average number of eviction cases where the tenants is at-fault has remained low during this period,

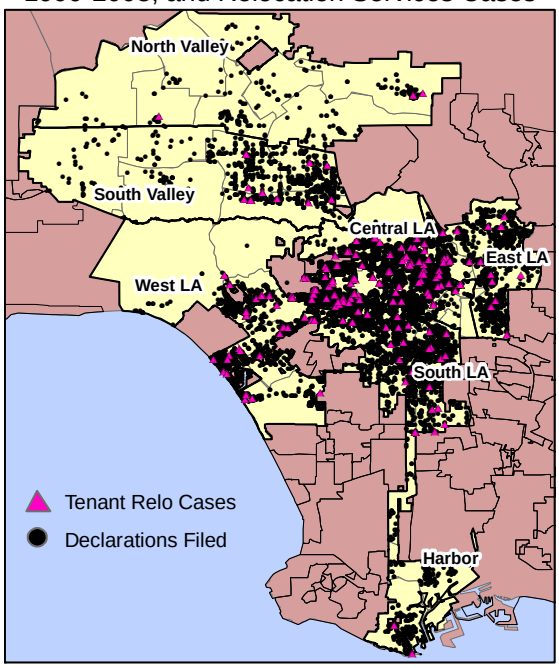
Figure 2-22
LAHD Eviction Cases Opened Monthly and Number Interviewed by Relocation Services Provider




*Source: Los Angeles Housing Department, 2008*

at just under four cases per month. The steady rise in no-fault eviction cases from 2000 to 2006 has followed the run up of property values in Los Angeles' overall housing market. The majority of these no-fault cases occur when the owner moves in to occupy a rental unit, demolishes the rental unit, or permanently removes the unit from rental housing use.

Figure 2-23
Declarations to Evict Tenants in RSO Units, 1999-2008, and Relocation Services Cases




*Source: Los Angeles Housing Department, 2008*

*Relocated Tenants*

These recent no-fault evictions in which the tenants received relocation fees and were offered relocation assistance are heavily concentrated in the Central Los Angeles region, which takes in downtown through Hollywood; 49 percent of the evictions were from this region (Figure 2-23).[35]

Most of the properties from which these tenants were evicted have new owners. Sixty-three percent of the properties were purchased between 2004 and early 2008. This is the interval

in which sale prices for rental properties outstripped the cash flow from those properties and speculative investors sought to make fundamental changes that would enable them to market properties to more affluent occupants.

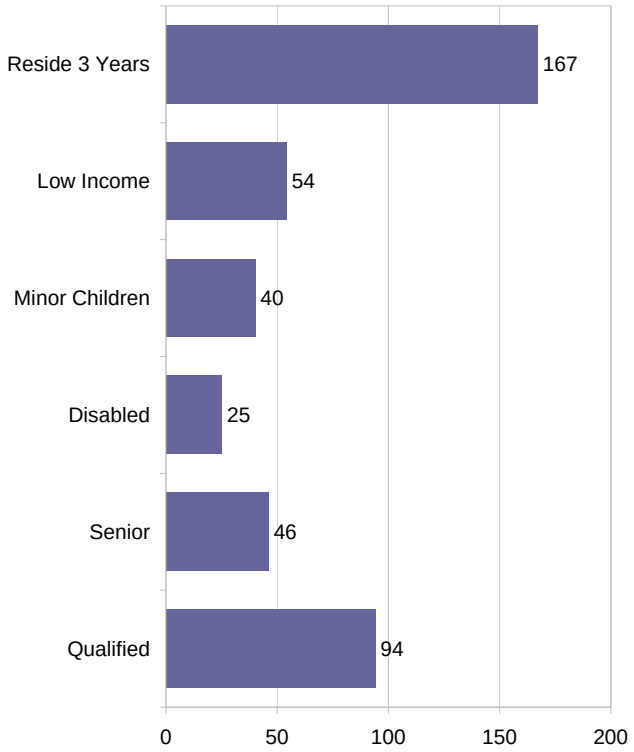
Table 2-11
LAHD Eviction Cases Interviewed by Relocation Assistance Services, by Type and Entitlement Amount

| Relocation Assistance Eligibility Type | Entitlement Amount | Evicted Units | Total Cash |
|---|---|---|---|
| Eligible <3 Years | $6,810 | 43 | $292,830 |
| Eligible, 3+ Years | $9,040 | 95 | $858,800 |
| Qualified, <3 Years | $14,850 | 16 | $237,600 |
| Qualified, 3+ Years | $17,080 | 77 | $1,315,160 |
| | Grand Total | 231 | $2,704,390 |

*Source: (Relocation Services Contractor). 2008. LAHD - Determinations Tracking Report, May 17, 2008. Referrals by LAHD for housing search services.*

**The Housing Department had referred 187 no-fault eviction cases to its housing relocation assistance services provider as of mid-May 2008, representing 274 tenant households and at least 532 tenants.** Out of the 274 tenant households referred, the relocation services contractor has contacted and interviewed 231 households, which received varying sizes of relocation assistance payments (Table 2-11). Many of those referred are still in the process of finding replacement housing, given the scarcity of vacant units, rising rents, and the desire to locate near jobs, schools, family and familiar neighborhoods. Not all tenant households that are eligible for this relocation assistance service have utilized it, since some have not been successfully contacted by the relocation assistance provider, possibly unreachable due to changing contact information as a result of the eviction or finding alternative housing on their own. The length of the eviction process (i.e. Ellis process) is another reason why tenants may not have been contacted by the provider; some tenants may not yet be ready for the service. The relocation assistance services provider has also encountered tenant households that have previously signed waivers of their relocation assistance at the time they negotiated their lease, making them ineligible for payments or relocation assistance services. Such waivers are permitted under of RSO provision 151.09G4b and c.

Figure 2-24
Characteristics of Tenant Households Interviewed during Relocation Assistance Process, by Type



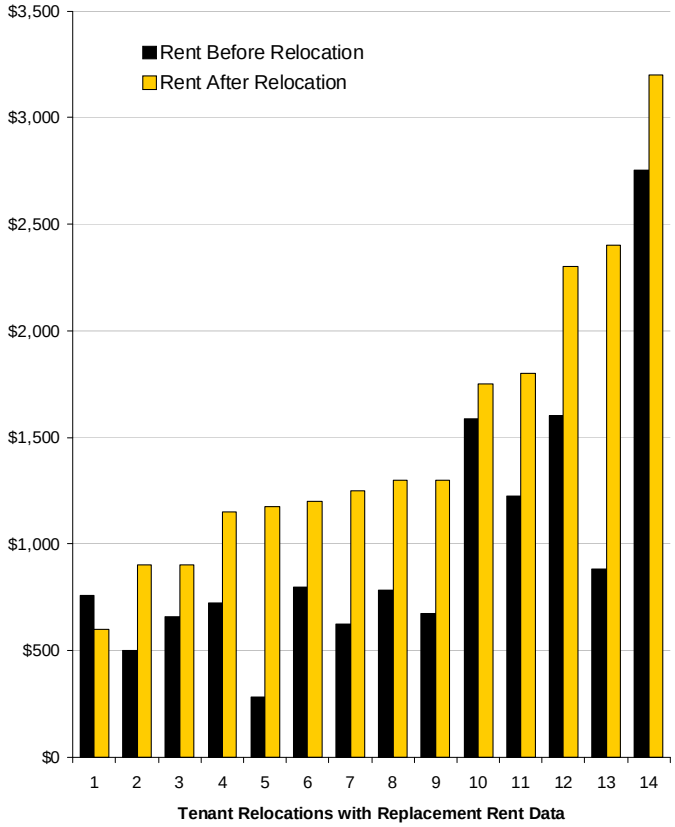

*Source: Relocation Services Contractor, May 17, 2008. LAHD - Determinations Tracking Report. Referrals by LAHD for housing search services.*

The two types of relocation assistance offered to tenant households displaced by no-fault evictions – the relocation assistance payment from landlords and the relocation assistance services for finding replacement housing – vary in amount if the households meet one or more of the following criteria:

- Parents or guardians of one or more minor children younger than 18
- Disabled/handicapped
- Senior 62 years of age or older

Additional consideration is given to households that occupy a rental unit for three years or more, or are considered to be low income. Among 274 tenant households displaced by no-fault evictions and referred by LAHD to relocation assistance services, a majority had lived in their current units for 3 years or longer (Figure 2-24).[36] Ninety-four (34 percent) are considered *qualified* based upon one of the three criteria listed above. Fifty-four households (20 percent) are considered low-come (calculated as 80 percent of the Area Median Income).

Figure 2-25
Monthly Rent Before and After Relocation for Tenant Households Displaced by No-Fault Evictions




*Source: Relocation Services Contractor, May 17, 2008. LAHD - Determinations Tracking Report. Records are for 14 households where "Current" and "Replacement" rent data was recorded.*

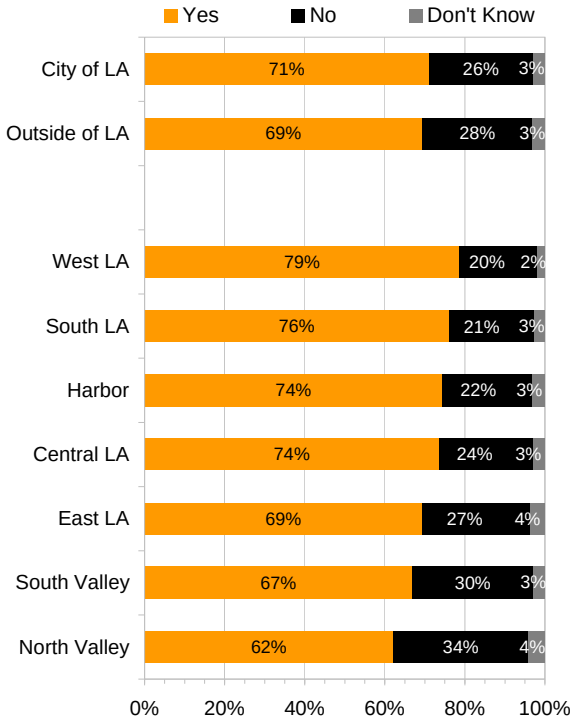
After a member of the evicted tenant household is initially interviewed by the relocation assistance services provider, their staff helps the tenant search for alternative rental housing. The number of hours of assistance they receive is based on whether or not eligible households are qualified (see criteria above). Up to five hours per dwelling is used for searching on behalf of *eligible* tenant households, and up to eight hours per dwelling is used for *qualified* tenant households. In special circumstances, the Housing Department can authorize additional time to be spent on helping these tenant households find alternative rental housing options.

What is the outcome for the City's investment in relocation assistance services for tenant households displaced by no-fault evictions? As mentioned above, many of these cases are still in process. Approximately 25 tenant households have been successfully relocated through this service, according to data provided by the relocation assistance provider. Collecting information on the outcomes of the relocation process – even the successful cases – is difficult since relocated tenants can be hard to contact. For those few who are reached, information is collected about their replacement housing, including the amount of rent paid for their new unit. This allows for a comparison of their monthly rent before and after their relocation (Figure 2-25). Given that most of the relocated tenant households had been in rent-stabilized housing for three or more years – sheltered from Los Angeles' rising rents – they likely will pay more for their new housing. This was the case for all but one of the tenant households interviewed after relocation. The increase in rents paid before and after relocation varies, from a 10 percent

increase above original rent paid (tenant #10) to a 315 percent increase above original rent paid (tenant #5). In regards to where the relocated tenant households moved, 14 providing that information remained in the City of Los Angeles, and one relocated to Redondo Beach.

Each of the no-fault eviction cases referred by the Housing Department to the relocation assistance provider includes tenant households with different characteristics, making the search for comparable rental housing complex. Some may be moving into larger units in order to relieve the overcrowded conditions of their previous rental housing, and thus paying significantly higher rents due to having a bigger unit. Some households may be making more combined work income than they did three or more years ago, and are seeking more expensive rental housing because they can now afford it. Yet other tenant households, especially larger families with minor children (age less than 18) may not have enough income to afford large enough rental units at current market rents. Seniors and handicapped tenants likewise face a narrower set of choices for replacement housing. While the number of new eviction cases handled by the Housing Department each month declined significantly in 2007, helping the current caseload find replacement housing in this market is proving to be challenging.

Figure 2-26
Do have a written lease or rental agreement with your landlord?
*Calculated Using Household Weights (p<.001)*




*Source: Economic Roundtable 2007-08 City of LA Renter Survey*

## Leases and Rental Agreements

Leases are the legal documents that allow tenants to occupy a rental housing unit that is owned by a landlord, in exchange for rent. The lease usually includes rules and standards that the tenant and the landlord must both observe, such as prohibitions against alterations or damage to the unit, responsibility for utilities, consequences for late payment of rent, the right to sub-lease, whether pets are allowed, and so forth. Leases usually bind the tenant and the landlord together for a year at a time. Not all rental housing units are governed by leases, however. The net effect of RSO eviction provisions is that rental units that begin with leases change over to month-to-month rental agreements, which allow tenants to move out of a unit on short notice but require landlords to

Table 2-12
How Long is the Term of the Agreement?
*Calculated Using Household Weights*

| | Number | Percent |
|---|---|---|
| **Month-to-Month** | 818 | 31% |
| **6 Month** | 66 | 2% |
| **One Year** | 1,583 | 59% |
| **18 Month** | 2 | 0% |
| **Two Year** | 94 | 4% |
| **Three Year** | 22 | 1% |
| **Four Year** | 13 | 0% |
| **Five Years +** | 69 | 3% |
| **Total** | 2,667 | 100% |

*Source: Economic Roundtable 2007-08 City of Los Angeles Renter Survey.*

keep the tenants for as long as they wish to stay, barring an eviction. A smaller number of RSO properties are rented through verbal agreements, without a written lease or rental agreement.

Renter survey respondents were asked if they have a written lease or rent agreement with their landlord. **Seventy-one percent of renters report having a written lease agreement with their landlord** (Figure 2-26). Interestingly, based on data from the owner survey (Chapter 3), 88 percent of renters have written leases or rental agreements, a rate much higher than what renters reported in this survey. There is some variation across Los Angeles' seven Area Planning Commissions, with the highest rate of lease agreements in *West LA* and the lowest rate in the *North Valley*.

Table 2-13

In what language is the rental agreement that you signed?

*Calculated Using Household Weights*

| Language | Percent |
|---|---|
| English | 80% |
| Spanish | 19% |
| English and Spanish | 1% |
| Korean | 0.1% |
| Other | 0.1% |

*Source: Economic Roundtable 2007-08 City of Los Angeles Renter Survey*

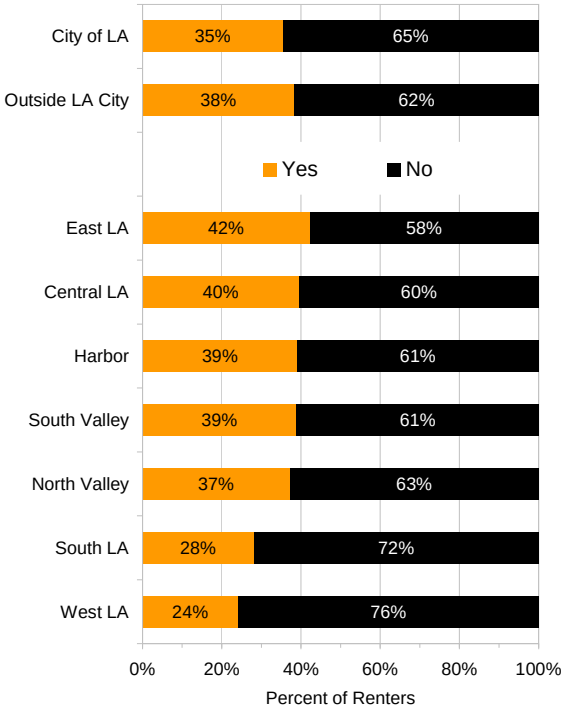
## Length of Rental Agreements

How long is the term of leases and rental agreements for renters in Los Angeles? Based on responses to the renter survey, most rental agreements are one-year leases (59 percent), while month to month are the second most common (31 percent), as shown in Table 2-12. This data slightly differs from the owner survey; owners report using one-year and month-to-month leases 52 percent and 42 percent of the time, respectively. Leases of longer than a year in duration are uncommon in residential rental properties, although over 5 percent of respondents report having such leases. Interestingly, roughly even numbers of renters of rent stabilized and non-rent stabilized housing units have month-to-month, six month or one-year rental agreements. This does not happen to non-rent stabilized units.

Figure 2-27

Do You Speak a Language Other than English at Home?

*Calculated Using Individual Weights (p<.001)*




*Source: Economic Roundtable 2007-08 City of Los Angeles Renter Survey*

## Language(s) of Renters and their Rental Agreements

The renter survey was conducted by telephone interview in three languages in order to reach a representative cross-section of renters. Renters who responded to the survey in Spanish said that they had a written lease or rent agreement with their landlord less often than those responding in English or Korean:

- English 82%
- Korean 80%
- Spanish 63%

The ability of renters to read and speak English affects their ability to understand and negotiate leases and rental agreements. The diversity of primary languages spoken by renters in the City of Los Angeles has led roughly a fifth of landlords to provide lease and rental agreements in languages other than English (Table 2-13).

**Among those with leases and rental agreements in English, 77 percent were renters who completed our telephone survey in English, 21 percent completed it in Spanish, and 2 percent completed it in Korean.** The latter two groups would probably benefit from having a standardized lease that was in their primary spoken language.

Leases written in Spanish were the next most common language (13 percent), followed by some bilingual (in more than one language) and a few in other languages.

The willingness of some landlords to translate rental agreements and leases into languages other than English reflects the reality that many renters as well as a significant number of landlords speak a language other than English at home. Renters were asked: *Do you speak a language other than English at home?*. Citywide, 35 percent of tenants speak a langauge other than Englsih at home, with *East LA* having the higher percent of non-English speaking respondants, and *West LA* having the fewest (Figure 2-27).

Table 2-14
What is the language you speak at home other than English?
*Calculated Using Individual Weights*

| Language | Percent |
|---|---|
| Spanish | 71.7% |
| Korean | 5.1% |
| Tagalog | 3.3% |
| Armenian | 1.9% |
| Russian | 1.6% |
| Chinese | 1.2% |
| Japanese | 0.8% |
| Persian | 0.8% |
| Vietnamese | 0.4% |
| Other | 13.2% |
| Total | 100.0% |

*Source: Economic Roundtable 2007-08 City of Los Angeles Renter Survey*

The language other than Engish that renters report speaking at home varies more than the language of renter's leases. All those who said that they do speak a language other than English at home were then asked *What is this language?*. The

Text Box 2-4
Focus Group Comments about Leases

- *The rental contract needs to be clear.*
- *Renters need to be aware of what happens when they break a lease and it is unfair to take money from the deposit and the first months rent.*
- *We're willing to make concessions with owners to improve the overall quality of living – we need to increase both tenant and owner accountability.*
- *I've done without a lease – it wouldn't make any difference. I've never had a problem without a lease.*
- *I signed a lease in 1975; scared to ask if it's still in effect. I've been under rent control for 33 years.*
- *A lease written by the City that covers the rights of tenants should be required.*
- *I decided not to rent an apartment where the lease said the rental amount was a combination of rent and fees – fees can be changed any time* [not factually true under RSO].
- *The lease enabled me to get a psychotic tenant out of the building. The lease had clauses about noise and behavior. It took a few months.*
- *If there is a good lease the renter will not tear up the space and the landlord will keep the space up.*

vast majority speak Spanish (71 percent), but the remainder speak a plethora of languages (Table 2-14). In addition to the languages listed, the response "other specified" includes over sixty more languages that renter survey respondents said they spoke at home. This linguistic diversity is evidence of the importance of offering documents, including leases, to renters in languages that are understandable to them.

The survey asked renters about their ability to understand English if they indicated that they speak a different language at home. Citywide, just over 29 percent of renter respondents answered that they speak English "Not at All" or "Not Well", and just over 27 percent answered that they read English " Not at All" or "Not Well" (Figure 2-28 and 2-29). Several parts of the City – *Central LA*, *South LA*, the *Habor* and the *North San Fernando Valley* – had a higher percent of respondents with limited English speaking and reading abilities than the City as a whole, while *West LA* stood out as having the the lowest percentage of renters with limited English ability.

Across the City, renters' ability to speak English was a few percentage points higher than their ability to read English. Since about a quarter of renters speak and read English "Not at All" or "Not Well" in several parts of the City, this is a significant barrier to understanding leases that are written in English. This is an argument for creating standardized versions of these documents covering RSO and non-RSO rental properties. Although Los Angeles' inflow of immigrant residents is declining, the limited English ability of a quarter of renter households is grounds for concern about about their ability to make informed decisions in the City's rental

Figure 2-28
How Well Do You Speak English?
Response by APC *(p<.001)*

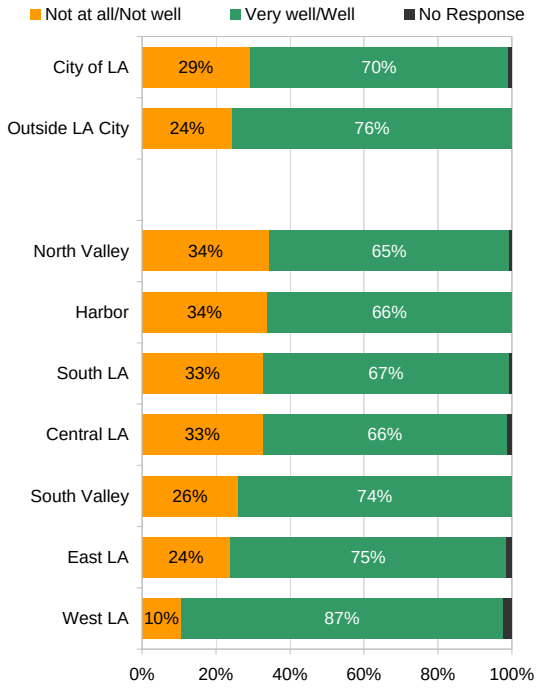
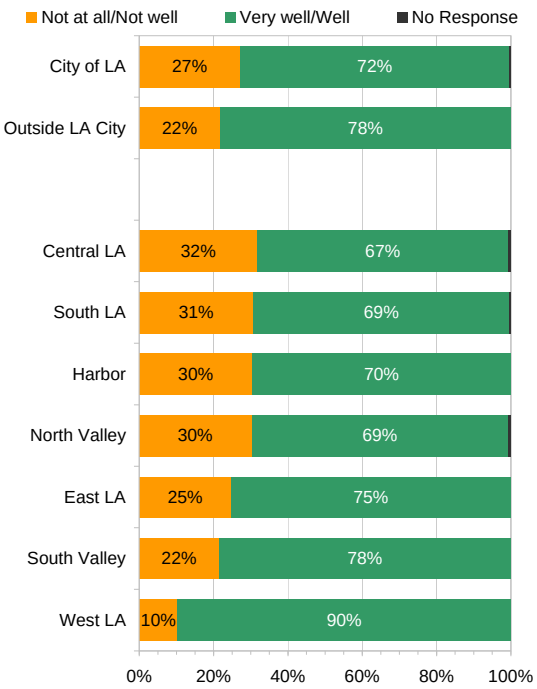



Figure 2-29
How Well Do You Read English?
Response by APC *(p<.001)*




*Source: Economic Roundtable 2007-08 City of Los Angeles Renter Survey, RSO Study, Question 13. (Individual Weight) (Universe: All respondents who answered "yes" to q11 - Do you speak a language other than English?) and Question 14, RSO Study. (Individual Weight) (Universe: All respondents who answered "yes" to q11 - Do you speak a language other than English?)*

housing market. Their limited English ability also impacts their ability to obtain and understand information about their rights and responsibilities in the rental market.

In a number of focus groups, renters expressed a desire to have clear, equitable leases, and in some cases apprehension about leases they had already signed. Some of these comments are shown in Text Box 2-4.

## PLUMBING AND KITCHEN FACILITIES IN RENTAL UNITS AND PAYING FOR UTILITIES

To what degree do LA City apartment renters have full kitchens and plumbing? This is important because absence of these basic amenities is a clear indication of substandard housing. That said, the great majority of renters occupy units with these features, with little variability based on tenant's income or location within the City.

Tenants were asked if their unit has complete plumbing facilities, including 1) hot and cold piped water, 2) a flush toilet, and 3) a bathtub or shower. Ninety-eight percent of renters in the City of Los Angeles report that they have all three of these plumbing facilities. Tenants also were asked if their unit has complete kitchen facilities, including 1) a sink with piped water, 2) a stove or range (not just a hotplate), and 3) a refrigerator? Slightly fewer, 95 percent of renters in the City of Los Angeles, have all three of these kitchen facilities.

The high percentage of rental housing units with complete plumbing and kitchen facilities

Figure 2-30
Complete Plumbing Facilities for Renter-Occupied Units in 1990, 2000 and 2006

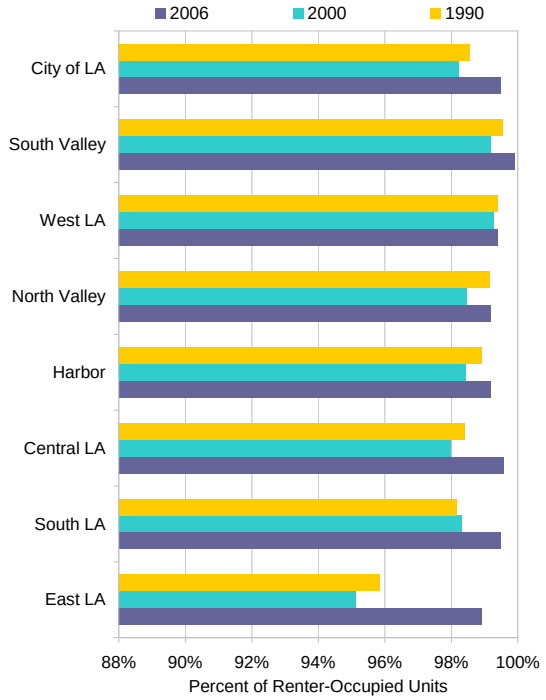
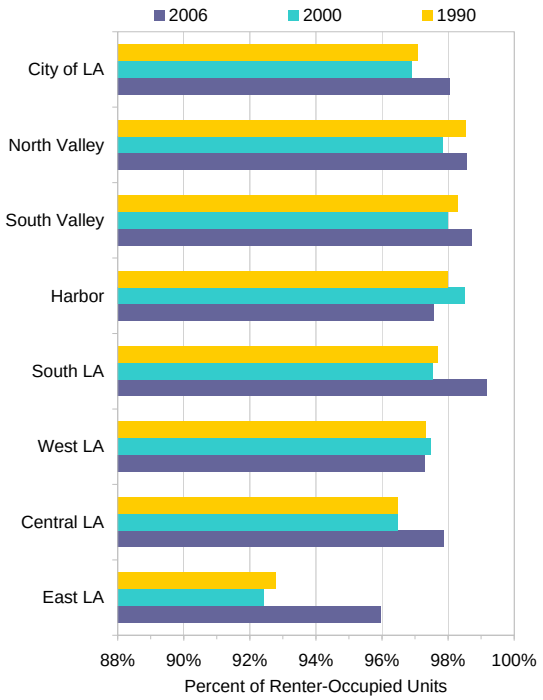


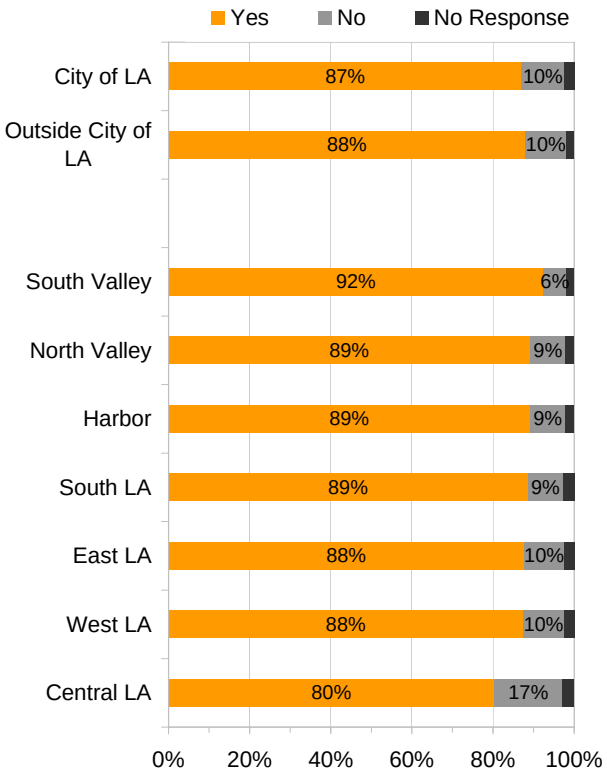

Figure 2-31
Complete Kitchen Facilities for Renter-Occupied Units in 1990, 2000 and 2006




*Source: U.S. Census Bureau, 1990 and 2000. Census of Population and Housing, Public Use Microdata Sample, 5 Percent. U.S. Census Bureau, 2006. American Community Survey. (Universe: Renter Occupied Housing Units.)*

found in the renter survey is corroborated by the 2006 American Community Survey. Previous decennial censuses, tabulated in 2000 and 1990, show that the number of rental housing units with complete plumbing and kitchen facilities has been climbing over time (Figures 2-30 and 2-31).[37] These data show that *East LA* and, to a lesser extent, *South* and *Central LA* have been catching up to the rest of the City since 1990, likely due to a combination of new construction, major renovations, and local government inspection programs.

Figure 2-32
Do You Pay For Any of Your Own Utilities? by APC
*Calculated Using Household Weights (p<.001)*



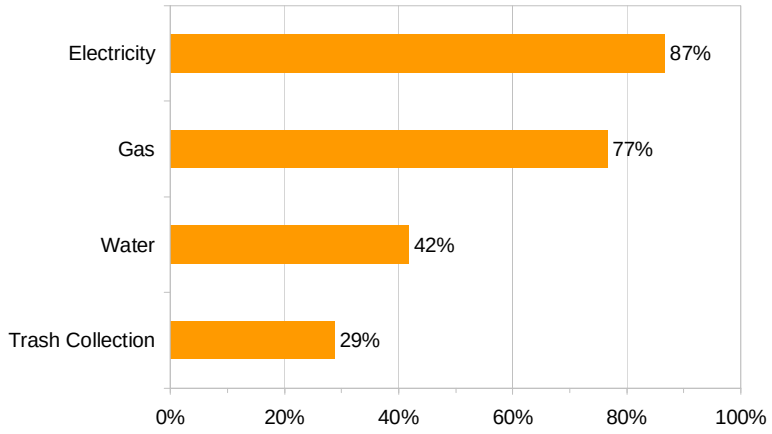

*Source: Economic Roundtable 2007-08 City of Los Angeles Renter Survey*

## How Many Renters Pay for Their Own Utilities?

Citywide, 87 percent of renter households pay for their own utilities. There is little variation among different areas of the City in the percent of renter households paying for at least some of their own utilities, ranging from 80 percent in *Central LA* to 92 percent in the *South Valley*. Renters reached outside of the City of LA responded similarly (Figure 2-32).

Which utilities do renter households most commonly pay for, and which are paid by their landlords? Renter households most often pay for electricity and gas, 87 percent and 77 percent respectively. Forty-two percent and 29 percent of renter households, respectively, report paying for water and trash (Figure 2-33), indicating that most landlords typically pay these utilities.

Figure 2-33
Percent of Renters Paying for Utilities by Type – City of Los Angeles
*Calculated Using Household Weights*




*Source: Economic Roundtable 2007-08 City of Los Angeles Renter Survey*

It is noteworthy that when compared to owner responses (Chapter 3), owners under-report the share of tenants who pay their own utility costs.[38]

## RENT

### Monthly Rent

The average and median monthly rent reported by Los Angeles renters in the survey, which was conducted from September 17, 2007 through April 7, 2008, are $951 and $850, respectively. This is roughly equal to the monthly contract rents reported by the 2006 Census (in 2007 dollars).[39] Average and median monthly rents across the seven APCs, shown in Table 2-15, were also very similar. Both sources indicate that ranked highest to lowest, the median rents by APC are: *West LA* ($1,250), *South Valley* ($975), *North Valley* ($900), *Harbor* ($875), *Central LA* ($815), *South LA* ($776), and *East LA* ($765).

Table 2-15
Monthly Rent by APC
*Calculated Using Household Weights*

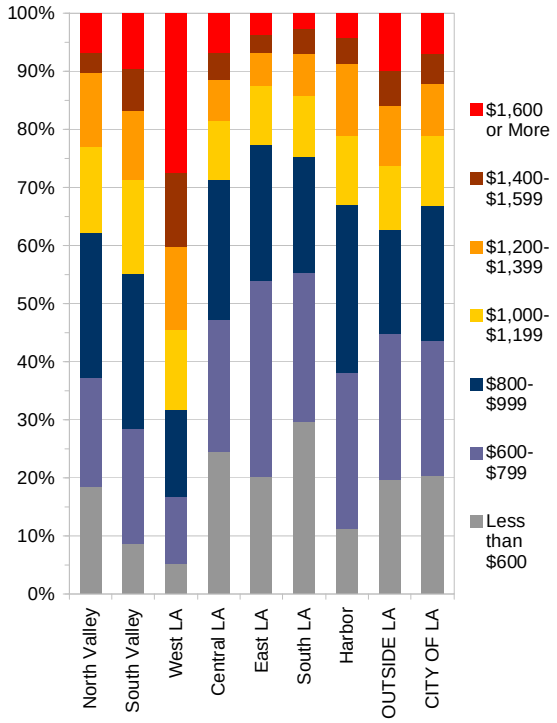
| | Survey | | 2006 Census | |
|---|---|---|---|---|
| | Average | Median | Average | Median |
| North Valley | $1,006 | $900 | $975 | $898 |
| South Valley | $1,070 | $975 | $1,080 | $949 |
| West LA | $1,384 | $1,250 | $1,286 | $1,123 |
| Central LA | $900 | $815 | $948 | $857 |
| East LA | $850 | $765 | $792 | $715 |
| South LA | $834 | $776 | $765 | $715 |
| Harbor | $928 | $875 | $877 | $817 |
| *CITY OF LA* | *$951* | *$850* | *$962* | *$868* |

*Source: Economic Roundtable 2007-08 City of Los Angeles Renter Survey; U.S. Census Bureau, 2000 Census of Population and Housing, 2006 American Community Survey*

Highlights of the rent distribution by APC shown in Figure 2-34 include:[40]

- Over a quarter of *West LA* renters were paying $1,600 or more per month for rent and over two-thirds were paying $1,000 or more.
- *South LA* had the largest share of units renting for less than $600. Thirty percent of renters paid less than $600 for rent, and a majority of renters paid less than $800 for rent.
- A majority of renters in the *North Valley* and *South Valley* paid less than a $1,000 for rent.
- The *South Valley* had the second largest share (45 percent) of renters, behind *West LA*, paying $1,000 or more for rent.
- At a little over 75 percent, *East LA* had the largest share of renters paying less than $1,000 for rent.
- Two-thirds of renters in the *Harbor* region paid less than $1,000 for rent.
- Rent was evenly distributed across four categories in *Central LA*. About a quarter of renters paid less than $600, $600 to $799, $800 to $999, and $1000 or more for rent.

Figure 2-34
Monthly Rent by APC
*Calculated Using Household Weights (p<.001)*



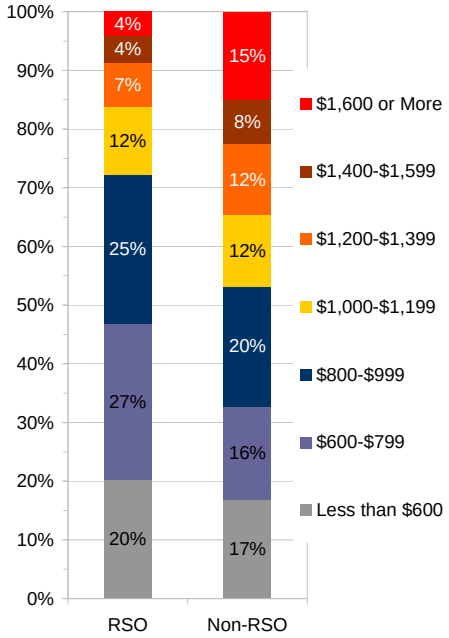

*Source: Economic Roundtable 2007-08 City of Los Angeles Renter Survey*

## RSO vs. Non-RSO Rent

The RSO status of units occupied by respondents was obtained by self-report through the survey and by linking Los Angeles Housing Department (LAHD) data to survey data. We were able to match LAHD data to most survey respondents to verify existing and fill in missing RSO self-report information. If there was a discrepancy between LAHD and self-report data, LAHD data was given priority over the latter. The process left us with RSO status and monthly rent data for over 3,300 Los Angeles renters, 73 percent of which were tenants of RSO units.

Based on this data, almost thee-quarters of RSO units in the City of Los Angeles are renting for less than $1,000, and a little over half of market-rate units rent in the same price range (Figure 2-35). There is also a substantial difference at the high end of the rent distribution. The share of market-rate units renting for $1,400 or more is almost 3 times larger than the share of RSO units in the same price range.

Figure 2-35
Monthly Rent by RSO Status
City of Los Angeles
*Calculated Using Household Weights*




*Source: Economic Roundtable 2007-08 City of Los Angeles Renter Survey*

**The rent differential between RSO and non-RSO units in the City's planning areas ranged from a high of $500 to virtually no difference** (Table 2-16). The largest rent differentials are found in *West LA* and the *South Valley*. The smallest differential is found in *South LA*, where the average and median rent for a RSO unit is virtually on par with the rent for a non-RSO unit. Average and median rents for RSO units in the City are 19 percent ($199) and 16 percent ($150) less than rents for non-RSO units, respectively. Monthly average and median rent differentials between RSO and non-RSO units by APCs are summarized in Table 2-16.

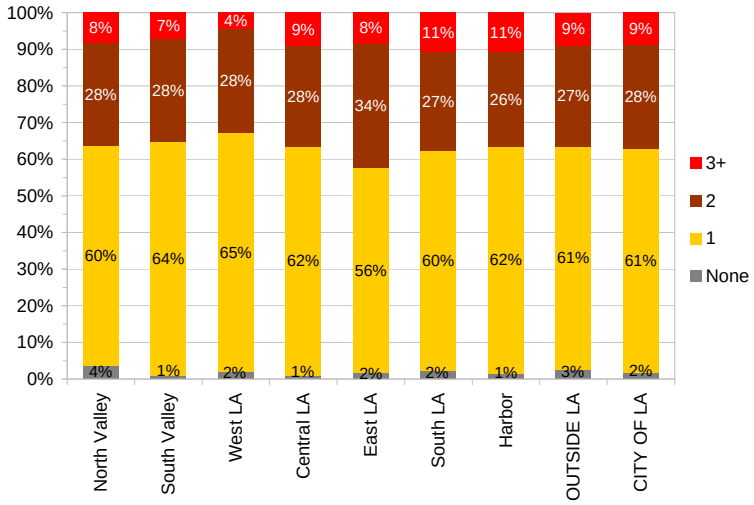
Table 2-16
Average and Median Monthly Rent by RSO Status and CPA
*Calculated Using Household Weights*

| | Average Monthly Rent | | | | Median Monthly Rent | | | |
|---|---|---|---|---|---|---|---|---|
| | RSO | Non-RSO | Rent Differential $ | Rent Differential % | RSO | Non-RSO | Rent Differential $ | Rent Differential % |
| North Valley | $875 | $1,063 | -$188 | -18% | $850 | $1,000 | -$150 | -15% |
| South Valley | $962 | $1,241 | -$279 | -22% | $900 | $1,105 | -$205 | -19% |
| West LA | $1,231 | $1,703 | -$472 | -28% | $1,100 | $1,600 | -$500 | -31% |
| Central LA | $854 | $972 | -$118 | -12% | $800 | $900 | -$100 | -11% |
| East LA | $799 | $892 | -$93 | -10% | $725 | $860 | -$135 | -16% |
| South LA | $793 | $836 | -$42 | -5% | $750 | $713 | $37 | 5% |
| Harbor | $863 | $983 | -$120 | -12% | $820 | $850 | -$30 | -4% |
| CITY OF LA | $871 | $1,071 | -$199 | -19% | $800 | $950 | -$150 | -16% |

*Source: Economic Roundtable 2007-08 City of Los Angeles Renter Survey*

While this analysis indicates that rents for RSO units are generally lower than rents for market-rate units, it does not fully capture the actual savings that RSO tenants receive over non-RSO tenants. As previously stated in Chapter 1, the absolute difference between RSO and non-RSO rents includes inherent price differentials that exist between older and newer units, limiting our ability to isolate rent savings stemming from the ordinance. Later sections of this chapter provide an extensive analysis of rent savings tenants of RSO units receive as a result of annual rent increase limits stipulated by the ordinance.

Figure 2-36
Number of Wage-earners Contributing to Rent by APC
*Calculated Using Household Weight (p<.01)*




*Source: Economic Roundtable 2007-08 City of Los Angeles Renter Survey*

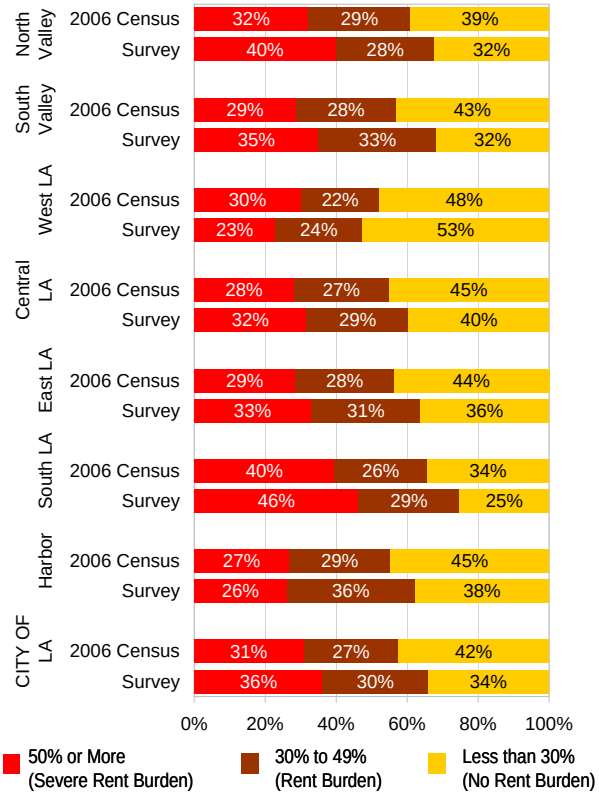
## Contributors to Rent

Renters were asked about the number of wage-earners in their household that contribute to rent. A little over **60 percent of LA's households have fewer than two people contributing to rent payments**, 28 percent have 2 contributors, and 9 percent have 3 or more contributors (Figure 2-36). There is little variation across different regions of the City. *West LA*, however, has the largest share of households with only 1 person contributing to rent (67 percent), and *East LA* has the largest share of households with 2 or more people contributing to rent (43 percent).

## Rent Burden

Census data indicates that the median household income for Los Angeles renters (in constant dollars) has steadily declined since the 1990s while the median rent has steadily increased since 2000. As a result,

Figure 2-37
Rent Burdened Households (Rent as a Percent of Household Income) by APC
*Calculated Using Household Weights*




*Source: Economic Roundtable 2007-08 City of Los Angeles Renter Survey; U.S. Census Bureau, 2006 American Community Survey*

the share of Los Angeles households that are severely rent-burdened increased by 23 percent from 1990 to 2006. A household spending 50 percent or more of their income on rent is defined as being severely rent burdened and a household spending 30 to 49 percent of their income on rent is defined as rent burdened. Rent burden data from the survey are juxtaposed against 2006 Census data in Figure 2-37.

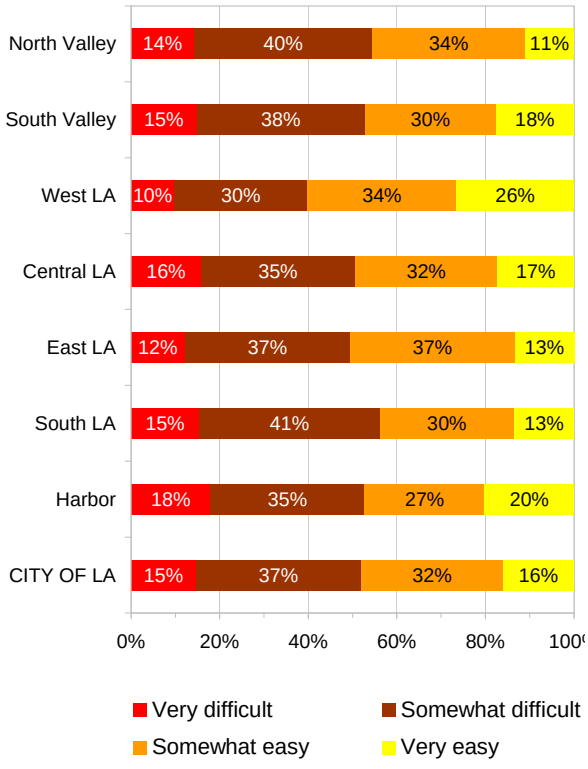
Survey results suggest that renters across most regions of the City (with the exception of *West LA*) are devoting more of their household income to rent than is indicated by the Census. **Citywide survey results show 18 percent more severely rent burdened households and 11 percent more rent burdened households than the 2006 Census**. Despite variations between survey and Census data, both sources confirm that severe rent burden and rent burden rates run high across the City, particularly in *South LA* and the *North Valley* where 40 percent or more of households spend a majority of their monthly income on rent. *West LA* has the smallest share of severely rent burdened (23 percent) and rent burdened tenants (24 percent).

In addition to asking renters to report their household income and rent, renters were asked, "*What best describes the ability of your household to pay rent?*" This information provides an alternative measure for rent burden and offers a glimpse of how rent payments are perceived and experienced by tenants (Figure 2-38).

Fifteen percent of renters in the City of Los Angeles describe paying rent as very difficult, 37 percent say it is somewhat difficult, 32 percent describe it as being somewhat easy, and 16 percent have a very easy time paying for rent. In comparison to rent burden as described by a ratio of rent to income, renters' self-report of their ability to pay for rent paints a slightly milder picture of the severity of rent burden in Los Angeles. Although, over a third of renters spend 50 percent or more of their income on rent, just 15 percent of renters say that it is very difficult to pay rent. This variation, however, does not diminish the fact that **a majority of renters in Los Angeles say that it is somewhat or very difficult to pay rent.**

Similar to the rent burden data in Figure 2-37 (ratio of rent to income), there was very little variation in respondents' self-reported abilities to pay rent with respect to geography. A majority of renters in all regions of the City, except in *West LA*, reported that it is somewhat difficult or very difficult to pay rent. *West LA* has the smallest share (10 percent) of renters that say it is very difficult to pay rent and the largest share (26 percent) of renters that say it is every easy.

Figure 2-38
Ability to Pay Rent by APC
*Calculated Using Household Weights (p<.001)*



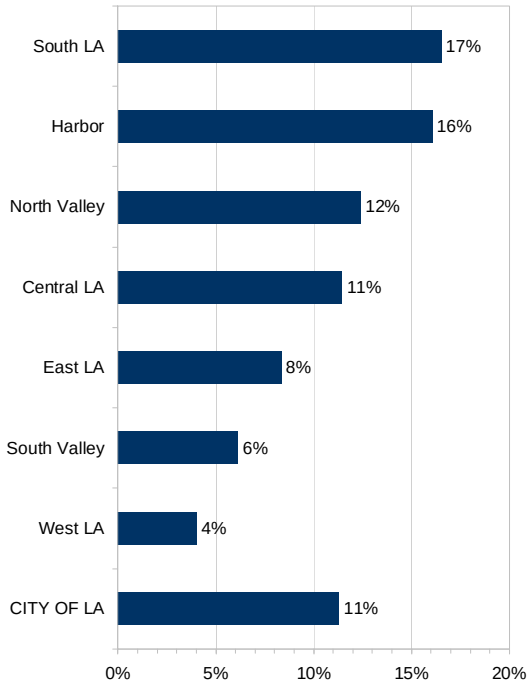

*Source: Economic Roundtable 2007-08 City of Los Angeles Renter Survey*

Many renters commented on how difficult it is to afford housing. Some of these comments from focus groups are shown in Text Box 2-5.

## Rent Subsidies

Renters were asked if the federal, state or local government was paying for any portion of their rent. This information is shown in Figure 2-39. Overall, **11 percent of renters in the City receive some form of rent subsidy.** The share of renters with subsidies was highest in *South LA* (17 percent), *Harbor* (16 percent), *North Valley* (12 percent), and *Central LA* (11 percent). A region's share of renters with subsidies generally coincides with its socioeconomic level. *East LA* seems to be the only exception to this rule. Although the median income for renters in this region has consistently been one of the lowest of anywhere

Figure 2-39
Rent Subsidies by APC
*Calculated Using Household Weights (p<.001)*




*Source: Economic Roundtable 2007-08 City of Los Angeles Renter Survey*

Text Box 2-5
Focus Group Comments about Rent Burden

*High-need Populations*

- *Large families are having a difficult time finding apartments.*
- *Cost of rent is very high for families*
- *Families are left with almost no money for other expenses.*
- *Rents are especially difficult for single moms.*
- *There is very little housing for seniors who have reduced incomes.*

*Economy and Rent*

- Rent is not stable. As the economy worsens, rent increases should be stable when things get harder.
- *Rents are rising but incomes are staying the same. I'm not making more money, but I'm spending more on rent.*
- *The cost of living increase makes it difficult for renters to save and they have a difficult time paying rent.*
- *The cost of rent should balance with the cost of living.*
- *The market is very inconsistent – many rentals are over-priced.*

*General*

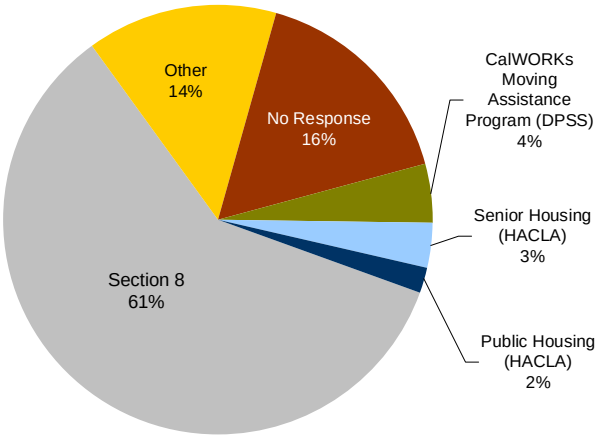
- *Rents are very expensive now.*
- *The cost of rents shouldn't be so high, there needs to be a cap on this cost.*
- *People are living in slum housing where no repairs are made, paying high prices but unable to afford a better place.*
- *There is no rent equity with the RSO! Just because I moved in later, the person below me with the same exact unit pays less than I do.*
- *It is hard for families to afford first and last months' rent plus a security deposit.*

in the City, a relatively small share of renters reported receiving rent subsidies.

Subsidies are broken out by source in Figure 2-40. A little over 60 percent of the subsidies received by renters in the City came in the form of Section 8 assistance. Of the remaining 40 percent:

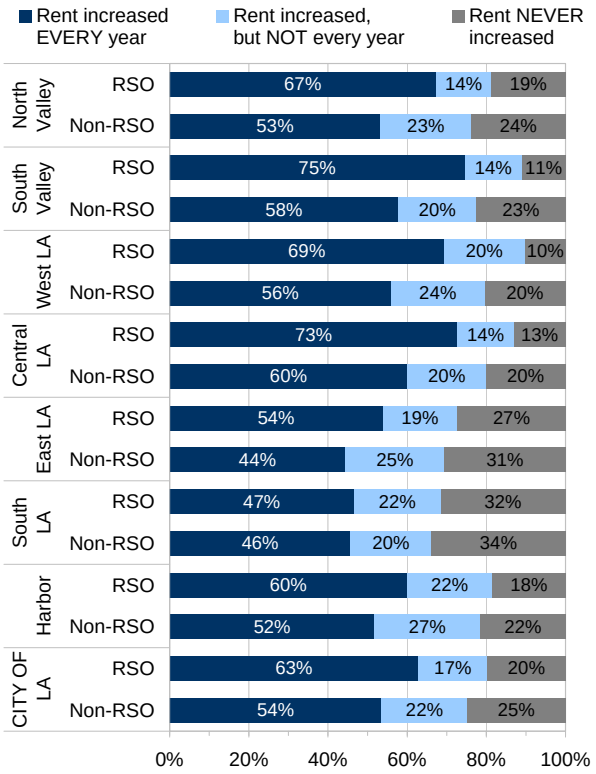
- 4 percent came from the Cal Works Moving Assistance Program
- 3 percent from Senior Housing (HACLA)
- 2 percent lived in public housing
- 14 percent received subsidies from other sources
- 16 percent refused to provide an answer

Figure 2-40
Type of Rent Subsidies - City of Los Angeles
*Calculated Using Household Weights*




*Source: Economic Roundtable 2007-08 City of Los Angeles Renter Survey*

Figure 2-41
Rent Increase Every Year by APC and RSO Status
Calculated Using Household Weights




*Source: Economic Roundtable 2007-08 City of Los Angeles Renter Survey*

## Rent Increase

In the City of LA, nearly 60 percent of renters received rent increases every year and an additional 20 percent received rent increases intermittently during their tenancy. This data is generally similar to rent increase data reported by owners in Chapter 3.[41] When we examined rent increases in different regions of the City by RSO status, the pattern we see is that renters in RSO units are more likely than renters in non-RSO units to receive rent increases every year.

In the City of LA, **63 percent of tenants in RSO units report that their rent increased *every* year. Only 54 percent of their counterparts in non-RSO units report yearly rent increases** (Figure 2-41). This trend is apparent across the different regions of the City, expect in *South LA* where an equal share of renters in RSO and non-RSO units report yearly rent increases. The absence of a differential in

*South LA* likely coincides with the fact that this region has the lowest rents in the City, and it is the only region where the median rent for RSO and non-RSO units are roughly equal. Other highlights include:

- South Valley (75 percent) and Central LA (73 percent) have the largest shares of RSO tenants who received yearly rent increases.
- A little over two-thirds of tenants in RSO units in the North Valley and West LA received rent increases every year.
- *South LA* has the smallest share of RSO tenants who received rent increases every year.
- Central LA has the largest share (60 percent) of tenants in non-RSO units who received rent increases every year.
- *East LA* had the smallest share (44 percent) of non-RSO tenants who received rent increases every year.

The patterns observed in this data parallel a theme that emerged in post-survey focus groups with owners. Owners of RSO properties often reported that they are less likely to miss opportunities to raise rents for their RSO units because the opportunity provided by the Rent Stabilization Ordinance to generate this additional revenue would be lost if they did not act on it. They did, however, report forgoing rent increases in some years when the rental market was depressed. Owners also reported that they were more flexible with rent increases in their non-RSO units because rents in these units were already at or close to market rates. The ability to capture market-rate or close to market-rate rents allowed them the flexibility to forgo rent increases to minimize vacancies and retain quality tenants.

**Rent Increase for RSO Units**

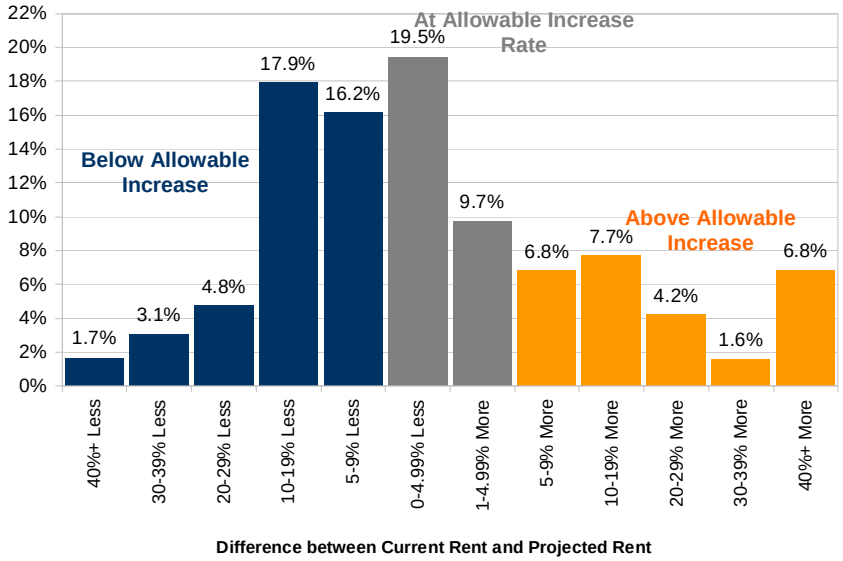
One of the major functions of the Rent Stabilization Ordinance is to set annual allowable rent increases to protect tenants from periods of rapid rent escalation. The RSO adjusts the annual allowable rent increase each year based on the Consumer Price Index (CPI) and sets it at a rate no lower than 3 percent and no higher than eight percent.

In this section, we assess the extent to which actual rent changes for RSO units match the annual allowable rent increases permitted under the ordinance. Is the full amount of allowable rent increases being passed on to tenants in RSO units? Is there evidence of excessive or potentially unauthorized rent increases?

The survey data gathered in this study is unique in that it provides the necessary information to track rent increases over time; this is something that cannot be done with point-in-time data captured by the U.S. Census. Over 1,900 (or 44 percent of) survey respondents renting in the City of Los Angeles provided information about their current rent, starting rent, length of tenancy, and RSO status of their unit. Three-quarters (1,434) of these respondents are tenants of RSO units and the remaining 25 percent (469) rent market-rate units. With this data, we are able to calculate "projected RSO rents" by taking tenants' starting rents and increasing them each year by the annual allowable rent increase over their length of tenancy, and compare projected rents to the actual current rents reported by respondents to identify any disparities. Figure 2-42 shows the differences found between projected and current rents.

The distribution found in Figure 2-42 is broken out into 3 categories: 1) *below allowable increase*, 2) *at allowable increase rate*, and 3) *above allowable increase*. If current rents were

Figure 2-42
% by which Current Rents differ from Projected Rents for **RSO** Units
City of Los Angeles
Calculated Using Household Weights



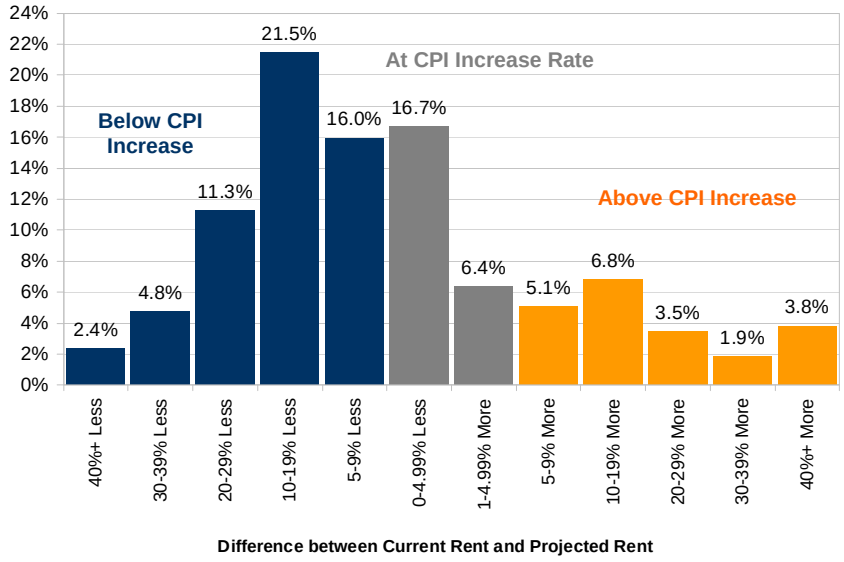

*Source: Economic Roundtable 2007-08 City of Los Angeles Renter Survey*

95 percent or less of projected rents, they were considered *below allowable increase*. If the differential between current rents and projected rents were less than 5 percent, they were considered *at allowable increase rate*. If current rents were 105 percent or more of projected rents, they were considered *above allowable increase*. The range for allowable rent increases accommodates slight variations resulting from reporting errors and permissible rent increases such as capital improvements, renovation work, rehabilitation work, and additional tenants. Highlights from this analysis include:

- Nearly 30 percent of tenants in RSO units reported current rents that were *at the projected allowable increase* range. That is, their rents consistently increased at the maximum rate allowed by the ordinance.
- Forty-four percent reported current rents that were *below the projected allowable increase* permitted by the RSO. In other words, rent increases were only partially given or completely forgone during certain years of their tenancy. Of these tenants:
  - 16 percent were paying 5 to 9 percent less than the projected allowable increase
  - 18 percent were paying 10 to 19 percent less than the projected allowable increase
  - 5 percent were paying 20 to 29 percent less than the projected allowable increase
  - 5 percent were paying 30+ percent less than the projected allowable increase
- **Twenty-seven percent of tenants in RSO units reported current rents that were *above the projected allowable increase* permitted by the RSO**. We suspect that a portion of these tenants, particularly those well above the projected allowable increase, are receiving unauthorized rent increases, which raises concern about tenants' rights and the violation of RSO regulations. Of these tenants:
  - 7 percent were paying 5 to 9 percent more than the projected allowable increase
  - 8 percent were paying 10 to 19 percent more than the projected allowable increase
  - 4 percent were paying 20 to 29 percent more than the projected allowable increase
  - 8 percent were paying 30+ percent more than the projected allowable increase

## Rent Increase for Market-Rate Units

Figure 2-43
% by which Current Rents differ from Projected Rents for **Market-Rate** Units
City of Los Angeles
*Calculated Using Household Weights*




*Source: Economic Roundtable 2007-08 City of Los Angeles Renter Survey*

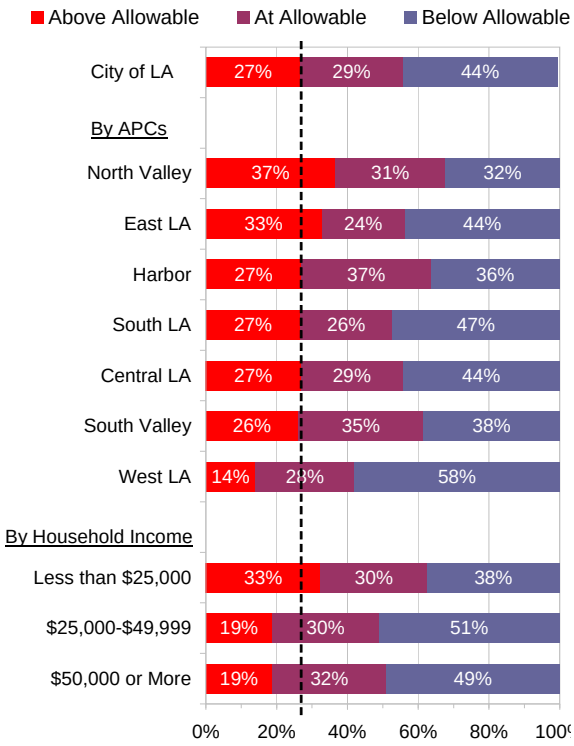
To what degree have rents in market-rate units increased with inflation? Parallel calculations were made of rent changes for market rate units, substituting the rent index component of the Consumer Price Index (CPI) for the allowable RSO rent increase. CPI data for rental housing in the Los Angeles metropolitan area were used in conjunction with starting rents reported by tenants of market-rate units to project what rents might be if they consistently rose with LA's overall rental housing market. "Projected rents" were, then, compared to "current rents" reported by survey respondents to evaluated disparities in prices. Highlights from the analysis of market-rate rent increases, shown in Figure 2-43, include:

- Twenty-three percent of tenants in market-rate units report rents that have increased on a trajectory similar to the CPI rental housing index. In other words, rents for these tenants were rising with the rental housing market.
- A majority (56 percent) of tenants have current rents that are below projected rents. That is, their current rents are less than what their rents would be had their starting rents increased at the same rate as the rental housing market. Of these tenants:
  - 16 percent are paying 5 to 9 percent less than the projected CPI increase
  - 21 percent are paying 10 to 19 percent less than the projected CPI increase
  - 11 percent are paying 20 to 29 percent less than the projected CPI increase
  - 7 percent are paying 30+ percent less than the projected CPI increase
- Twenty-one percent of tenants have rent increases that surpass the rate of change in the rental housing market. Of these tenants:
  - 5 percent are paying 5 to 9 percent more than the projected CPI increase
  - 7 percent are paying 10 to 19 percent more than the projected CPI increase
  - 3 percent are paying 20 to 29 percent more than the projected CPI increase
  - 6 percent are paying 30+ percent more than the projected CPI increase

It is noteworthy that **the share of market-rate units with rent increases below the rate of rent inflation is 27 percent larger than the share of RSO units with rent increases that**

**are less than those allowed by the RSO.** This outcome is probably accounted for by the fact that market-rate rents are higher than RSO rents.

Figure 2-44
Rent Increases by APC and Household Income
*Calculated Using Household Weights*




*Source: Economic Roundtable 2007-08 City of Los Angeles Renter Survey*

## Excessive or Potentially Unauthorized Rent Increases in RSO Units

Nearly three-quarters of the City's RSO tenants have rents that are within expected bounds - less than 105 percent of projected rents - leaving slightly over a quarter of RSO tenants with rent increases that may be excessive or unauthorized under the Rent Stabilization Ordinance. While there are several permissible reasons for rent increases in RSO units that can add up to increases in excess of 5 percent over projected increases, some which do not require LAHD approval and would not show up in administrative databases, these exceptions are comparatively rare. It appears that **a portion of RSO tenants may well be receiving unauthorized rent increases**.

A closer examination of tenants who received rent increases above the projected allowable increase permitted by the RSO (Figure 2-44) reveals that:

- The *North Valley* (37 percent) and *East LA* (33 percent) regions have larger shares of tenants who received rent increases that are potentially above allowable increases stipulated by the RSO. *West LA* (14 percent) has the smallest share of renters in this situation.
- **Low-income renters are more likely to have rent increases that are potentially above the allowable increase**. Nearly a third of renters with household incomes below $25,000 have rent increases above the allowable increase compared to 19 percent of renters with household incomes at or above $25,000.

Table 2-17
Starting and Current Rents by Rent Increases
*Calculated Using Household Weights*

| | Starting Rent | | Current Rent | |
|---|---|---|---|---|
| | Mean | Median | Mean | Median |
| Below Allowable Increase | $720 | $640 | $855 | $795 |
| At Allowable Increase | $746 | $700 | $906 | $840 |
| Above Allowable Increase | $513 | $500 | $864 | $800 |

*Source: Economic Roundtable 2007-08 City of Los Angeles Renter Survey*

Most interestingly, tenants who appear to have received rent increases above the projected allowable increase had the lowest average and median starting rents when compared to tenants who received increases at or below projected allowable increases (Table 2-17). Their

average starting rent was $513, a rate over $200 less than the average starting rent for tenants falling in the other categories. The average current rent for tenants who received rent increases above the allowable increase, on the other hand, was $864 - a rate more similar to the average current rents for tenants in the other categories. The presence of significantly lower starting rents and relatively comparable current rents suggests that owners or managers may have maximized their ability to raise rents - either legally or illegally - to get rents up to parity with units that are vacated and re-rented at market rates.

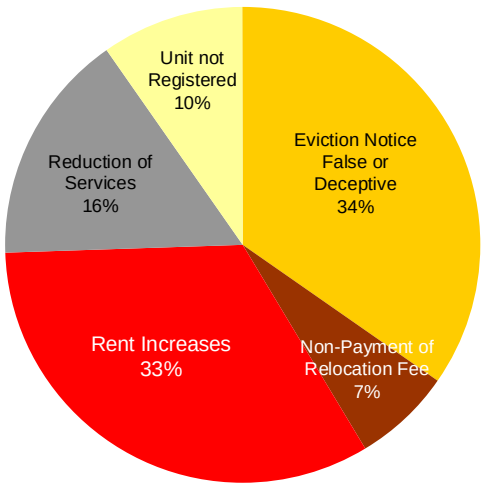
*Rent Increases from Capital Improvements*

Of the four types of allowable rent increases that require an application to be approved by the LA Housing Department's Rent Stabilization Division, rent increases from capital improvements are overwhelmingly the most common, although only 4 percent of the RSO inventory has currently approved rent increases for capital improvements. LAHD data for approved capital improvement applications, from 2003 to 2008, shows that the mean and median monthly surcharge per unit was $19 and $13, respectively. The average or maximum ($55 per month) surcharge added to tenants' monthly rents, alone, is an unlikely cause for rent increases that are well above projected allowable increases permitted by the RSO. It is, however, important to acknowledge that a portion of these renters with rent increases that appear to be excessive or unauthorized may in fact be well within the legal parameters of the RSO. Owners or manager can implement a combination of permissible rent increases, some of which require and that do not require LAHD approval (i.e. rent increases for additional tenants) that can significantly raise monthly rents. Given this, **it is our assessment that a significant number of excessive and unauthorized rent increases are occurring**, although this number is smaller than the 27 percent share whose rent increases exceed projected limits.

*Illegal Rent Increase Complaints*

The LA Housing Department receives over 7,000 tenant-initiated complaints per year concerning possible violations of the RSO. Complaints regarding illegal rent increases account for a third of all complaints, making it the second most common form of complaint behind eviction notices (Figure 2-45). Not all complaints, however, are substantiated. A majority (53 percent) of all rent increase complaints are unfounded, and 38 percent are substantiated (Figure 2-46). Although the number of complaints represents only a small fraction of the total RSO regulated units in the City and over half of the complaints are unfounded, it is important

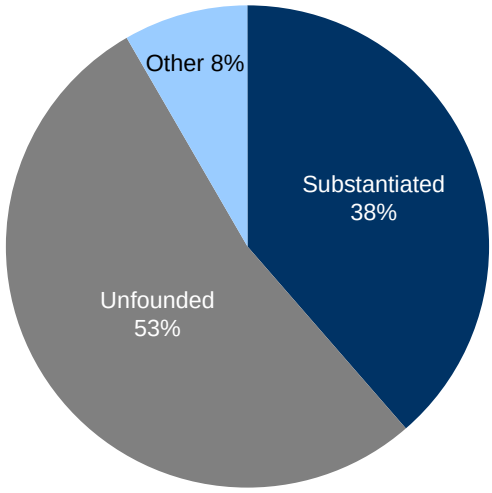
Figure 2-45
RSO Complaints by Type, 2003-2007




*Source: City of LA Housing Department: Complaint Data for Each RSO Complaint Filed (RENT Dataset 5). Compiled from LAHD's "RSO Tenant Service Request Form." Note:RSO Complaint Investigation cases shown for all closed cases that were found to be valid or invalid by LAHD staff.*

to consider that the complaints received by LAHD are likely to undercount illegal rent increase activity taking place in the City. The likelihood of renters filing and following through with a complaint, compounded by renters' lack of knowledge of the RSO status of their unit and RSO policies, suggests that illegal rent increases are more common than indicated by LAHD complaint figures.

Figure 2-46
Rent Increase Complaints by Outcome, 2003-2007



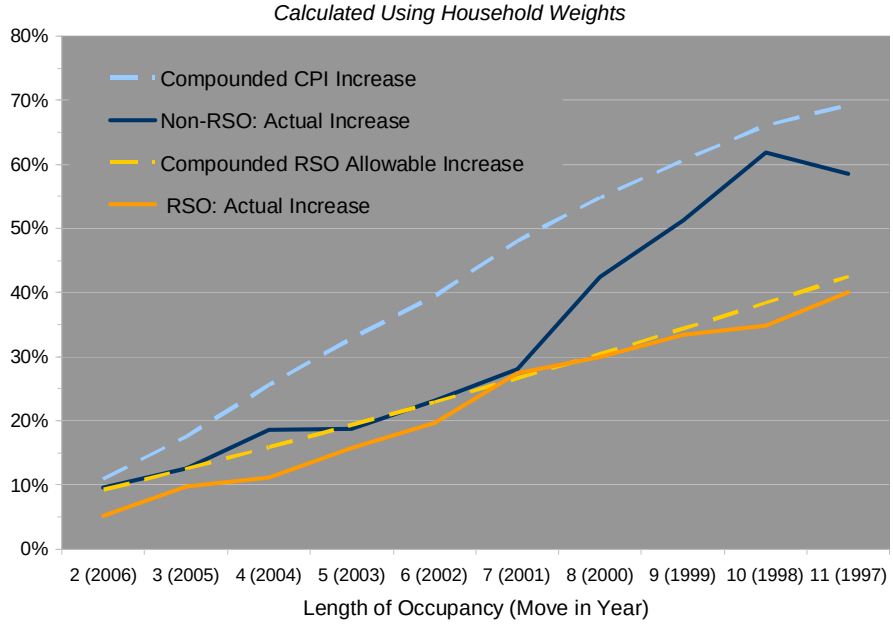

*Source: City of LA Housing Department: Complaint Data for Each RSO Complaint Filed (RENT Dataset 5). Compiled from LAHD's "RSO Tenant Service Request Form."*

## Rent Discount - Trajectory of Rent Increases

An alternative method to evaluate rent discounts for RSO units, as opposed to measuring the absolute difference between RSO and non-RSO rent prices, is to examine the degree to which rent increases vary for each type of unit over time. This controls for rent prices and isolates the variable that the Rent Stabilization Ordinance intends to regulate - not rent prices, but rent increases.

The solid lines in Figure 2-47[42] represent the percent by which current rents exceed starting rents for typical (median) RSO and non-RSO tenants who have lived in their units for 2 to 11 years. This is actual data provided by close to 1,500 survey respondents. The dotted lines represent the cumulative percent by which RSO rents can increase if they follow the annual allowable increase (dotted orange line) and the cumulative percent by which market-rate rents are anticipated to increase based on market change shown by the CPI (dotted blue line). Although we have data for renters who have lived in their units since the inception of the RSO, this analysis only goes as far back as 1997 because survey data before this point is scant and becomes less reliable.

Figure 2-47
Percent Increase in Median Rent by Years Living in Unit
City of Los Angeles
*Calculated Using Household Weights*




*Source: Economic Roundtable 2007-08 City of Los Angeles Renter Survey*

*Trajectory of Rent Increases*

Renters who moved into their RSO units in the decade between 1997 and 2006 received rent increases that were, on average, 15 percent less than the compounded RSO allowable increase, which is illustrated by the gap between the dotted and solid orange lines in Figure 2-47. Unlike actual rent increases for market-rate units (solid blue line), actual rent increases for RSO units (solid orange line) generally increased at a steady trajectory, slightly below the trajectory of RSO allowable increases. This trend confirms again that owners of RSO properties are apt to raise rents on a more consistent basis.

Similar to findings in the previous section, the typical tenant renting a market-rate unit generally has rent increases substantially lower than the rate of inflation in the rental housing market reported by the CPI (indicated by the solid blue line compared to the dotted blue line in Figure 2-47). Actual rent increases were, on average, 25 percent less than increases in the CPI. Interestingly, tenants of market-rate units who started renting their units between 2001 and 2005, received rent increases at rate similar to the RSO allowable increase. The steady and modest rent increases for these tenants came during a period when the rental market and economy were on an upward swing, after rents had declined throughout the 1990s. Because owners were able to garner higher starting rents, many may have favored modest rent increases over steeper rent increases (closer to the CPI) to retain tenants and avoid vacancies. The sharp uptick in rent increases for tenants who settled into their market-rate units prior to 2001 represents larger rent increases imposed on long-term renters who settled into their units during a period when the rental market was depressed and rents were cheaper. Owners renting to long-term tenants, utilizing their unregulated ability to raise rents, were attempting to raise rents to a level closer to market-rates.

*Maximum Rent Discount for RSO Tenants - Based on RSO Allowable Increase and CPI Increase*

The *rent discount* is defined as the percent by which rent increases for RSO units are less than rent increases for non-RSO units, for comparable occupancy intervals. The gap between the two dotted lines in Figure 2-47 represents the rent discount that the typical RSO tenant receives over the typical non-RSO tenant if conditions are perfect. In other words, this is the discount received when RSO rents are raised by the maximum

Table 2-18
**Maximum** Rent Discount for Typical (Median) RSO Tenants
*Calculated Using Household Weights*

| Length of Occupancy (Move-in Year) | Compounded RSO Allowable Increase (Expected - Dotted Orange Line) | Compounded CPI Increase (Expected - Dotted Blue Line) | Projected Rent Discount (% Difference between Compounded RSO Allowable Increase and Compounded CPI Increase) |
|---|---|---|---|
| 2 (2006) | 9.20% | 10.91% | -16% |
| 3 (2005) | 12.48% | 17.53% | -29% |
| 4 (2004) | 15.85% | 25.57% | -38% |
| 5 (2003) | 19.33% | 32.85% | -41% |
| 6 (2002) | 22.91% | 39.41% | -42% |
| 7 (2001) | 26.59% | 48.04% | -45% |
| 8 (2000) | 30.39% | 54.79% | -45% |
| 9 (1999) | 34.30% | 60.59% | -43% |
| 10 (1998) | 38.33% | 66.01% | -42% |
| 11 (1997) | 42.48% | 69.26% | -39% |

*Source: Economic Roundtable 2007-08 City of Los Angeles Renter Survey, RSO Study*

amount allowed by the RSO every year, and non-RSO rents are raised every year according to inflation as measured by the CPI. For example, by 2008, the typical tenant who moved into an RSO unit in 2005 can expect to pay 12.5 percent more than their starting rent if their rent was raised by the RSO's maximum allowable increase for the 3 years they occupied the unit. Their counterpart in a market-rate unit can expect to pay 17.5 percent more than their starting rent if their rent increased with inflation in the housing market. This difference yields a 29 percent rent discount for the RSO tenant. Table 2-18 shows the *maximum* discounts a typical RSO tenant can receive if the tenant moved into their unit between 1997 and 2007 and conditions were perfect.

*Actual Rent Discount for RSO Tenants - Based on Survey Results*

The gap between the blue and orange solid lines represents *actual* rent discounts typical RSO tenants received over typical non-RSO tenants. Results in Table 2-19 show that RSO tenants received smaller rent increases than non-RSO tenants, which subsequently lead to rent discounts. However, in comparison with *maximum* rent discounts (in Table 2-18), *actual* rent discounts for RSO tenants (in Table 2-19) were generally smaller and more varied during the 10 year span between 1997 and 2006. Actual rent discounts were particularly smaller than maximum discounts for renters who moved into their RSO units from 2001 to 2003. During this time, rent increases for non-RSO units were not keeping pace with increases in the CPI, thereby closing the gap between RSO and non-RSO rent increases and decreasing the rent discount received by RSO tenants.

Table 2-19
**Actual** Rent Discount for Typical (Median) RSO Tenants
*Calculated Using Household Weights*

| Length of Occupancy (Move-in Year) | Actual RSO Rent Increase (Solid Orange Line) | Actual Non-RSO Rent Increase (Solid Blue Line) | Actual Rent Discount - % Difference between RSO Increase and Non-RSO Increase |
|---|---|---|---|
| 2 (2006) | 5.07% | 9.52% | -47% |
| 3 (2005) | 9.68% | 12.63% | -23% |
| 4 (2004) | 11.11% | 18.58% | -40% |
| 5 (2003) | 15.78% | 18.75% | -16% |
| 6 (2002) | 19.60% | 23.08% | -15% |
| 7 (2001) | 27.43% | 28.00% | -2% |
| 8 (2000) | 30.00% | 42.43% | -29% |
| 9 (1999) | 33.33% | 51.16% | -35% |
| 10 (1998) | 34.81% | 61.90% | -44% |
| 11 (1997) | 40.00% | 58.47% | -32% |

*Source: Economic Roundtable 2007-08 City of Los Angeles Renter Survey, RSO Study*

Typical RSO and non-RSO tenants living in their units since 2005 received a 9.7 percent and 12.6 percent increase in rent, respectively, since moving into their units. This difference yields a 23 percent rent discount for the typical RSO tenant. Should actual rent increases for both RSO and non-RSO units have followed their projected trajectory after 3 years, the RSO tenant would have received a 29 percent discount over the non-RSO tenant opposed to the actual 23 percent discount. Table 2-19 shows that rent discounts received by typical RSO tenants ranged from a marginal 2 percent discount for those who moved into their unit in 2001 to as high as 44 percent for those who moved into their unit in 1998.

Overall, the analysis of renters who moved into their units from 1997 to 2006 indicates that:

- Median RSO rent increases have generally increased at a steady rate slightly below the RSO allowable increase.
- Typical non-RSO tenants have consistently received larger rent increases in comparison to RSO tenants. Additionally, rent increases have generally not kept pace with increases in the CPI and have varied with fluctuations in the economy and rental market.
- Typical RSO tenants received rent discounts ranging from 2 percent to over 40 percent.
- The size of the RSO rent discount is contingent upon fluctuations in the market that impact the degree to which non-RSO rents increase.

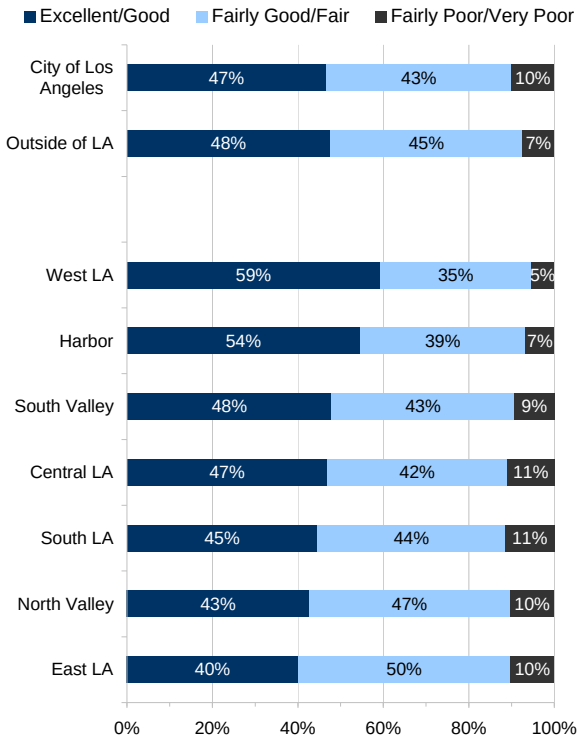
## PERCEPTION OF RENTAL CONDITIONS

### Perception of Rental Conditions versus SCEP Findings of Violations

Rental housing conditions are an important determinant of tenants' quality of life, and impact their neighborhoods. The Housing Department's mission includes "supporting safe and livable neighborhoods through the promotion, development and preservation of decent and affordable housing." This is carried out through the Systematic Code Enforcement Program (SCEP), which seeks to "identify and facilitate the abatement of physical conditions and characteristics of substandard and unsanitary residential buildings and dwelling units which render them unfit or unsafe for human occupancy and habitation." Owners of rental housing have important reasons of their own for maintaining and improving the condition of their properties as well: retaining desirable tenants, avoiding fines associated with code violations, and boosting property resale value.

Yet, despite these forces aligned to keep rental housing in good condition, there are other forces negatively affecting housing conditions: wear and tear on units by their occupants, abuse of units and property by tenants and neighbors, neglect by owners, neighborhood decline and transition, regional economic change and decline, the absence of an owner or manager on the premises, and exposure to the elements (sun, weather, quakes, etc.). Thus, the City's rental housing stock is in ongoing flux, with buildings worsening or improving depending upon which of these forces are ascendant.

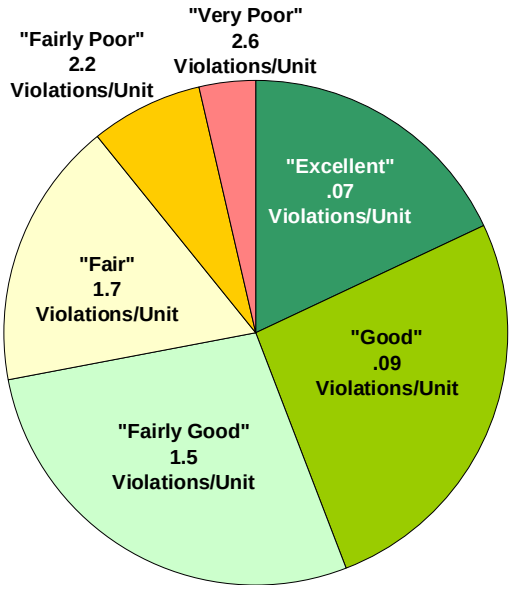
Figure 2-48
Tenants' Description of their Unit's Condition
*Calculated Using Individual Weights (p<.001)*




*Source: Economic Roundtable 2007-08 City of Los Angeles Renter Survey*

The RSO Study's Renter Survey asked tenants to take stock of the condition of their own rental housing units. **A plurality of renters in the City of Los Angeles (46 percent) reports their housing units being in "excellent" or "good" condition. Another 43 percent characterize their rental units as being in "fairly good" or "fair" condition** (Figure 2-48). Tenants' description of their units vary across the City, with *East LA* having the fewest renters who describe their units as being in "excellent" or "good" condition and *West LA* has the most. Renters outside the City of Los Angeles have similarly positive overall assessments of the condition of their units.

Figure 2-49
Tenants' Description of their Unit's Condition, Overlaid with Ratio of SCEP Violations per Unit
*Numbers are the Ratio of Violations to Units among Units Occupied by Survey Respondents*
*Calculated Using Individual Weights*




*Source: Economic Roundtable 2007-08 City of Los Angeles Renter Survey; LA City Housing Department, LAHD Systematic Code Enforcement Program – Cycle 2 (January 1, 2006 – June 1, 2008), CCRIS Violation Code Query (3), extracted on July 7, 2008. LAHD code violations found by inspectors divided by the total number of rental units inspected in each renter survey respondent's building.*

Do tenants' descriptions of the condition of their own units match up with what LAHD's code inspectors found at those properties? In fact, they match up quite well, albeit with some variation (Figure 2-49). The overlay of code violations is shown as a ratio: the number of violations found divided by the total number of rental units inspected in each renter survey respondent's building. These ratios are a small sample relative to the overall housing stock regulated by the RSO and inspected by SCEP, but it nonetheless shows that **renters citywide do recognize "Fairly Poor" and "Very Poor" conditions in rental properties where LAHD's Code Enforcement Unit also found higher ratios of violations per unit**.

For some renter respondents, their description of their units' condition may include more than what the LAHD code covers, such as their relationship with the owner or manager. It may also be influenced by the condition of their previous rental unit. Nonetheless, the basic correlation between renters' perceptions and LAHD's inspections is noticeable.

The concern expressed most frequently in focus groups was about inadequate building maintenance. A sampling of these comments is shown in Text Box 2-6.

### Treatment by Owner/Manager

Tenants were asked to describe the way the owner or manager of their building treats tenants. **A majority of renters in the City of Los Angeles say that they are treated either "very well" (courteous and polite - 50 percent) or "somewhat well" (33 percent).** Eight percent say they are treated somewhat poorly, and 9 percent say they are treated very poorly (abusive or hostile – makes it difficult to live here). Across the City, there is some variability in

Text Box 2-6

Focus Group Comments about Building Maintenance

*Conditions*

- *Many people put up with the horrible rental conditions since there are no other places to move to.*
- *Many tenants have rats, mice, bed bugs, fleas and roaches but they won't leave due to the cost of other apartments. They put up with the unsafe and unhealthy conditions that have led some families to the doctor's office.*
- *Having roaches in one apartment affects all tenants and managers should help with this situation by fumigating the whole building and not just one apartment.*
- *Roach infestation is prevalent and the managers don't seem to care about this unhealthy situation. Tenants have a right to a clean and safe place to live. The managers should be held responsible in these situations since they are overseeing the buildings.*
- *Owners should have to make maintenance improvements because problems in the buildings affect the well-being of kids. It is inhuman to have kids living in these deplorable conditions when the owners have all the comfort.*

*Irregular Maintenance*

- *Sometimes maintenance is left incomplete after repairs, for example, leaving holes in walls unclosed after plumbing repairs.*
- *Buildings are only fixed and maintained when the inspectors are visiting the properties.*
- *The manager is saving money by only doing patchwork and doing it himself rather than fixing problems.*
- *Owners need to fix things in a timely manner just like the owners want their rents on time.*
- *The building keeps having more leaking pipes and it takes a long time for management to fix problems.*
- *The City needs to develop a plan to make landlords accountable for fixing the apartments in a timely manner.*

*Inspections*

- *The Housing Department can't do spot checks to catch substandard conditions because of the notification clause. Is there a compromise that will allow unscheduled inspections?*
- *City inspections on lead and mold should be mandated.*
- *Renters are having problems with the inspections - the inspectors aren't doing their jobs.*
- *It is a good idea for renters to speak to the inspectors in regards to their concerns about the properties, but when this happens they don't pay much attention.*
- *There are problems with the unit and SCEP is aware of it, but nothing has been done after two inspections.*
- *SCEP is the best thing the City could do. It has brought about a lot of improvements.*

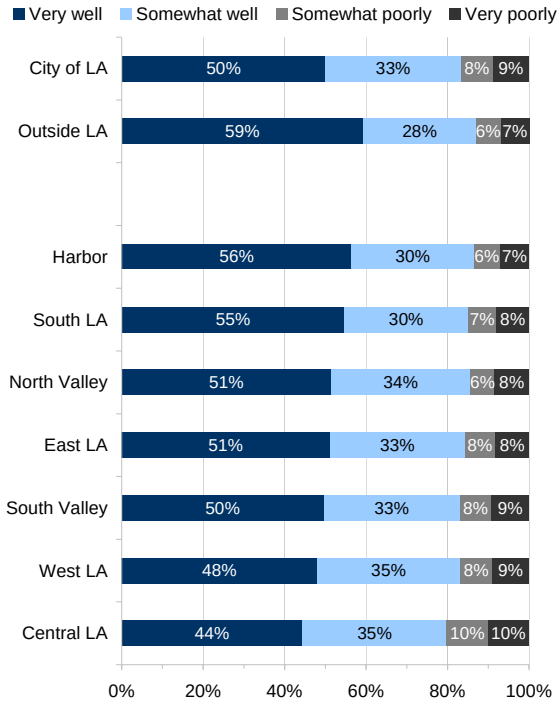
*Other*

- *If more people speak out the City will begin to take notice of the problems renters are having with the health and safety of buildings.*
- *The owners want us to pay for reconstruction repairs but this is not fair. It's part of the owner's responsibility.*
- *Make it easier for tenants to pay for repairs and get reimbursed out of the rent.*
- *The number one need is for tenants to get credit for all the time and money they invest in their unit and the maintenance of the building.*
- *SCEP is the best thing the City could do. It has brought about a lot of improvements.*

how renters see their owner or manager treating tenants. The largest share of tenants who say their owner or manager treat them "very well" are in the *Harbor* (56 percent) and *South LA* (55 percent), two of the City's most economically depressed and job-poor areas. Tenants in *Central LA* (44 percent) and *West LA* (48 percent) areas were least likely to describe their landlord in the most favorable category (Figure 2-50). Twenty percent of renters in *Central LA* said their owner or manager treats tenants "somewhat poorly" or "very poorly." Interestingly, renters who live in neighboring areas outside of the City of Los Angeles speak more positively about how their landlords treat tenants: only 13 percent say that tenants are treated "somewhat poorly" or "very poorly."

In focus groups, renters frequently expressed their interest in building fair, reciprocal relationships with their landlords. Some of these comments are shown in Text Box 2-7.

Figure 2-50
Tenants' Description of the Way the Owner or Manager of their Building Treats Tenants
*Calculated Using Individual Weights (p<.001)*




*Source: Economic Roundtable 2007-08 City of Los Angeles Renter Survey*

Text Box 2-7
Focus Group Comments about Fair Treatment by Landlords

*Limited Renter Rights*

- *Landlords have the upper hand and know that you won't complain about mold, rodents or plumbing problems because it's hard to find another place and because tenants lack information about how to resolve issues.*
- *LA City politicians are supported by landlords and developers – the system is unfair to tenants.*
- *There's an attitude in LA that favors money and developers. There is no respect for renters or their rights.*
- *The system protects the owners; tenants don't get for what they pay for.*
- *Owners always win disputes with their tenants, and if they didn't they would sell.*
- *Owners are getting the upper hand because basic living needs are not being covered and buildings are not being adequately maintained.*

*Unfair Treatment*

- *Landlords don't want to rent to families.*
- *Living conditions are really bad - deplorable. High rents and poor living conditions.*
- *Managers should have respect for tenants and should not be abusive or disruptive.*
- *Managers shouldn't have racial preferences when admitting new renters.*
- *It is difficult to find apartment buildings that are "child friendly."*

Text Box 2-7 Continued

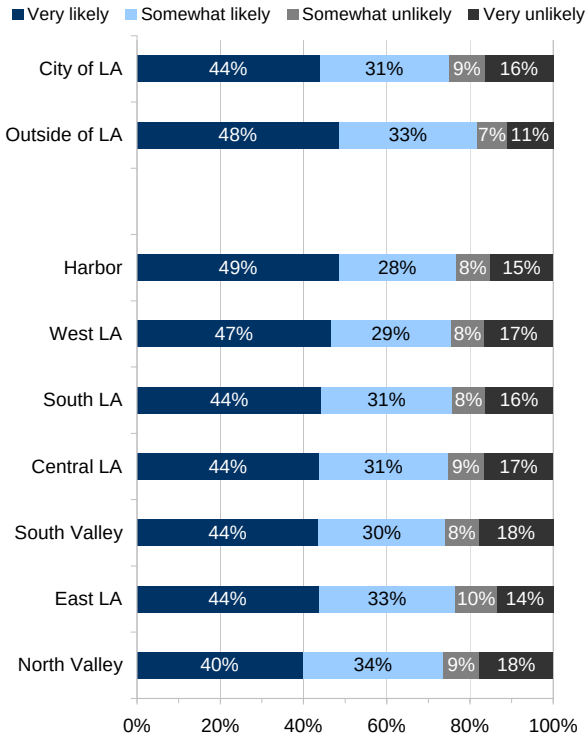
*Joint Responsibility*

- *Both renter and owner should have equal responsibility.*
- *The key issue is whether the landlord has the tenants' best interests at heart. What's important is the landlord's impact on creating a good living situation.*
- *It should be a pleasant thing for owners and renters to work hand-in-hand to improve the quality of life.*
- *It would be very good to have a statement of reciprocal responsibility between tenants and landlords.*
- *There should be flexibility between owners and renters to meet each other half way on making improvements, but the owner/manager is not willing.*
- *Responsibility should be shared equally by tenants and owners.*
- *If everybody cooperated things that need to be done would get done faster.*
- *Tenants do have some blame for bad living conditions because they don't keep their units clean.*

## Recommending Their Building as a Good Place to Live

A further measure of how tenants regard the quality of their building and relationship with the owner or manager was explored by asking, "*How likely are you to recommend your building to a friend or relative as a good place to live*?" **A majority of renters living in the City of Los Angeles responded positively to this question, with 75 percent saying that they were "very likely" or "somewhat likely" to recommend their building.** Although responses to this survey question can be influenced by exogenous factors, such as tenant's feelings about their larger neighborhood (affordability, amenities, accessibility), the focus of the question was their likelihood of recommending their own apartment building. There is some variability across the City in this regard: 49 percent of renters in the *Harbor* area and 47 percent in the *West LA* area said they are very likely to recommend their building to a friend or relative, while only 40 percent of *North Valley* area renters felt that they are very likely to make that same recommendation. Renters located outside of the City of Los

Figure 2-51
Tenants' Likelihood of Recommending Their Building to a Friend or Relative as a Good Place to Live, by APC
*Calculated Using Individual Weights (In/Out City of LA: p<01; APC: p<.05)*




*Source: Economic Roundtable 2007-08 City of Los Angeles Renter Survey*

Angeles are slightly more likely to recommend their building. Forty-eight percent are very likely to recommend their building to a friend or relative, and another 33 percent said they are somewhat likely to do so (Figure 2-51).

Renters sometimes commented that their landlords are not responsive to problems in their units and also that it is difficult to communicate with some landlords. Text Box 2-8 shows some of these focus group comments.

Text Box 2-8

Focus Group Comments about Landlord Responsiveness and Communication

*Responsiveness*

- *My manager did not do anything to the unit even though he increased the rent every year.*
- *Often landlords are not responsive about making repairs when they're needed.*
- *Managers should follow through with contracts made to new tenants, for example, a tenant moved into her apartment and she was promised that an air conditioner would be installed in her unit and she hasn't received it although it has been a few months since she first moved in.*
- *Managers don't do everything they promise.*
- *Managers should be on call at all times for example: Plumbing situations may arise, parking that blocks other tenants, maintenance and landscaping.*
- *If the owner owns many buildings he does not pay adequate attention to the problems and needs of his tenants.*
- *The building manager is good as long as rent is paid and they are not asked for repairs.*
- *We have had a good experience with our manager.*

*Communication*

- *Tenants want to get to know their owners or see them once in a while.*
- *Some landlords are unapproachable – tenants are afraid to talk with them.*
- *There should be a give and take between landlords and tenants. How can they learn to co-exist and maintain their units and environment?*
- *Landlords should collaborate with tenants in defining behavior standards.*
- *There needs to be communications between owner and tenant.*
- *There should be open meetings between tenants and managers at the apartment complex so that they can work things out.*
- *Have someone who can mediate between tenants and owners.*
- *Even if tenants know their rights, the tenant still needs to live there and if you force the*
- *It's easier to establish behavior standards in small buildings than in big buildings.*
- *Changes of ownership and management are very confusing for tenants and it affects them, they would like to get notices if and when this happens. It is difficult to contact owners in these situations.*
- *Tenants need friendly remainders on how to maintain the buildings.*
- *Owner should be more responsible and meet with their tenants.*
- *Apartment managers need to let tenants know when inspectors or workers are coming.*
- *It is difficult to deal with a management company – they're ineffective intermediaries with the owner.*
- *Owners buy properties in LA and they never take the time to come and see how their tenants are doing.*

## Tenant Complaints to LAHD about RSO Violations

The LA Housing Department receives and investigates complaints from tenants who have documentation showing that an owner or manager has violated the Rent Stabilization Ordinance. The majority of these complaints (96 percent) come directly from tenants – taken by telephone, online or at an LAHD public counter or filed online – with the remainder made by tenant's rights advocacy groups, City Council staff and other property owners. The five issues that are grounds for a complaint are listed in Text Box 2-9. Approximately a third of the complaints made to LAHD are unfounded, or are withdrawn by the complainant before the collection of necessary documents is complete. Among the complaints that are substantiated by LAHD, some are reconciled by LAHD's Investigations and Enforcement unit, while others are referred to the City Attorney's office for possible prosecution.

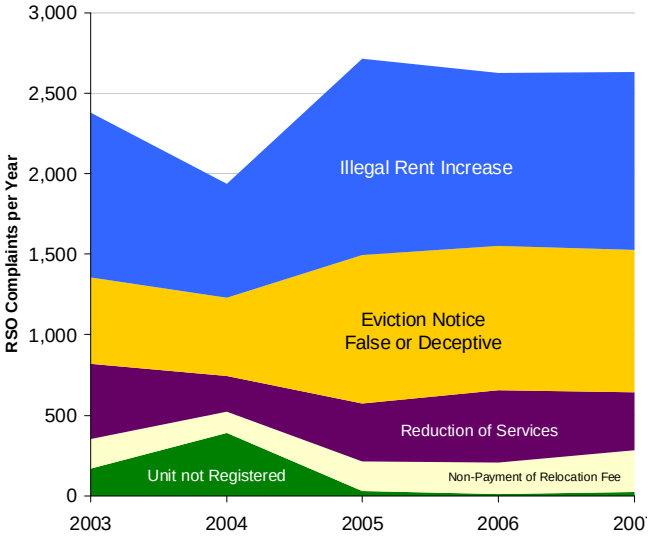
LAHD receives over seven thousand complaints per year concerning possible violations of the RSO. **The most frequently received complaint in each of the past five years was about illegal rent increases (Figure 2-52), although since 2005, complaints about false or deceptive eviction notices have risen to become almost as common.** If we are optimistic, we can anticipate that as the number of condominium conversions in the City starts to decline due to the real estate market cooling off, the number of RSO complaints for false or deceptive eviction notices will also decline. The fewest number of tenant complaints are about unregistered units. These have dropped off significantly, possibly due to the now mandatory cycles of LAHD Code Enforcement Unit inspections.

Text Box 2-9
Five Grounds for Complaints by RSO Tenants

1. **Unit not registered**. The RSO applies to all rental units located in the City of Los Angeles, on properties with two or more units, and with a certificate of occupancy issued on or before October 1, 1978. The unit is not registered, but the tenant is complaining that it should be because the unit meets the above criteria, and should be subject to the annual allowable rent increase set by LAHD as well as other regulations.
2. **Notice to Quit (Eviction Notice) is based on false and deceptive grounds.** Tenant receives an eviction notice that is based on false and deceptive grounds, or is otherwise not among the twelve legal reasons for evictions allowed in the City of Los Angeles.
3. **Non-payment of Relocation Assistance.** Landlords are required to provide monetary relocation assistance to tenants in cases of no-fault evictions, such as conversion of the property into a condominium or commercial use, during an approved primary renovation, or in order for the owner or resident manager to occupy the unit. The amount of relocation assistance paid to the tenant is specified by LAHD, and can be higher due to tenant's age, disability status, and the presence of minor children in the household.
4. **Illegal Rent.** Tenant's recent or proposed rent increase is above the amount allowed by the RSO, and is thus an illegal increase. LAHD's allowable rent increases cover twelve month periods, and are between three and eight percent per year.
5. **Reduction of** Services. When tenants move into a rental unit regulated by the RSO, the services covered in the lease (who pays for various utilities, use of building amenities such as parking spaces, etc.) are specified in the lease or rental agreement. The landlord is not allowed to reduce the level of services offered as part of the rental, as long as the original lease is in effect.

The distribution of tenant complaints relative to the overall number of RSO-regulated rental units in the City shows some variation (Figure 2-53). The *Central LA*, *South LA* and *East LA* areas are home to the oldest and largest number of rental units, and have the highest ratio of complaints per RSO unit. Interestingly, the *West LA* area has the lowest ratio of total complaints per RSO unit, as well as the lowest count of tenant complaints, but had the second highest ratio of complaints for unregistered units after *Central LA*.

Figure 2-52
RSO Complaints by Type, 2003-07

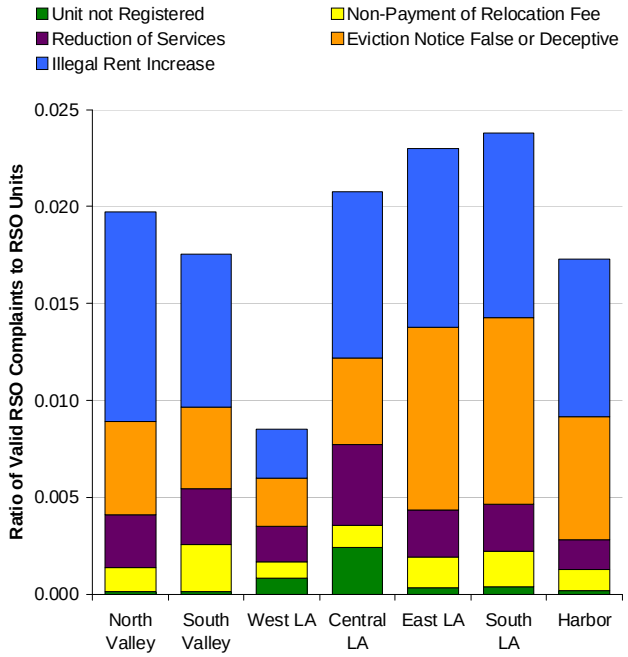



*Source: City of LA Housing Department: Complaint Data for Each RSO Complaint Filed (RENT Dataset 5). Compiled from LAHD's "RSO Tenant Service Request Form." Note: Figure displays only RSO Complaint Investigation cases that are closed and where the complaint was substantiated by LAHD Investigations & Enforcement staff.*

## Renter Concern about Affordable Housing

**Over 90 percent of renters in the City believe that is very or somewhat important that Los Angeles create affordable housing** (Figure 2-54)**.** Given the difficult living conditions of many LA renters, this strong support for policies and programs to provide affordable housing is understandable. The sense of urgency about these policies is slightly greatest among renters living in parts of the City with greater population density, lower household incomes, more frequent overcrowding, and older housing stock. The regions that fit these criteria - *East LA*, *South LA*, *Harbor* and *Central LA* - have the greatest sense of urgency about affordable housing.

Figure 2-53
Ratio of RSO Complaints per Unit, 2003-08



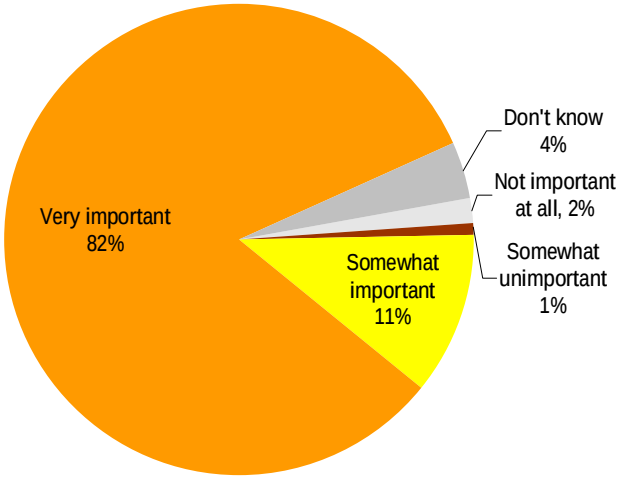

*Source: City of LA Housing Department: Complaint Data for Each RSO Complaint Filed (RENT Dataset 5). Compiled from LAHD's "RSO Tenant Service Request Form." Note: Figure displays only RSO Complaint Investigation cases that are closed and where the complaint was substantiated by LAHD Investigations & Enforcement staff.*

Renters were asked to rank the importance of an array of policy initiatives to provide affordable housing. Ninety percent of renters ranked each of the initiatives listed in Figure 2-55 as being somewhat to very important.[43] The only option that did not garner overwhelming support was "let private markets solve housing problems,"

although a majority (54 percent) of renters are willing to consider this option.

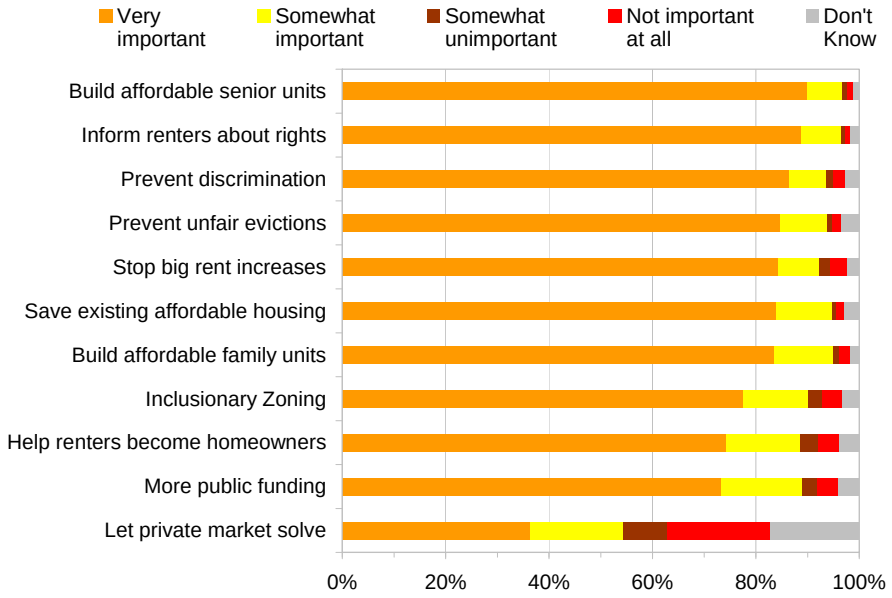
Renters state that the highest priority for affordable housing should be given to the senior renter population - a group that is challenged to live on fixed incomes amidst rising rents. Interestingly, the second most frequently advocated priority is informing tenants of their rights and helping them access services. Renters acknowledge that there is a deficit of knowledge among themselves when it comes to understanding affordable housing options and rental housing policies. It is also interesting to see that renters feel even more urgency about equity issues, such as housing discrimination and unfair evictions, than about increasing the affordable housing stock via inclusionary housing policies and increased public spending on affordable housing, even though these are very high priorities. While renters believe that virtually all options are important for providing enough affordable housing, discrimination and unfairness are paramount concerns.

Figure 2-54
How important is it for LA to adopt policies and programs to provide affordable housing for renters?
*Calculated Using Individual Weights*




*Source: Economic Roundtable 2007-08 City of Los Angeles Renter Survey*

Figure 2-55
What should Los Angeles do to provide enough affordable housing for renters?
*Calculated Using Individual Weights*




*Source: Economic Roundtable 2007-08 City of Los Angeles Renter Survey*

A sampling of focus group comments about the difficulty of paying for housing and the importance of building more affordable housing is shown in Text Box 2-10 and comments from survey respondents is shown in Text Box 2-11.

Text Box 2-10
Focus Group Comments about Affordable Housing

*General*

- *There is not enough low-income housing; rent control should be extended to newer buildings.*
- *Renters should not get gouged just because landlords overpaid for rental properties during the housing bubble.*
- *There should be lower taxes for developers of affordable housing as an incentive to build more affordable housing.*
- *Rent increases should be based on increases in income instead of the CPI.*
- *Increase the number of affordable housing units.*
- *Nobody can afford to live and work here.*
- *It is hard for people to afford housing near where they work if they work downtown.*
- *There is a problem with tenants on a fixed income and increasing rents.*
- *I have a hard time with balancing my budget due to high rents – I'm on a fixed income with 3 percent increases in Social Security payments, Medicare pays less – it's hard to pay rent increases.*
- *We need universal rent control - take rental housing off the open market as a commodity.*
- *Preserve rent control.*
- *Landlords and tenants should have more communication. They could advocate together for more affordable housing.*

*Condo Conversions and Demolitions*

- *There are vacant apartment buildings that owners are trying to convert to condos.*
- *Too many luxury condos are being built with nothing for the low-income community.*
- *Building luxury condos is not solving housing issues in LA - it's only making it not affordable.*
- *Affordable housing is being destroyed and replaced by expensive condos.*

*Poor Conditions*

- *The U.S is becoming a Third World country. We are paying high rents for very poor quality.*
- *The quality of housing is not adequate compared to the rent level.*
- *Hot bedding and hot flooring exists in our neighborhood. Renters rent out space within their unit (beds or a space on the floor) for 8-hour shifts to other people that need housing but can't afford normal rents.*
- *It's hard to find an apartment that's in good shape and affordable.*

*Ownership*

- *There aren't enough opportunities to purchase homes in this city - renters need more resources to be able to do this.*
- *Rent-to-own programs should be created.*
- *We need rent-to-own programs - let people have a stake in their unit.*
- *Tenants should be able to invest in their own housing. People will have more respect for where they live if they invest in it.*
- Turn rentals into coop units.
- *Village Green is coop housing and people keep it nice.*

Text Box 2-11
Comments of Renter Survey Respondents about Affordable Housing

*Housing Balance*

- *Provide affordable housing close to peoples' work.*
- *Require home builders to put affordable housing in every place; it should be required before getting a building permit.*
- *Provide affordable housing in nice neighborhoods!!!*
- *We need more affordable housing. Rents are too high and salaries and minimum wage are too low.*

*High-need Populations*

- *Delegate funds to help families. Help single people, the elderly, and handicapped.*
- *Provide assistance for single parents or mothers who are trying to make a difference for their families.*
- *Make bigger apartments or living spaces for families.*
- *Provide more government apartments for low income families.*
- *We are having trouble finding apartments that take children. That kind of discrimination has not really been addressed.*

*Work with Private Sector*

- *The government should work more with businesses to help make rent more affordable.*
- *Give big business a tax break for providing low income housing in attractive and safe areas instead of only providing it in unattractive neighborhoods.*
- *They should let the market decide the cost of housing.*

*Information and Communication*

- *Help us know our rights and help us access people for advice. It's hard to find help.*
- *Provide workshops and public ads to inform people.*
- *They should make plans then run them through the residents to see which ones we agree with the most to provide affordable housing for renters.*
- *They need to get more ideas from others; involve the public and not just the poor.*

*Other*

- *Verify tenants' salaries and help those who are low income.*
- *Make it easier on people who are not getting any help because of their working-class status.*
- *They should check into the members who qualify for section 8. Some people receive section 8 who really do not deserve it, and there are many people who really need to be supported by this.*
- *I have noticed a lot of condos and hi-rises going up. A lot of people will not be able to afford this, so Los Angeles needs to look at the needs of people.*
- *Use City funds on building or restoring existing apartment buildings.*
- *They should try to help renters purchase or make a down payment towards a town-home/home/duplex.*
- *Don't raise rent every year. Just base the rent on annual household income.*
- *Utilize abandoned or misused lots for affordable housing construction.*
- *Developers should provide a percentage of low income housing.*

## *SUMMARY*

*Carrying Out the Telephone Survey*

- A random-sample telephone survey of 4,859 renters was completed, providing up-to date information about the attitudes, finances, and experiences of renters.
- The survey achieved a 44.4 percent overall response rate and was conducted in three languages - Spanish, English and Korean.
- Thirty percent of respondents chose to donate the value of their gift card to LA's Affordable Housing Trust Fund.

*Benchmarking the Renter Survey against Census Data*

- The renter survey obtained responses from two-thirds as many renter households in LA as the U.S. Census Bureau's 2006 American Community Survey (ACS).
- The types of households that the Census Bureau has the greatest difficulty reaching – low-income renters – are the households from which the renter survey obtained higher representation.

*Length of Stay/Tenure*

- Citywide, 70 percent of the renter survey respondents have lived in their current units less than ten years.

*Overcrowding*

- There is evidence showing that the overcrowding problem in the City has improved since 2000. Survey data indicates that 28 percent fewer renter households live in severely overcrowded condition than reported by the 2000 Census. The survey, however, found more overcrowding than 2006 Census figures.
- Overcrowding and severe overcrowding are most prevalent in the South LA, East LA and North Valley regions.
- A majority of renter households with 5 or more people live in units with inadequate space. Seventy percent of 5 person households live in overcrowded or severely overcrowded units with 4 rooms or less, and almost 90 percent of households with 6 or more people live in inadequate densities.

*Renters' Awareness of Their Unit's RSO Status and RSO functions*

- Thirty-four percent of renters are incorrect about, or unaware of, the RSO status of their unit.
- Only forty-one percent of renter survey respondents who say that they speak English "Not well" or "Not at all" are aware that the RSO limits rent increases each year.
- Only 48 percent of renters with household incomes less than $25,000 per year know that the RSO limits the legal reasons for eviction.

*Landlords' Declarations of Intent to Evict Tenants; Tenant Relocation Program*

- The data shows a surge in Landlord Declarations of Intent to Evict filed with LAHD occurring from 2000 onwards, peaking in 2005, counter to the downward trend in overall unlawful detainer cases.
- Evictions related to condominium conversion account for 54 percent of all evictions recorded by the Housing Department.
- East LA and West LA standout as having disproportionately more cases of evictions during the period 1998-2008.
- The Housing Department had referred 187 no-fault eviction cases to its housing relocation assistance services provider as of mid-May 2008, representing 274 tenant households and at least 532 tenants.

*Leases and Rental Agreements*

- Seventy-one percent of renters have a written lease or rent agreement with their landlord.
- Among survey respondents whose lease is written in English, 77 percent were renters who completed their telephone interview in English, 21 percent in Spanish, and two percent in Korean.

*Rent*

- The rent differential between RSO and non-RSO units ranged from a high of $500 to virtually no difference
- A little over 60 percent of Los Angeles' households have less than two people contributing to rent payments
- Citywide survey results show 18 percent more severely rent burdened households and 11 percent more rent burdened households than the 2006 Census.
- A majority of renters in Los Angeles say that it is somewhat or very difficult to pay rent.
- Overall, 11 percent of respondents in the City receive some form of rent subsidy
- Sixty-three percent of tenants in RSO units report that their rent increases *every* year. Only 54 percent of their counterparts in non-RSO units report yearly rent increases .
- The share (56 percent) of market-rate units with rent increases below the rate of rent inflation) is 27 percent larger than the share (44 percent) of RSO units with rent increases that are less than those allowed by the RSO.

*Excessive or Potentially Unauthorized Rent Increases in RSO Units; Tenant Complaints*

- Twenty-seven percent of tenants in RSO units reported current rents that were *above the projected allowable increase* permitted by the RSO.
- Tenants who appear to have received rent increases above the projected allowable increase were those with the lowest starting rents.
- A portion of RSO tenants may well be receiving unauthorized rent increases. Low-income renters are more likely to have rent increases that are potentially above the allowable increase.
- LAHD receives over 7,000 tenant complaints per year concerning possible violations of the RSO – complaints about illegal rent increases account for a third of these.

*Trajectory of Rent Increases*

- Renters who moved into RSO units between 1997 and 2006 received rent increases from their landlords that were on average 15 percent less than the RSO's maximum allowable rent increases.
- Tenants of market-rate units who started renting their units between 2001 and 2005 received rent increases at rate similar to the RSO allowable increase.
- Median RSO rent increases have generally increased at a steady rate slightly below the RSO allowable increase.
- Typical non-RSO tenants have consistently received larger rent increases in comparison to RSO tenants. Additionally, rent increases have generally not kept pace with increases in the CPI and have varied with fluctuations in the economy and rental market.
- Between 1997 and 2006, typical RSO tenants received rent discounts ranging from 2 percent to over 40 percent.
- The size of the RSO rent discount is contingent upon fluctuations in the market that impact the degree to which non-RSO rents increase.

*Tenants' Perception of Rental Conditions*

- A plurality of renters in the City of Los Angeles (46 percent) reports their housing units being in "excellent" or "good" condition. Another 43 percent characterize their rental units as being in "fairly good" or "fair" condition.
- Renters citywide who described their unit as being in "Fairly Poor" or "Very Poor" condition were living in rental properties where LAHD's Code Enforcement Unit also found more violations per unit.
- A majority of renters in the City of Los Angeles say that they are treated either "very well" (courteous and polite - 50 percent) or "somewhat well" (33 percent) by their landlord.
- Three quarters of renters living in the City of Los Angeles are "very likely" or "somewhat likely" to recommend their building to a friend or relative as a good place to live.
- Tenants' most common complaint to LAHD is about illegal rent increases, with complaints about false or deceptive eviction notices being almost as common.

*Renter Perceptions of Affordable Housing*

- Over 90 percent of renters in the City believe that is very or somewhat important that Los Angeles create affordable housing.
- Renters ranked 11 potential policy initiatives to provide affordable housing in the City – the only option that did not garner overwhelming support was "let private markets solve housing problems."
- Renters' highest stated priority is to provide affordable rental housing for seniors.
- The second highest priority is informing tenants of their rights and helping them access services.
- Discrimination and unfairness are paramount concerns among renters.

Chapter 3

# Survey of RSO Property Owners

## OVERVIEW OF DATA AND OWNERS

### Overview

A representative random sample of 2,036 owners of rent-stabilized properties returned completed surveys (a copy of the survey questionnaire is shown in Appendix E), providing valuable first-hand information about the experiences, attitudes, finances, and recommendations of equity holders and investors in LA's rent-stabilized housing market.[1] The survey achieved a 33 percent response rate from the property owners who received it.[2]

Seven *pre-survey* focus groups were held with owners to hear their views about LA's rental housing market and obtain question-by-question suggestions for improving the survey. An additional seven *post-survey* focus groups were held with owners to obtain in-depth views about how to interpret the survey data. Ideas from each *pre-survey* focus group were incorporated into the version of the questionnaire shown to the next group, and major themes that emerged in the sessions prompted the inclusion of additional questions.[3] These themes included:

*Rent Stabilization Ordinance (RSO)*

- Do rent increases allowed by the RSO cover operating cost increases?
- Is the capital improvements policy of allowing half of costs to be passed through to tenants workable?
- Should affluent tenants receive low-cost rent through the RSO program?
- Should small property owners with four or less units be treated the same way as large owners under the RSO?
- Should owners be allowed to "bank" annual rent increases authorized under the RSO so that they can implement increases on a more flexible schedule?
- Should it be easier to evict problem tenants such as drug dealers?

*Systematic Code Enforcement Program (SCEP)*

- Is SCEP even-handed in citing tenants as well as property owners, as circumstances warrant?
- Is SCEP reliable in issuing consistent interpretations of the building code?

*Affordable Housing*

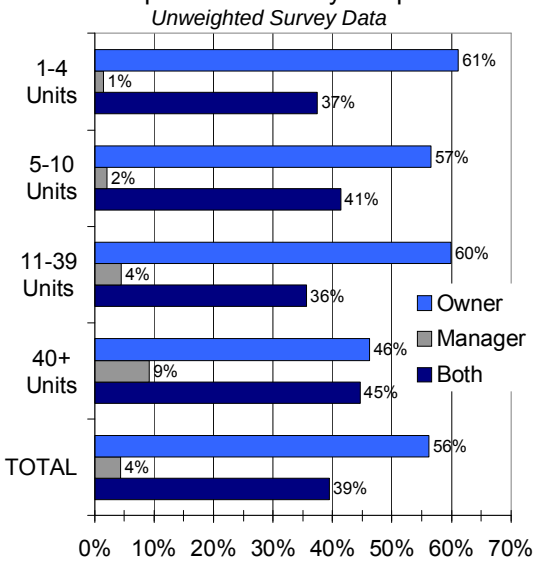
- How can LA incentivize private investment to build more affordable housing?

Additional information about each owner's rental property was integrated with survey data to expand our understanding of conditions at the RSO properties covered by the survey as well as the entire RSO inventory. Sources of additional data include:

1. Renter survey responses from occupants of buildings owned by respondents to the owner survey regarding condition of buildings, treatment of tenants, and whether the building is a good place to live.

2. Housing Department administrative records about complaints, evictions, inspections, rent increases, and applications for the capital improvement passthrough program.
3. Assessor's data about the year in which properties were purchased.

Figure 3-1
Ownership Role of Survey Respondents
*Unweighted Survey Data*

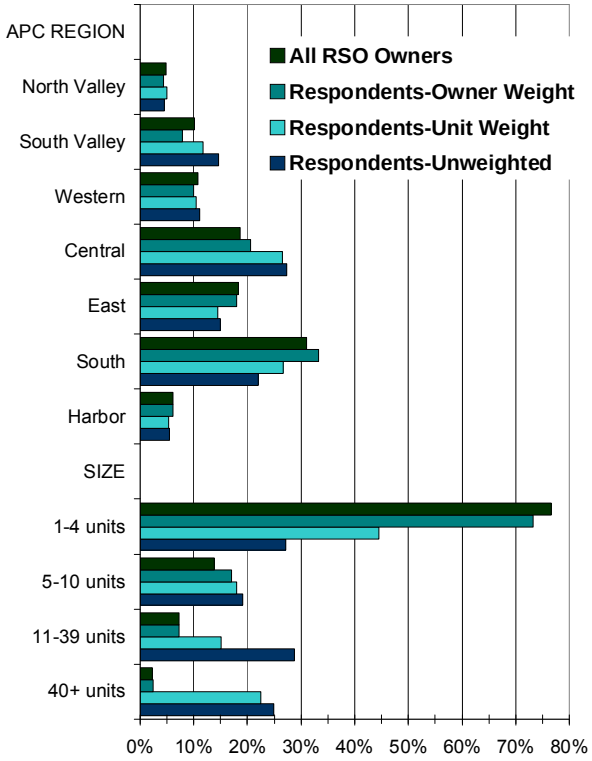



## Projecting Survey Results onto the Rental Market

Virtually all survey respondents are equity holders in Los Angeles' rent-stabilized housing market (Figure 3-1). Ninety-six percent are owners of rent-stabilized units, including 39 percent of the total who actively manage their units, and 4 percent are property managers. Among respondents with 40 or more units, the share that is managers increases to 8 percent.

Survey respondents represent 2.4 percent of all of rent-stabilized properties but they own or manage 16 percent of all rent stabilized units.[4] The reason why survey respondents represent a disproportionately large share of RSO units can be seen in Figure 3-2.[5] The survey sought and obtained roughly equal shares of responses from each size category of property owners in order to have a reliable number of responses from every ownership group. This means that survey respondents over-represent larger owners (i.e., owners of 11 or more units).

Figure 3-2
Profile of Survey Respondents

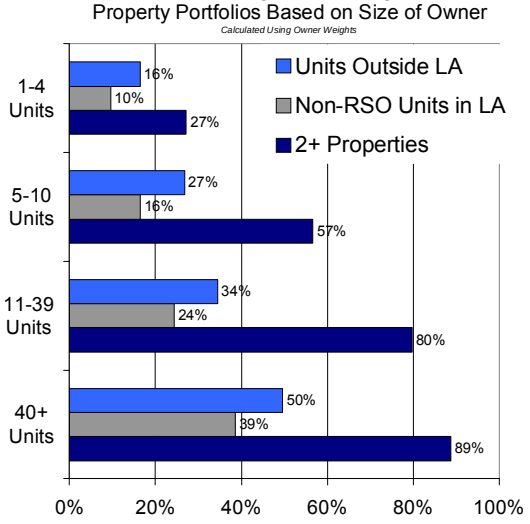



- In the smallest size category, 27 percent of survey respondents own 1 to 4 units, but 77 percent of the total universe of 86,174 unduplicated RSO owners are in this size category.[6]
- In the largest size category, 23 percent of respondents own 40 or more units, but only 2 percent of all RSO owners are in this size category.

Survey respondents mirror the geographic distribution[7] of RSO property owners but must be adjusted to reflect the size distribution of property owners.[8] To make it possible to use the survey data to represent all RSO property owners as well as the total rental market for RSO units, each survey response was assigned two weights:[9]

- *Owner weight* – to represent all owners of rent-stabilized property in Los Angeles – *these weights closely match the total universe of RSO owners.*
- *Unit weight* – to represent all rent-stabilized units in Los Angeles – *these weights closely match the total rental inventory of RSO units.*

Figure 3-3
Property Portfolios of RSO Owners
*Calculated Using Owner Weights*
Property Portfolios Based on Size of Owner




## Residential Rental Holdings and Experience of RSO Owners

Most differences in outlook and experience among RSO owners are associated with the number of units they own; very few differences are associated with the community where units are located. Consequently, we breakout most data from the owner survey by ownership size. Other factors that we report on in this chapter when they prove significant include:

- Construction date
- Purchase date
- Location of units

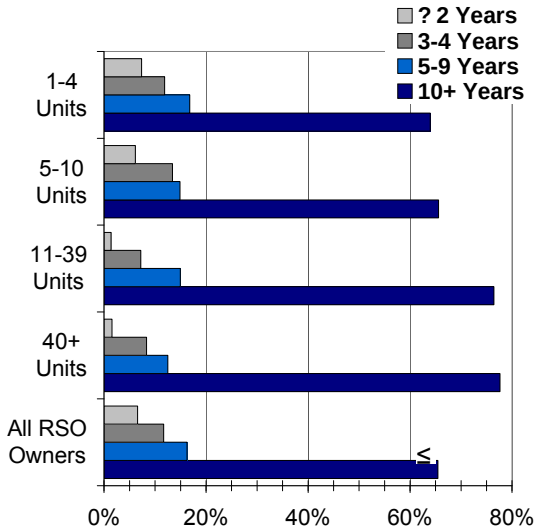
Detailed data is available in the public domain electronic files that accompany this report.

Among small owners, those with a total of 1 to 4 units, only one-quarter have more than one property, one-sixth own units outside of the City of Los Angeles, and one-tenth own non-RSO units within the City (Figure 3-3). Because these small owners make up three-quarters of all RSO owners, they shape the overall profile: an owner of a single small property built over 30 years ago.

But owners of 5 or more units hold three-quarters of all RSO units and have a broader range of experience in owning and managing residential rental property. A majority owns multiple residential rental properties, and half of the largest class, those with 40 or more units, own rental units outside the City of Los Angeles.

Most owners in all size classes have many years of experience in owning and managing residential rental property, as shown in Figure 3-4 (*p* values, which are a measure of data reliability, are explained below the chart).[10] Two-thirds have at least ten years of experience. Only 7 percent have two or less years of experience. This experience profile is similar across all size classes.

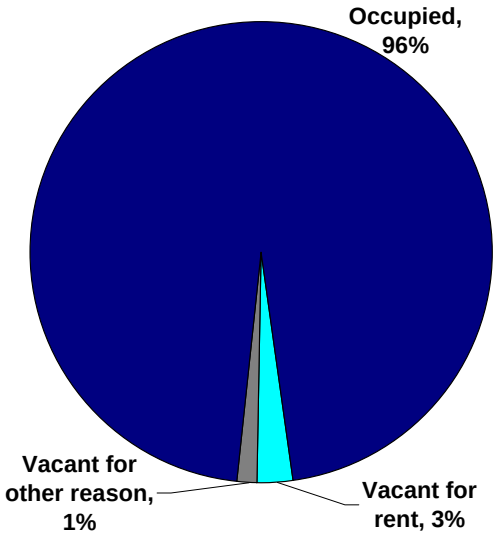
Figure 3-4
Years Experience Owning Rental Property
*Calculated Using Owner Weights (p<.001)*




*Notes: The p value represents the probability that the difference between the groups shown in the graph is the result of random chance rather an actual difference. The more reliable the data, the lower the p value. In this case the value is p<.001, which means that the probability that the differences between the groups shown in the graph is a random statistical event rather than an actual difference is less than 0.1 percent.*

- *Three-quarters of RSO owners have small holdings, 4 or less units, usually on a single property, with long-term experience (10 or more years) with this scale of ownership – they own one-quarter of RSO units.*
- *One-quarter of RSO owners have medium or large holdings (5 or more units), long-term ownership experience, and often own multiple properties, some of which are in other cities – they own three-quarters of RSO units.*

Figure 3-5
Occupancy Status of RSO Units
*Calculated Using Unit Weights*

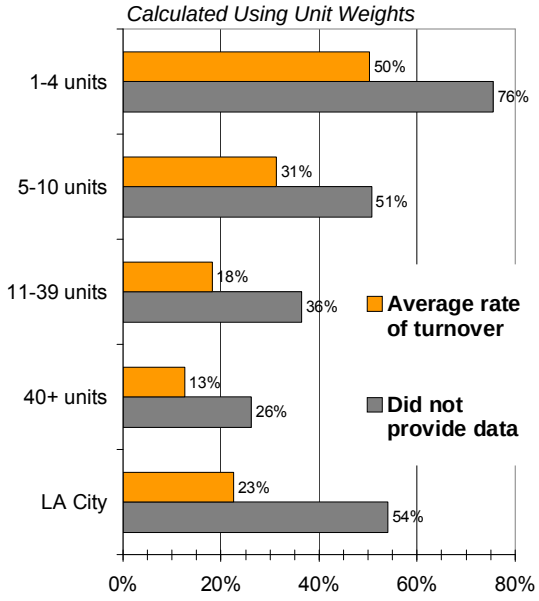



## PROPERTY AND MANAGEMENT CHARACTERISTICS

### Vacancy Rates

Most RSO units were occupied at the time of the survey regardless of ownership size or geography. The survey interval of November 2007 through April 2008 covered a period of high demand for rental housing. **Ninety-six percent of RSO units were occupied**, 3 percent were vacant and available for rent, and 1 percent were vacant for other reasons (Figure 3-5). There was little variation between property sizes and even less variation between different areas of the City. The lowest occupancy rate, 92 percent, was found among small owners with 4 or less units. The U.S. Census Bureau also reported a 4 percent rental vacancy rate for all rental housing in Los Angeles City – only half of the 8 percent rate for the United States – in 2006.[11] The National Association of Home Builders said that **Los Angeles had "some of the lowest rental vacancy rates in the nation, hovering around 4 percent."**[12]

Figure 3-6
Percent Annual RSO Tenant Turnover
*Calculated Using Unit Weights*



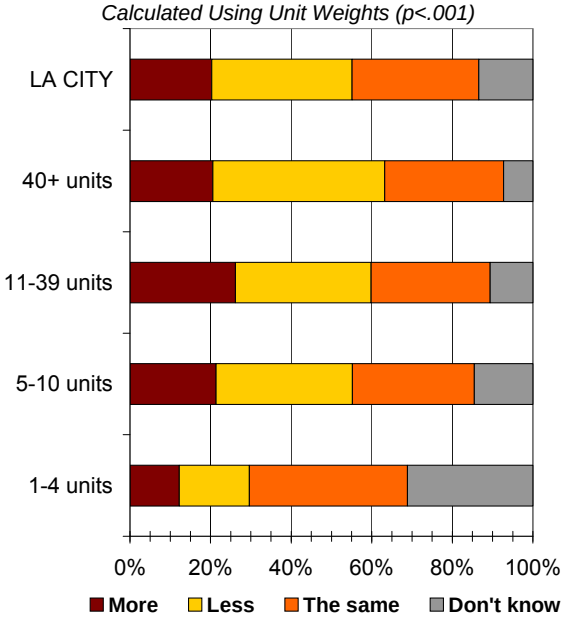

### Tenant Turnover

**The point-in-time vacancy rate is low despite the fact that a substantial number of units turn over in the course of a year, indicating that owners have not had to wait long to find new renters for vacant RSO units.** Slightly more than half of respondents provided information about how many of their rent-stabilized units had turned over in the past twelve months. These responses are shown in Figure 3-6 and illustrate the difficulty that many small owners have in providing operational data about

their rental properties. Three-quarters of owners with 4 or less units did not answer this question compared to one-quarter of owners with 40 or more units. Given the limitations of this data because of low response rates to the question by small owners, the very high turnover rates for small owners are doubtful, although there does appear to be a trend of progressively lower rates of turnover as ownership size increases.[13]

Owners with 11 or more units reported an average turnover rate of 15 percent over the past 12 months and a median rate (the rate in the middle of the distribution) of 12 percent. The average turnover rate of 23 percent that is shown for all RSO properties is similar to data from the U.S. Census Bureau, which shows that in 2006, 83 percent of renters were in the same unit that they lived in a year earlier.

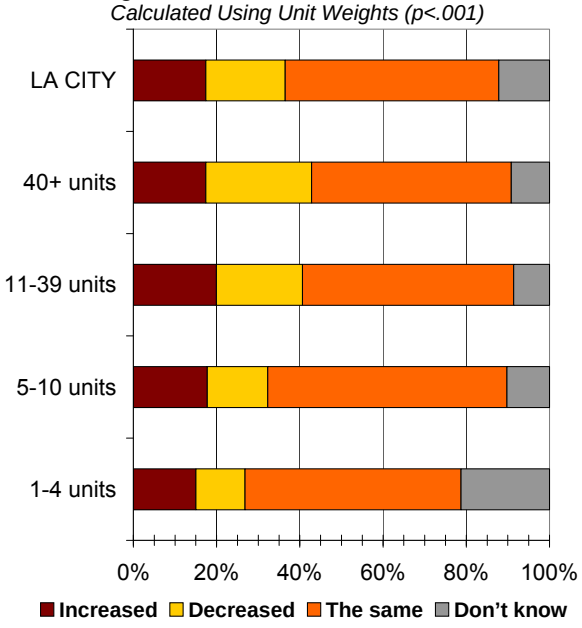
Figure 3-7
Turnover Rate Compared to Non-RSO Units
*Calculated Using Unit Weights (p<.001)*




Owners who provided turnover data were asked two follow-up questions (Figures 3-7 and 3-8):[14] Is turnover in rent-stabilized units more or less than in units not under rent control? And, has the turnover rate for rent-stabilized units increased or decreased over the past 12 months? The difficulty that small owners have in providing this type of business data is again apparent, given that even among those who owned non-RSO rentals and were able to report the number of units that turned over in the past year, 31 percent said they didn't know whether the turnover rate for their RSO units was different than the rate for their non-RSO units. Still, there is a consistent pattern of responses across all ownership sizes indicating a somewhat lower turnover rate for rent- stabilized units than for non-rent-stabilized units. Taken together, all owners responded:

- More turnover 20%
- Less turnover 35%
- The same turnover 31%
- Don't know 13%

Figure 3-8
Change in Turnover Rate over Past Year
*Calculated Using Unit Weights (p<.001)*




Information provided by owners comparing recent turnover rates to rates in earlier years (Figure 3-8), produced mixed responses. Owners of 10 or less units reported more turnover; owners of 11 or more units reported less. When we look at all size groups together, the preponderance of owners say that

Table 3-1
Number of Years that Rent-stabilized Units have been Occupied by the Same Tenant
*1,548 owner responses calculated using unit weights*

| | Numbers of years that RSO units have been occupied by tenants | | | | | |
|---|---|---|---|---|---|---|
| **Ownership Size** | <2 Years | 2-4 Years | 5-9 Years | 10-14 Years | 15-19 Years | 20+ Years |
| 1-4 Units | 20% | 38% | 23% | 11% | 4% | 4% |
| 5-10 Units | 21% | 29% | 27% | 12% | 5% | 6% |
| 11-39 Units | 25% | 24% | 26% | 16% | 5% | 4% |
| 40+ Units | 27% | 28% | 21% | 16% | 4% | 3% |
| ALL RSO UNITS | 26% | 28% | 22% | 16% | 4% | 4% |

RSO turnover rates are the same as in previous years.

## Long-Term Tenants

Owners were asked how many of their rent-stabilized units had been occupied by the same tenant for different amounts of time. This information is shown in Table 3-1. **Eight percent of RSO units have been occupied by the same tenant for 15 or more years.** There is little variation in the duration of tenancy among different ownership sizes. This data is generally similar to the duration of tenancy data collected in the renter survey (Chapter 2).[15]

The reduced level of rent paid by long-term RSO tenants can have a significant impact on small property owners, for whom a single unit provides a quarter to half of total rent revenue. Focus group participants reported instances in which the ceiling on annual RSO rent increases combined with landlord decisions not to raise rents in some years had resulted in rents on RSO units with long-term tenants that are far below market rates. Once rents fall this low, the annual percentage increase allowed for RSO units provides meager relief. For example, a 5 percent increase on a unit renting for $400 is just $20 more a month, or $240 more a year. On the other hand, for many large property owners these long-term tenants represent a small statistical minority that adds to the stability of the tenant population. Because of their small number, long-term RSO tenants have minimal impact on rent revenue in large properties. Breaking out long-term tenants who have been in the same unit 15 or more years by the size of the properties where they are housed, we see this population distributed across ownership size categories as follows:

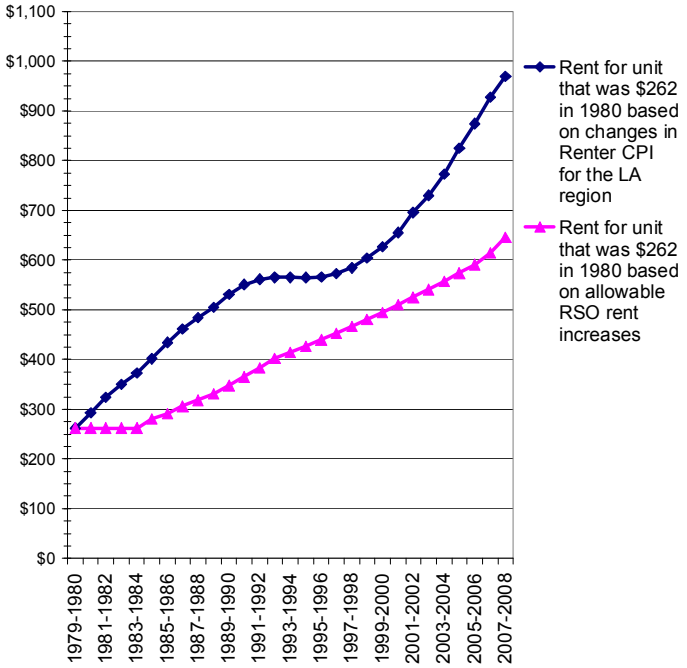
- 1-4 Units 0.3%
- 5-10 Units 1%
- 11-39 Units 1%
- 40+ Units 6%
- Total Long-term Tenants 8%

We can use data from the Consumer Price Index (CPI) for rental housing in the Los Angeles region together with information about allowable annual rent increased under the RSO to estimate the long-term gap between increases in market rate rents versus allowable RSO rent increases since the ordinance took effect in 1979, as shown in Figure 3-9.[16]

In 1980, the median monthly rent for a rental unit in the City of Los Angeles was $262 a month. Based on allowable RSO increases, the same unit would rent for $645 in the 2007-2008 rent cycle, 29 years later. Based on changes in the CPI for rental housing in Los Angeles, the same unit would rent for $970 in the open market. These trends are shown in Figure 3-9.[17]

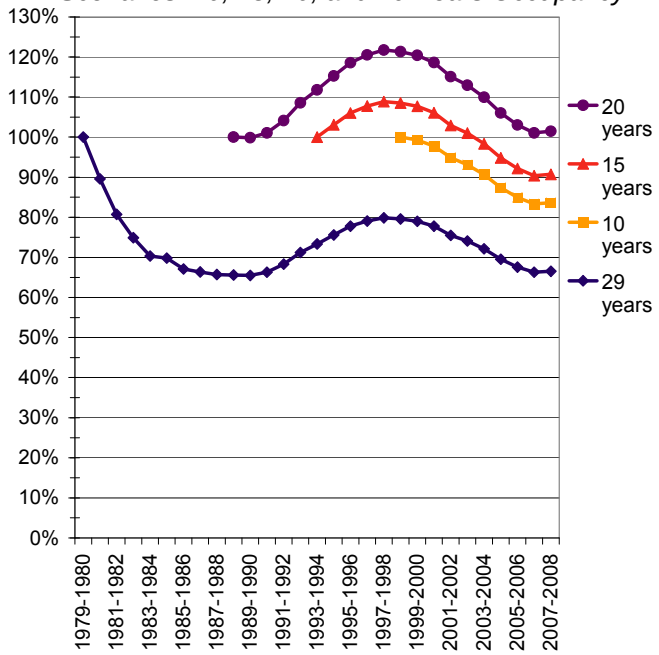
The gap between these two rent trajectories is not constant but rather varies with cycles in the housing market. The Rent Stabilization Ordinance took effect in the 1978-1979 fiscal year and the first rent increases were authorized in the 1984-1985 fiscal year. Since then, allowable annual rent increases under the RSO have charted a steady, predictable upward trajectory that brought RSO rents closer to market rates during the 1990s when the market was flat, and moderated rapid increases during this decade when the housing market has been hot.

Figure 3-9
Monthly Rent Based on Annual Changes in LA's Consumer Price Index for Rental Housing and Allowable Annual Rent Increases Under the RSO




*Source: City of Los Angeles Housing Department and Bureau of Labor Statistics, Consumer Price Index - All Urban Consumers, Rent of primary residence*

Figure 3-10
RSO Rent as a Percent of Market-rate Rent for Long-term Tenants whose Rent has been Increased by the Annually Amount Allowed Under the RSO
*4 Scenarios: 10, 15, 20, and 29 Years Occupancy*




*Source: City of Los Angeles Housing Department and Bureau of Labor Statistics, Consumer Price Index - All Urban Consumers, Rent of primary residence*

The peaks and valleys of the RSO-to-market-rate rent ratio can be seen in the four trend lines shown in Figure 3-10[18] for tenants who have occupied their units for four different intervals: 29 years (since rent stabilization took effect in 1979), 20 years, 15 years, and 10 years, and had all of the annual rent increases authorized under the RSO. The outcomes for these four scenarios are as follows:

- *29-year tenant*
  - Growing rent savings during the 1980s, dropping to 65 percent of the market level.
  - Diminishing rent savings during the 1990s when RSO increases exceeded market increases, with

rent rising to 80 percent of the market level.
  - Growing rent savings until 2006, with RSO increases that were smaller than market increases.
  - Diminishing rent savings starting in 2007, with rent that is 67 percent of the market level in the 2007 to 2008 rent period.
- *20 year tenant*
  - From 1988 through 1999, allowable RSO rent increases equaled or exceeded market-increases, with the result that if the landlord had increased rents at the annual levels allowed by the RSO, and the tenant had stayed in the unit, rent in 1998 would have been 122 percent of market rates.
    - From 2000 through 2007, RSO increases were less than market rate increases, bringing rent in 2007 down to 101 percent of market rates.
- *15 year tenant*
    - From 1993 through 1999, allowable RSO rent increases equaled or exceeded market-increases, with the result that if the landlord had increased rents at the annual levels allowed by the RSO, and the tenant had stayed in the unit, rent in 1998 would have been 109 percent of market rates.
    - From 2000 through 2007, RSO increases were less than market rate increases, bringing rent in 2007 down to 91 percent of market rates.
- *10 year tenant*
    - From 1988 through 2007, allowable RSO rent increases were equal to or less than market rate increases, bringing rent in 2007 down to 84 percent of market rates.

The greatest disparity in RSO rent levels as a percent of market-rate levels shown in this data is the 1989-1990 gap for the 29-year tenant, when RSO rents were 35 percent less than market rates. It is probable that the gaps of 50 to 70 percent that were reported in focus groups are the result of other factors in addition to the Rent Stabilization Ordinance, including the depressed housing market of the 1990's when owners did not increase rents, and neighborhoods where RSO unit rents increased less rapidly than the market rate average.

Regardless of the historical cause of the rent gap, there are sound reasons for limiting the size of the rent gap for RSO properties. As one owner with a very large rent gap said in a focus group, "It drives a wedge between you and the tenant. I rented to these tenants myself and I used to take a personal interest in them, but now it's hard for me to wish them well. I try to keep them at arms length. All I see is someone with a comfortable income who is getting a very large subsidy at my expense."

**A small share of RSO tenants appears to have a disproportionate and adverse financial impact on a subpopulation of small property owners.** Recommendations for ensuring that the financial interests of tenants and landlords are fairly balanced, as called for by the Rent Stabilization Ordinance, are discussed in the final chapter.

**Finding Tenants**

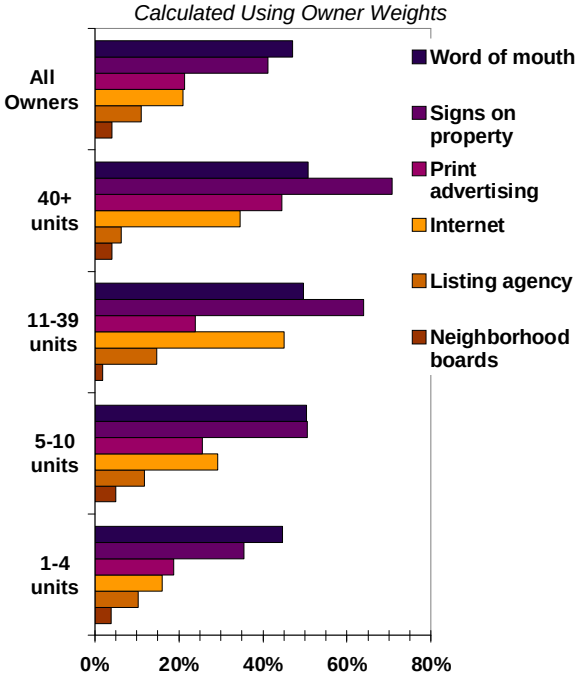
The landlord's first introduction to the tenant is through the means of communication that he or she uses to notify prospective renters of the vacancy and receives their calls, which are

shown in Figure 3-11.[19] Owners were asked how they usually find tenants for their vacant units. Overall, 47 percent of owners use word of mouth. This is the most frequently cited method. Next most frequently cited, 41 percent of owners use signs on their property; this practice goes up to 66 percent among owners of 20 or more units.

About one-fifth of owners use each of the following two methods to reach renters: print advertising and Internet sites such as Craig's List. The use of Internet sites is much more frequent among large owners than small owners. One-in-ten owners use listing agencies and one-in-twenty use neighborhood boards.

The fact that paid advertising is a secondary tool for marketing vacancies and that word of mouth and signs on the property are the more common means of reaching renters suggests that during the recent phase of the housing market cycle it has not been difficult to find renters.

Figure 3-11
How do you usually find your tenants?
*Calculated Using Owner Weights*

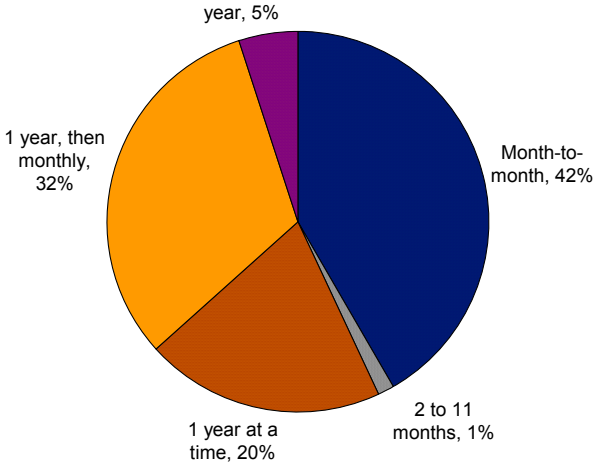



## Leases

**Eighty-eight percent of RSO tenants rent their unit with a written lease or rental agreement**. This includes almost all units on large properties and most on small properties:

- 97 percent of tenants renting from owners with 40 or more units
- 95 percent of tenants renting from owners with 11-39 units
- 93 percent of tenants renting from owners with 5 to 10 units
- 79 percent of tenants renting from owners with 1 to 4 units

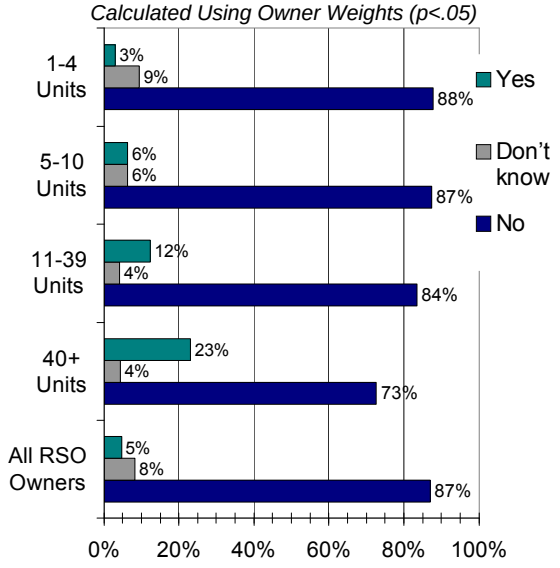
Figure 3-12
Duration of Lease Agreements
*Calculated Using Unit Weights*




Small owners stand out as having the highest rate of informal rental arrangements, but even within this group over three-quarters use written lease or rental agreements. Interestingly, based on data from the renter survey (Chapter 2), only 71 percent of renters have written leases or rental agreements, a rate much lower than what owners reported in this survey.

Under the RSO, the initial agreement continues on a month-to-month basis after the first year. This requirement encompasses

Figure 3-13
Owners that Report Applying for Capital Improvement Passthrough Program
*Calculated Using Owner Weights (p<.05)*




most lease arrangements reported by owners, with little variation based on ownership size or geography. Based on unit-weight calculations, RSO units with leases have the following durations specified in the agreements (Figure 3-12):

- Month-to-month 42%
- 2 to 11 months 1%
- 1 year at a time 20%
- 1 year, then monthly 32%
- More than 1 year 5%

This data slightly differs from the renter survey; a little over 30 percent of renters report month-to-month leases and almost 60 percent report one-year leases.

## PERCEPTIONS OF THE RSO PROGRAM

### Financing Capital Improvements

The City's rent stabilization program allows owners to seek approval to pass on 60 percent of the cost of capital improvements as a rent increase for tenants.[20] Despite widespread concern expressed in owner focus groups about the need to finance capital improvements, 87 percent of owners reported in the

Text Box 3-1
Describe your experience with the passthrough program for capital improvement costs
*Open-ended responses from owners who used program*

*Unaware*
- *Was unaware of such a program.*
- *I want to apply. Could you tell me where please?*

*Complicated Process*
- *RSO is cumbersome.*
- *Record keeping and bookkeeping gets excessive over many years*
- *Actual cost born by owner not approved unless you use outside contractor with 3 bids and copies of contract.* [Note: 3 bids are required if the owner does the work]
- *Way too complicated - not worth the bother.*
- *They don't approve if permits not pulled.*
- *The paper work required for the repairs to be approved is not clear.*
- *Burdensome paperwork.*

*Limitations*
- *Cost should be weighted more depending on amount of long-time tenants vs. new tenants.*
- *Limits keep us from performing some upgrades.*
- *Very small amount of money could be charged to tenant.*
- *Horrible program. Virtually nothing is allowed. Staff was terrible to work with.*
- *I was insulted at hearings, they disallowed major bathroom flooring replacement and major electrical and plumbing. Unjust, biased, very bad system: water heaters not covered and seismic code enforcement is very bad.* [Note: these improvements are allowed]

*Arbitrary*
- *I have had both good experiences and bad. Depends on person reviewing the application.*
- *Arbitrary denial.*

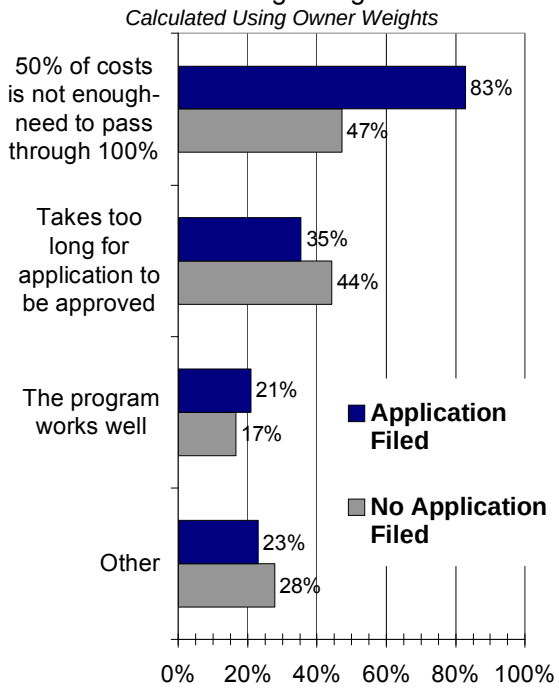
*Other*
- *The process maximizes conflict between leaser and lessee.*
- *System does not work.*

survey that they have not applied for approval to pass costs on to tenants (Figure 3-13).

Five percent said that they had applied for the program, and 8 percent were unsure whether they had applied. Owners of 40 or more units were the most likely to have applied, but even within this group, only 23 percent reported using the program.

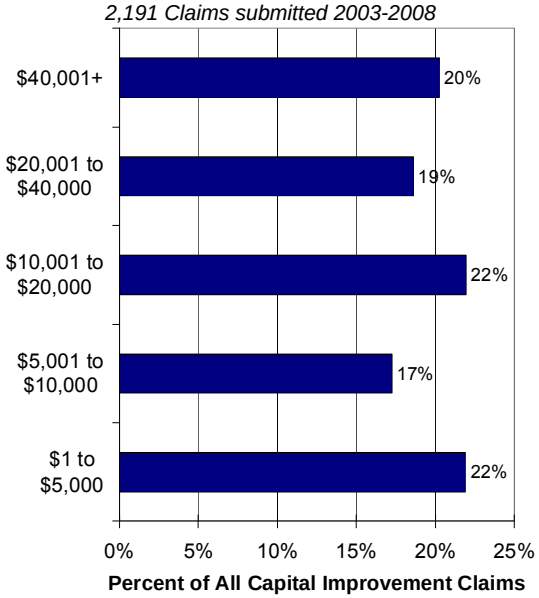
An examination of administrative records for the program shows an even smaller percent of owners applying for the program. Out of the 86,174 unduplicated owners of RSO properties, 1,129 owners filed a total of 2,191 completed applications from January 2003 to April 2008, to pass through capital improvement costs to their tenants. This means that **only 1.3 percent of RSO owners applied to pass through capital improvement costs to their tenants.**

Figure 3-14
Owner's Assessment of Capital Improvement Passthrough Program
*Calculated Using Owner Weights*




Of the 307 survey respondents who reported on their first hand experiences with the capital improvement passthrough program, 111 show up in Housing Department administrative records as having submitted completed applications. This makes it possible to compare the assessments of owners who have considered but not used the program with the assessments of owners who have been through the process from beginning to end. This comparison is shown in Figure 3-14.

Figure 3-15
Dollar Value of Capital Improvement Claims
*2,191 Claims submitted 2003-2008*




*Source: City of Los Angeles Housing Department*

**The most widely expressed concern, which was also heard in owner focus groups, is that a larger share of the cost for maintaining the basic infrastructure of rent-stabilized housing needs to be shared by tenants.** Owners said:

- Passing through half of costs is not enough (83 percent of applicants, 47 percent of non-applicants)
- Takes too long for approval (35 percent of applicants, 44 percent of non-applicants)
- Program works well (21 percent of applicants, 17 percent of non-applicants)
- Other comment (*see Text Box 3-1*)

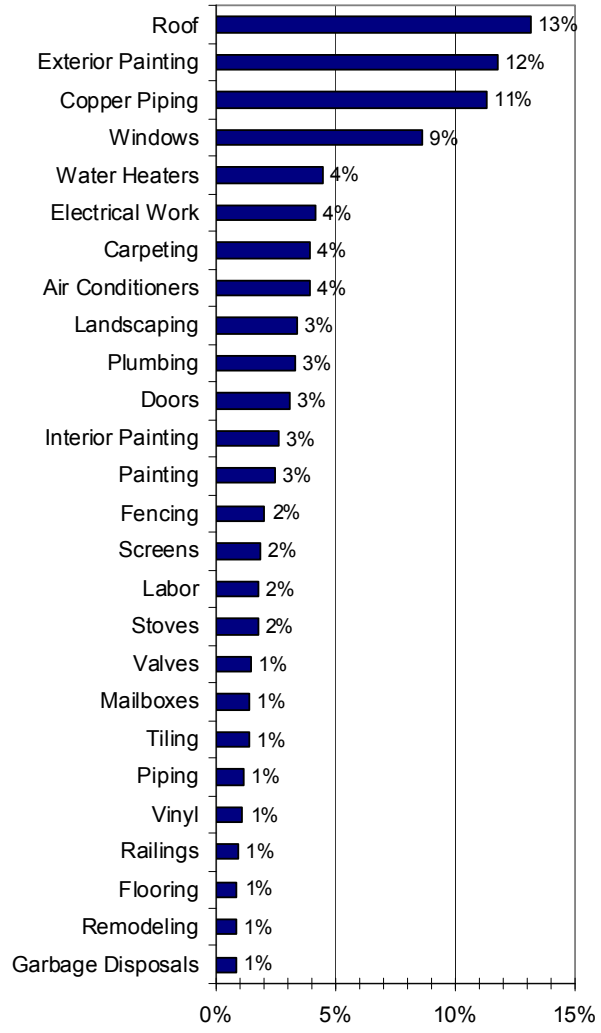
Many applications to pass through capital improvement costs are for comparatively modest amounts of money, as shown in Figure 3-15. Two-fifths of applications are for $10,000 or less.

Only one-fifth are for more than $40,000. The average monthly rent increase for approved claims is also comparatively modest –averaging $18.73 a month.

Actions taken by the Housing Department on capital improvement claims are shown in Figure 3-16.[21] The overall profile of outcomes is:

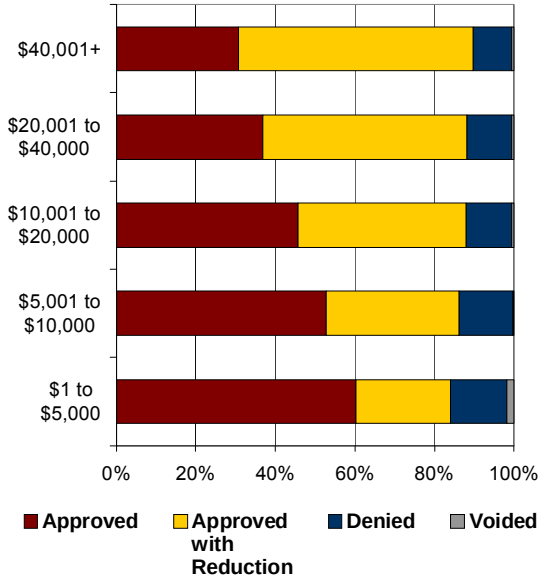
- Approved 45%
- Approved with Reduction 42%
- Denied 12%
- Voided 1%

Figure 3-17
Most Frequent Uses of Capital Improvement Funds




*Source: Housing Department, City of Los Angeles, Capital Improvement pass-through records*

Figure 3-16
Outcomes for Capital Improvement Claims
*2,191 Claims submitted 2003-2008*




*Source: City of Los Angeles Housing Department*

Eighty-seven percent of applications are approved, about half of these for a reduced amount and half for the full amount claimed. The approval rate for the full amount claimed goes up to 60 percent for applications of $5,000 or less.

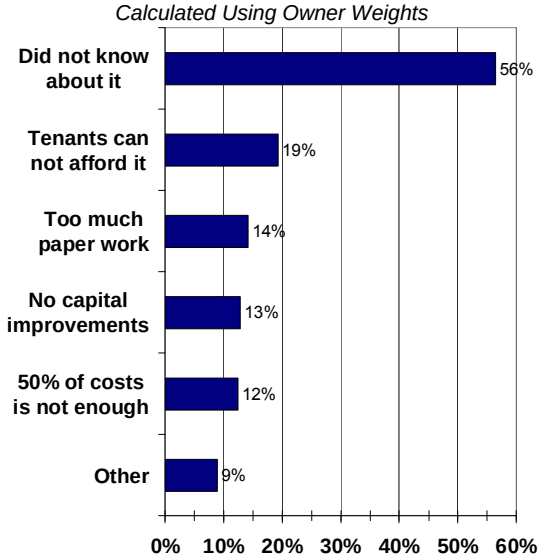
The total of all 2,191 claims submitted from January 2003 through April 2008, in 2007 dollars, is $87,909,245. The total amount approved for passthrough to tenants, at 1,469 properties, is $62,326,732.[22]

The four most frequent uses of capital improvement funds are roofs, exterior painting, copper piping and windows, as shown in Figure 3-17. These four items account for 45 percent of all claims.

Owners who answered "No" they had not applied for the passthrough program were asked the reason why they had not used it to help pay for their capital improvement costs. **Fifty-six percent of those who had not applied said that they had not heard of the program** (Figure 3-18). In rank order, reasons given for not using the program were:

- Did not know about it 56%
- Tenants can not afford it 19%
- Too much paper work 14%
- No capital improvements 13%
- 50% of costs not enough 12%
- Other *(see Text Box 3-2)* 9%

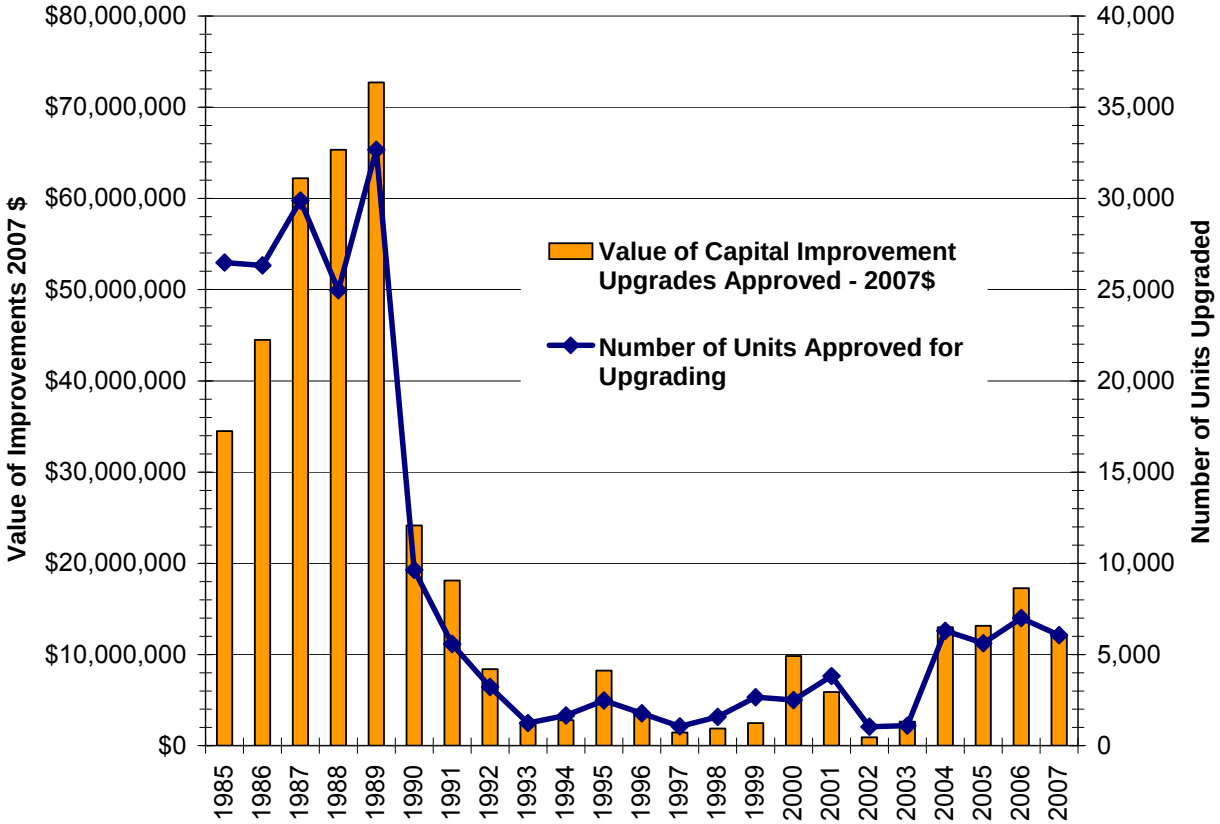
Figure 3-18
Reason for Not Using Capital Improvement Passthrough Program
*Calculated Using Owner Weights*




*Capital Improvement Passthrough Applications*

Prior to 1989, owners were allowed to pass through 100 percent of capital improvement costs to tenants. During the first 5 years of the program, from 1985 to 1989, passthrough investments totaling $279,258,580 (in 2007 dollars) were approved for 140,345 RSO units. In 1989, this provision was changed to limit the passthrough to only 60 percent of the approved capital

Figure 3-19
Capital Improvement Passthrough Applications Approved 1985-2007




*Source: Data for 1985 to 2002 from David Paul Rosen & Associates, Analysis of the City of Los Angeles Rent Stabilization Ordinance Major Rehabilitation Program, Table 14, page 21; Data 2003-2008 from City of Los Angeles Housing Department*

improvement cost. This had the effect of dramatically reducing the level of applications for this program, and quite possibly the level of capital improvement investment in the RSO inventory, as can be seen in Figure 3-19.[23] In the following 18 years of the program, after the passthrough amount was reduced, investments totaling $148,064,835 (in 2007 dollars) were approved for 64,310 units.

**During the 5 years when the passthrough amount was 100 percent, the amount of investment was 189 percent greater and the number of units upgraded 218 percent greater than in the following 18 years when the passthrough amount was reduced to 50 percent.**

*Focus Group Suggestions*

The need to make capital improvements in the RSO inventory and to increase utilization of the capital improvement passthrough program was discussed at all 14 pre- and post-survey focus groups. Noteworthy recommendations include:

- *This program works okay and is not too complicated. But the 50 percent passthrough is not enough due to inflated, rising costs.*
- *Capital improvements are very important for maintaining older RSO properties. This is the essential infrastructure for a safe and livable building.*
- *Newer tenants within 10 percent of market are living in renovated units, but older tenants who are 30 percent or more below market are living in unimproved units. The allowable increase (e.g., 10 percent cap on $400/month = $40) is not enough for a major improvement. It is a disincentive to upgrade plumbing or electrical systems.* [Note: this comment applies to the Primary Renovation Program rather than the Capital Improvement Passthrough Program]
- *Costly processes such as removal of older lead-based paint should be covered at a rate higher than 50 percent.* [Note: lead paint removal would be done under the Primary Renovation Program, not the Capital Improvement program.

Text Box 3-2

Why haven't you used the passthrough option to help pay for your capital improvements?

*Open-ended responses from owners who did **not** use the program*

*Complicated Process*

- *Afraid of the process. Time consuming with City of L.A.*
- *People I have talked to said it [would get] denied because I'm a general contractor and have my employees do the work. I would have to use outside contractors to be approved.*
- *Didn't want to deal with the City of LA.*
- *Been told most applicants do not get approved.*
- *Too burdensome.*
- *Had no reasonable expectation that it would be worth the effort.*
- *I hate government involvement in my business - them telling me what to do, what papers to fill out how much my rents can be, how much my time is worth.*

*Limitations*

- *Not enough capital improvement to justify pass-through.*
- *Definition of capital improvements is too narrow. Too time consuming to get approval and bookkeeping is a nightmare to make.* [Note: All permanent improvements are eligible]

*Rent*

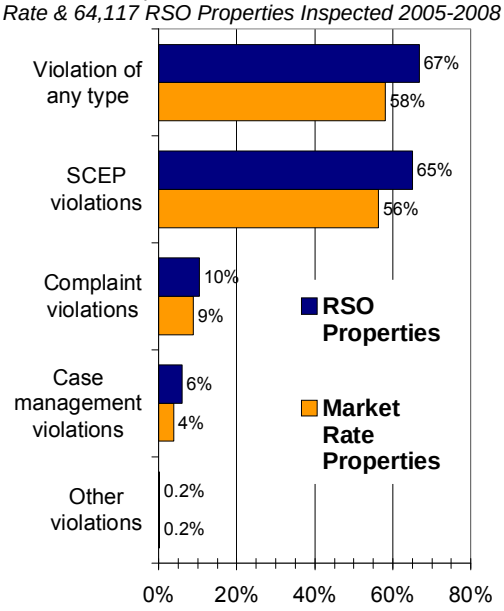
- *Some tenants can't afford it, but would use it for capital improvements to some units.*
- *My rents are so low that I cannot afford improvements.*
- *Don't have enough rent to cover expenses with licensed contractors and have to get most of the work done other ways.*
- *Didn't want to hammer my tenants like the City hammers me!*

*Unaware or First-time*

- *Plan to - not sure about process though.*
- *Found out about the program too late.*
- *Will try for first time this year.*
- *Will apply, work is just done.*

- *The City itself should invest money in RSO rental buildings. That would improve the living conditions for tenants, and the City is the primary stakeholder in that goal.*
- *This program has a different value for a property with just a few units, versus a very large building. A $38 per month rent increase allowance through the Capital Improvements Program is not enough to cover a $250,000 roof replacement on a large building. The scale of costs is much larger on a larger building.* [Note: The costs are spread over more tenants in larger properties; passthrough revenue is proportional to property size.]
- *The lengthy time it takes to complete a passthrough on a smaller building is not justified. The owner doesn't have the time to wait for the process to be approved, and by the time the passthrough is completed, more maintenance work has already been carried out.*
- *The City needs to do more to communicate with owners about the availability of this program.*

Figure 3-20
LA City Properties with SCEP Cases
*Percent of Properties with Violations - 6,959 Market Rate & 64,117 RSO Properties Inspected 2005-2008*

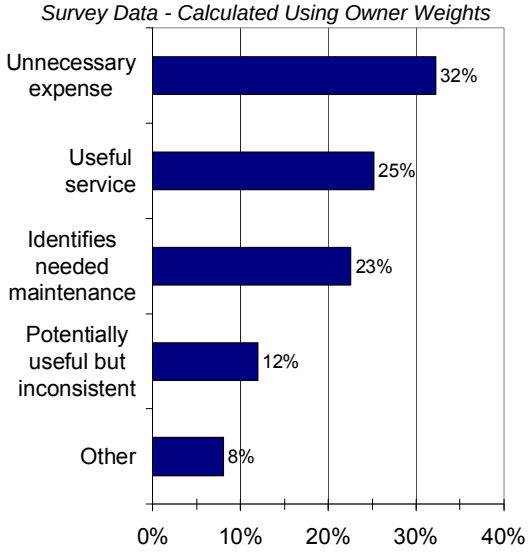



*Source: City of Los Angeles Housing Department*

## Systematic Code Enforcement Program (SCEP)

The Systematic Code Enforcement Program (SCEP) routinely inspects all residential rental properties with two or more housing units on a four-year cycle and responds to reports of property violations. Inspections are conducted by Los Angeles Housing Department inspectors to ensure the safety and habitability of all occupied rental dwelling units. The purpose is to promote sound and wholesome dwelling units, buildings and neighborhoods.

Figure 3-21
Experience with SCEP Inspection Program
*Survey Data - Calculated Using Owner Weights*




Properties that do not meet the minimum City and State building code standards are issued a written notice describing the violations. For most violations, property owners must abate all substandard conditions within 30 days. Soon after the compliance date specified on the notice, a second inspection is performed to verify that corrective work has been completed.

Any person may report Housing Code violations within a residential rental unit or surrounding common areas without waiting for a regularly scheduled inspection. There is no fee for reporting a violation and tenants may not be evicted or harassed by landlords for reporting a violation.

The SCEP program is supported by a $35.52 per unit annual assessment on all property owners of residential rental properties with two or more units. The annual assessment, which can be passed on to tenants, covers the initial visit and one re-inspection visit. If additional re-inspections are needed to eliminate code violations, the owner is charged $169 per visit.

From April 2005 through June 2008 (the interval for which information from the current SCEP database is available), 860,113 violations were identified at 46,033 of the 71,076 properties that had been inspected in this second citywide SCEP inspection cycle. Of the properties inspected through June 2008, **67 percent of the City's RSO properties and 58 percent of market-rate properties were found to have code violations that required correction** (Figure 3-20).

Investigations by SCEP inspectors originate in two ways: regularly scheduled quadrennial inspections and complaints, usually from tenants. A single property can have multiple violations that originate from different sources. The 71,076 properties with that were inspected in cycle 2 are classified as having had the following types of cases over the past three years, with multiple types of cases for some properties:

Text Box 3-3

How would you describe your experience with the Housing Department's inspection of your rental units (the SCEP program)?

*Open-ended survey responses from owners*

*Useful*

- *Useful, previous inspections are used to enforce tenant responsibilities with respect to the rental agreement.*
- *My places are always well maintained and without violations, but the inspectors were always courteous.*
- *An unfortunate necessity as there are many bad landlords who are devoid of ethics.*
- *A necessary program for some owners not as necessary for others.*

*Inconsistent and Arbitrary*

- *The program is administered inconsistently from one inspector to the next. While the program could be helpful, it tends to be administered with little concern for the specific situation. As a result, the program functions more as a tenants' rights advocacy than an objective evaluation geared to the property in question.*
- *Inconsistent from inspector to inspector making it hard to know what is expected.*
- *Mixed-mostly, a waste of time - my buildings are very well maintained and always pass easily, but it's a nightmare when an inspector is unfair.*
- *Inspectors (some) are knowledgeable and respectful and others believe we live in a police state and that the landlord is the "devil". Inspector call out the most minor items that most likely exist even in their own homes or offices.*

*Tenant Accountability*

- *Inspectors are nice, but the SCEP program is useless and it only provides loopholes to problem tenants.*
- *Ridiculous. No concept that tenant created problems.*
- *Unfair process that has great potential of abuse of tenants who have found a successful method to not pay rent.*
- *Tenants never cited; owner is responsible for tenants' negligence.*
- *Inspectors should also penalize tenants for damage.*
- *Not fair to have to repair damage caused by tenant.*
- *You don't make it clear as to how our tenants can be cited.*
- *In one word-Terrible. All this program does is allow tenants the ability to get anything they want. I've had tenants rip up carpet and break sinks and counters so they could have new ones. And your inspectors sided with the tenants!!!*
- *Potentially useful, but is far too biased toward the tenant with no accountability on the tenants part.*
- *There are still many slum landlords and yet they spend time inspecting high-end units.*

- SCEP violations 64%
- Complaint violations 10%
- SCEP case management violations 6%
- Other violations 0.2%

**An important determinant of the likelihood of code violations is the age of a property**. Statistical tests suggest that the age of a property explains about one-quarter of the variation in rates of violations among Community Planning Areas, but that about three-quarters of the variation is attributable to other factors.[24]

Focus group participants demonstrated strong interest in discussing the SCEP program, and their views included respect for many of the inspectors who carry out the program as well as a frequently expressed desire for greater consistency on inspection outcomes. **Comments by owners suggest that the preferable approach to strengthening the program is by replicating the best practices of the most knowledgeable and judicious inspectors.**

Owners were asked, " How would you describe your experience with the Housing Department's inspection of your rental units (the SCEP program)? N**early half of owners (48 percent) said that the SCEP program was either "very helpful for identifying needed maintenance," or "a useful service"** (Figure 3-21).

Another 12 percent were ambivalent about SCEP, saying that it is "a potentially useful program that is administered inconsistently." One-third (32 percent) said that SCEP is "an unnecessary expense for property owners."

There are three informative fracture lines within this overall profile of views toward SCEP:

- Owners of properties built 1967 or later are 2.5 times more likely than owners of properties built 1966 or earlier to say that SCEP is an "unnecessary expense."
- Owners of properties built 1960 or earlier are 3.6 times more likely than owners of properties built 1961 or later to say that SCEP is "very helpful for identifying needed maintenance."
- Owners of 10 or less units are 3.1 times more likely than owners of 11 or more units to say that SCEP is "very helpful for identifying needed maintenance."

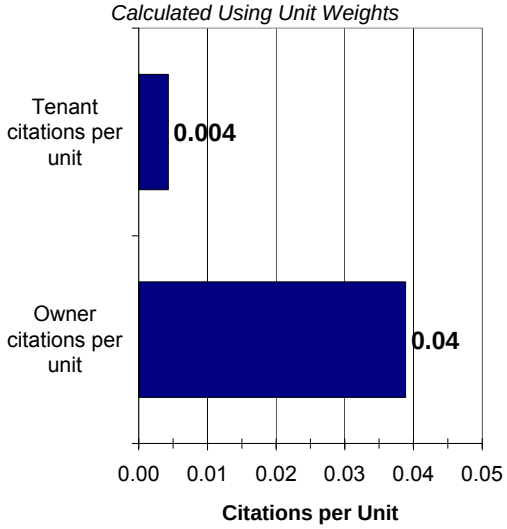
**Owners of older, smaller properties tend to experience SCEP as a useful source of technical assistance for maintaining their properties. Owners of newer, larger properties tend to experience SCEP as an unnecessary intrusion into the management of their properties.**

Owners were asked how many times they had been cited as a result of SCEP inspections as well as how many times their tenants had been cited. These questions were added to the survey because of frequent focus group comments that tenants were not held sufficiently accountable for code violations that they caused in their rental units.

The information provided by RSO owners about the number of units they own as well as the number of times that they and their tenants have been cited for violations suggests that RSO owners receive ten times as many SCEP citations as RSO tenants (Figure 3-22).

*Focus Group Comments*

Figure 3-22
Ratio of Citations to Inspected Units
*Calculated Using Unit Weights*




The inspection program was discussed at all 7 post-survey focus groups. Noteworthy comments include:

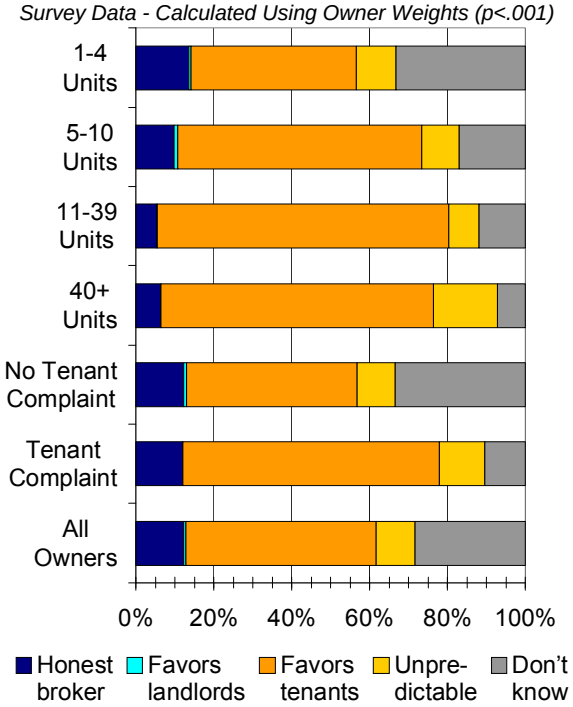
- *HUD gives you a list of inspection items for Section 8 rentals – SCEP should have a similar list of written expectations*
- *Some inspectors are good.*
- *Guidelines for inspectors are needed. There is a lot of variability in the quality of inspectors.*
- *Need more consistency – three inspectors will say three different things.*
- *Some inspectors feel like they have to find something to cite to justify their existence.*
- *How does LAHD determine who is responsible for causing a code violation? Code inspectors are too subjective.*
- *SCEP needs to cite tenants more often.*
- *There needs to be a way to prevent nuisance tenants from complaining.*
- *The owner should be able to complain about the tenant to SCEP.*
- *Tenants should be accountable for:*
    - *Smoke alarms and screens damaged since occupancy*
    - *Household maintenance*
    - *Mold caused by failure to open windows*
    - *Cockroaches*
    - *Holes in interior walls*
    - *Breaking counters and sinks*
    - *Prohibited pets*
    - *Wasting water – leaving tap running all day*
- *Tenants who make false complaints should be tracked.*
- *Tenants should pay for false complaints.*
- *Tenant complaints should be monitored so that the same tenant does not repeatedly get away with making unwarranted complaints.*
- *Some tenants don't want inspectors in their apartments.*
- *The SCEP fees to the City for inspections are absurd. Why fractions of a dollar? The city should come up with fees that are easily divided by 12 (months) so that owners can pass them on in a reasonable manner.*

**The two most frequently expressed concerns are the need for more consistency in how inspections are conducted and the need for greater tenant accountability for code violations they cause.**

Housing Department inspection staff point out that owners are legally responsible for building code compliance and that tenants can only be cited for violations of health and

sanitation codes. This legal obstacle merits further study. **To fairly balance the interests of tenants and landlords, it is reasonable to consider holding tenants directly accountable for correcting problems they have caused when they are identified through SCEP inspections.**

Figure 3-23
How would you describe the way the Housing Department balances landlord-tenant interests?
*Survey Data - Calculated Using Owner Weights (p<.001)*



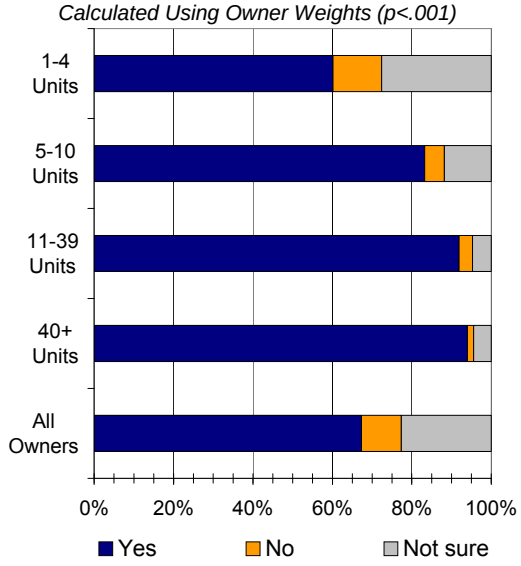

## Views of the RSO Program

### *Objectivity*

Owners were asked, "How would you describe the way the Housing Department balances the interests of landlords and tenants?" The responses are shown in Figure 3-23.[25] Ten percent of owners describe the Housing Department as an honest broker, 1 percent say that it favored landlords, 49 percent say it favors tenants, 10 percent say that it is unpredictable, and 28 percent say they didn't know. As ownership size increases, fewer owners say they don't know how to answer this question and more owners say there is a bias toward tenants.

The records for slightly over half of survey respondents show that a tenant has filed a complaint against them with the Housing Department for violating the Rent Stabilization Ordinance.[26] This is much more likely to have been the case with large owners; 9 out of 10 owners with 40 or more units have had a tenant complaint while only 1 out of 5 owners of 4 or less units has had a tenant complaint. Among owners that have experienced a tenant complaint, 66 percent say that the Department favors tenants, compared to 44 percent among owners who have not experienced a tenant complaint.

Figure 3-24
Is there anything you would like to change about the RSO program?
*Calculated Using Owner Weights (p<.001)*




### *Changing the RSO Program*

Owners were asked, "Is there anything that you would like to change about Los Angeles' rent control program?" Two-thirds of owners say they would like to see the program changed, as shown in Figure 3-24.[27] Interest in changing the program

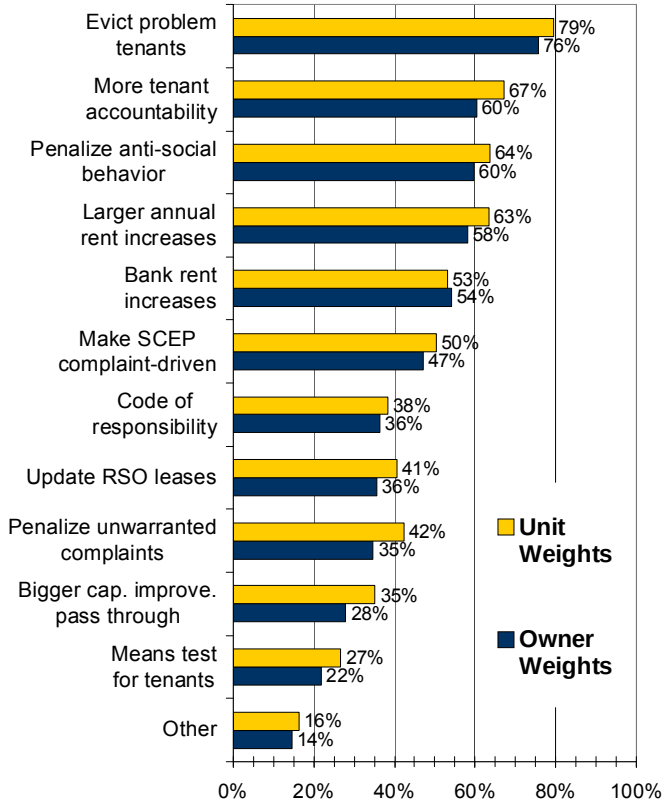
increases with ownership size, with 94 percent of owners with 40 or more units wanting changes.

Owners were then asked, "What do you think are the most important things to change in the rent control program?" The responses, shown in Figure 3-25, were calculated using both owner weights, which reflect the preponderance of small owners, and unit weights, which represent the total RSO inventory and are heavily influenced by large owners. Both tell similar stories.

The three most widely proposed changes, advocated by two-thirds or more of owners, involve relations with problematic tenants: making it easier to evict anti-social tenants, increasing the level of tenant accountability for things that should be their responsibility, and penalizing tenants for destructive, anti-social behavior.

The fourth and fifth most frequently proposed changes address owner finances and are advocated by two-

Figure 3-25
What are the most important things to change in the RSO program?
*Calculated with Both Owner and Unit Weights*




Text Box 3-4
What are the most important things to change in the rent control program?
*Open-ended survey responses by owners*

*Tenant Accountability*

- *Don't act as tenant advocates, cite them for their violations, help landlords evict criminal tenants with City Attorney lawyers, cite tenants who run businesses, especially food preparation, for sanitation violations. Cite tenants who remove smoke detectors.*
- *Do not charge owner for complaint inspection unless the tenant can prove they have informed the owner and the owner did not take care of the problem. Do not listen to the complaint unless the owner knows. The owner must have the right to correct!*
- *Have tenants pay for water, this will force tenants to save water. Right now, they don't care because they don't pay.*
- *Plumbing costs such as clogging a toilet should be paid by tenant if it is their fault.*

*Share Responsibility*

- *Rent control is fundamentally unfair as applied. Only older building owners are affected, which gives an incentive to tear down our history, sometimes the wonderful old cottages. Rent control should apply to all. Also, because the agency makes it economically difficult to renovate, rent controlled owners have no incentive to preserve and improve the older units.*
- *The City should assist people who need [affordable housing] and the cost should be borne by all - not just those who invest in LA City.*
- *I have a gang member tenant that I cannot evict. I have tenants with 6-7 people in a single $1200 single family unit that I cannot evict. Landlord should be able to evict tenants that create problems of any kind.*

*Text Box 3-4 continued*

*Eviction of Problem Tenants*

- *We have a problem tenant and it is almost impossible to evict him. The other tenants are very cooperative and helpful.*
- *Problem tenants often know that it is very hard for a landlord to evict them, especially when other tenants are needed to testify about them in court which many tenant witnesses are afraid to do, so the problem tenants*
- *continue their anti-social, disruptive, psychotic behavior often with impunity. This is especially true of drug users/dealers.*
- *Make it easier to evict tenants dealing or taking illegal drugs. As it stands now this is really hard to do under the RSO.*

*Measure Needs*

- *Means testing should be standard. It's ridiculous that I drive a Honda and my tenants drive a BMW and get more protection.*
- *Rent control should only be available for tenants that can show the financial need for such a program and it should be reviewed annually.*

*Eliminate*

- *Eliminate rent control - it is onerous, unfair and does not work. Older buildings cannot be properly maintained under rent control- but older buildings cost the most to maintain. A catch-22!*
- *Rent control should end. Section 8 program is enough. The rest of the country and state is just fine without it.*

*Other*

- *A) Be consistent on inspections - don't skip. B) Set up complaint system on abusive housing employees. C) Stop cooperative efforts with non-city agencies. They always have an agenda that is not impartial.*
- *Several owners take advantage of non-English speaking tenants. They raise rents more than is allowed.*
- *Allow the landlord to increase rent to market values when tenants stay for extremely long tenancy, because the annual rental increase allowable does not keep up with inflation!*
- *Allow landlord to limit amount of people per unit originally rent to 3 people. Even though they pay 10% more per person, 7 people living in a 2 bedroom 1 bathroom apartment is excessive wear and tear on entire unit.*
- *Rent control perpetuates a greater disequilibrium between the level of rents for controlled units and units rented at market level. The entire principle upon which the rent control ordinance is based creates and perpetuates disparity between the interests of owners and renters.*

thirds to half of owners: allowing larger annual rent increases, and "banking" rent increases, that is, allowing owners who do not increase rents by the allowable annual amount in a given year to make this increase in a future year.

The sixth through eighth most frequently proposed changes are advocated by half to two-fifths of owners: changing the property inspection program (SCEP) to a complaint-driven program rather than a routine inspection of all residential rental units, adopting a Code of Responsibility that defines what is expected of both landlords and tenants, and allowing owners to update the leases of rent-stabilized tenants to reflect changes in law or changes in management policies for buildings.

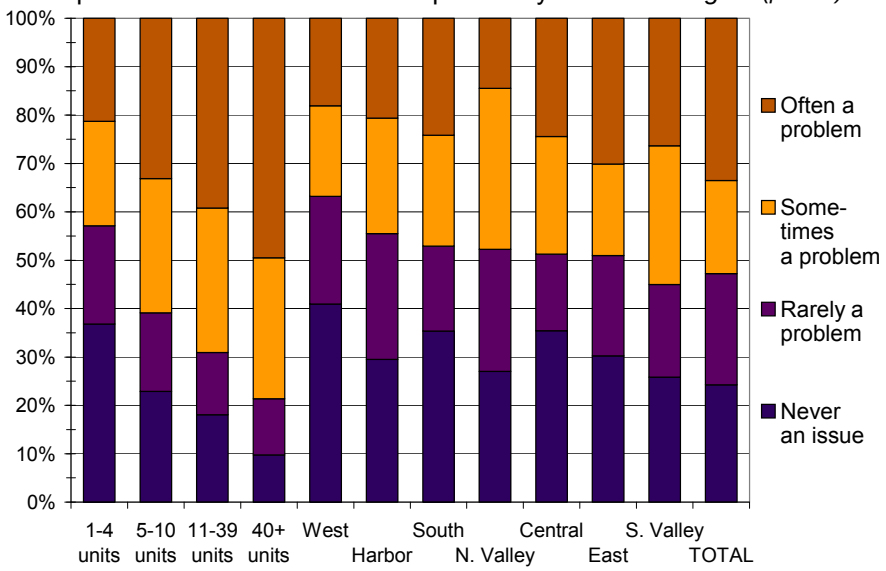
The ninth most frequently proposed change, advocated by slightly over a third of owners, is to penalize tenants who make repeated unwarranted complaints to the Housing Department.

The tenth most frequently proposed change, advocated by a third of owners, is to increase the share of costs that tenants pay for capital improvements.

The eleventh most frequently proposed change, advocated by a quarter of owners, is a means test for RSO tenants, that is, limiting occupancy of rent-stabilized units to tenants who cannot afford market-rate units.

Fifteen percent of owners wrote in their own suggestions for changing the RSO, which are shown in Text Box 3-4.

Figure 3-26
Experience with Holding Tenants Accountable for Maintenance and Repairs that should be Their Responsibility - *Owner Weights (p<.001)*



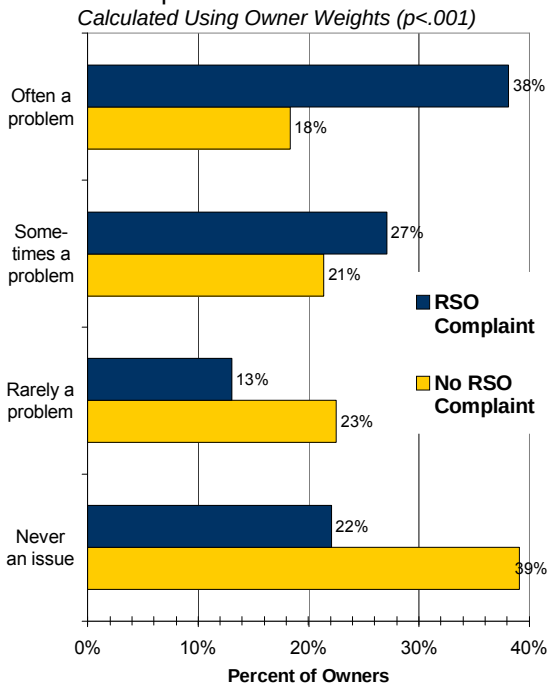

## OWNER-TENANT RELATIONS

### Tenant Accountability

Owners were asked, "How would you describe your experience with holding tenants in rent-stabilized units accountable for maintenance and repairs that should be their responsibility?" Responses are almost evenly divided: 48 percent say this is never or rarely a problem; 53 percent say it is sometimes or often a problem. The frequency with which owners report problems in holding tenants accountable varies by ownership size as well as by geography, as shown in Figure 3-26.[28] **Owners of 1 to 4 units report fewer problems with tenant accountability – they were 3 times more likely than owners of 5 or more units to report that holding tenants accountable for maintenance was never an issue.**[29] Only 10 percent of owners of 40 or more units say that tenant accountability is never a problem.

One possible explanation for why owners of 1 to 4 units report less difficulty with tenants than larger-scale owners is that there may be more personal interaction between small owners and their tenants, making it more likely that irresponsible behavior will be noticed and

Figure 3-27
Owners' Views about Tenant Accountability and Complaints about RSO Violations
*Calculated Using Owner Weights (p<.001)*

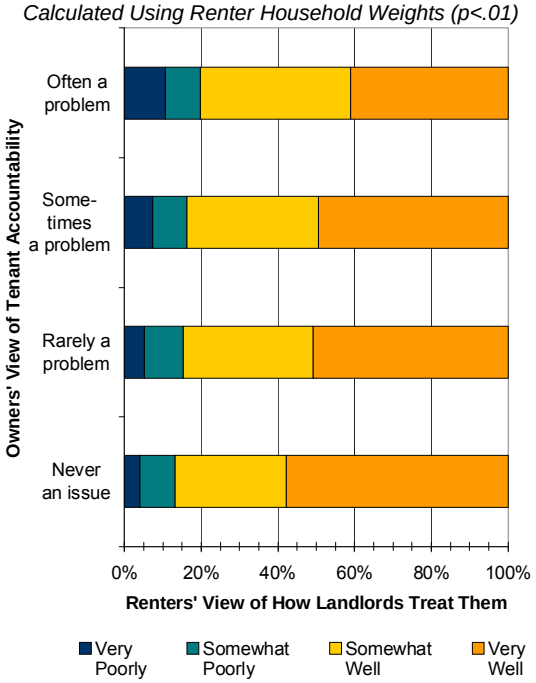


remarked upon. Another explanation is that the likelihood of having an irresponsible tenant increases as property size increases.

Owners in the West Los Angeles region reported the fewest problems with tenant accountability and owners in the South San Fernando Valley reported the most problems. The percent of owners reporting that tenant accountability was rarely or never a problem was:

- West Los Angeles 64%
- Harbor 56%
- South Los Angeles 54%
- North Valley 53%
- Central Los Angeles 52%
- East Los Angeles 51%
- South Valley 45%

Figure 3-28
Owners' Views on Tenant Accountability and Renters Views on Treatment by Landlord
*Calculated Using Renter Household Weights (p<.01)*




*Owners and Tenants Views of Each Other*

When we combine owners' views about tenant accountability with information about whether there has been a tenant complaint against the owner for violation rent-control regulations, we see that negative perceptions tend to be a two-way street (Figure 3-27).[30] **Owners who say that tenant accountability is often a problem are nearly twice as likely to have had a complaint filed against them for failure to comply with Rent Stabilization Ordinance regulations as owners who say that this is never an issue** (38 percent vs. 22 percent).

A similar pattern is seen when we pull in data from the renter survey and match tenants with landlords (Figure 3-28).[31] The survey of renters asked, "How would you describe the way the owner or manager of your building treats tenants? **Owners that said tenant accountability was often a problem were three times more likely than owners who said it was never an issue to have tenants who said they were treated very poorly by their landlord** (11 percent vs. 4 percent). And owners who said that tenant accountability was never an issue were 41 percent more likely than landlords who said it was often a problem to have tenants who said that their landlord treated them very well (58 vs. 41 percent).

**It appears that negative attitudes are often reciprocal between owners and tenants. Owners who have more positive views about their tenants appear, in turn, to be viewed more positively by their tenants.**

**Tenant Reliability in Paying Rent**

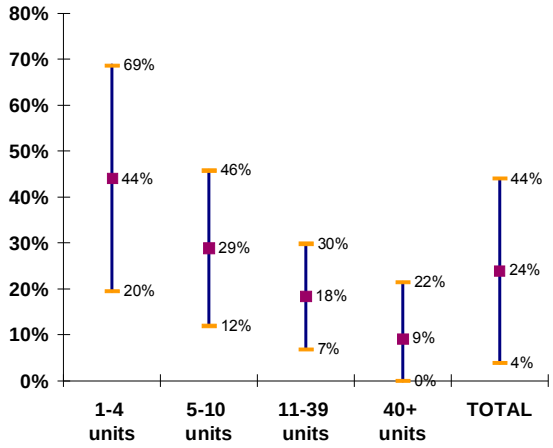
Once the new tenant has signed a lease and been approved to move in, the owner discovers whether he or she pays their rent on time. Owners were asked how many tenants in

rent-stabilized units are delinquent in paying their rent in a typical month.[32] The number of delinquent tenants was divided by the number of units owned to calculate the percent of tenants who are delinquent in their rent each month (Figure 3-29). **When we look at data for owners of 1 to 4 units, we see that each month an astounding 44 percent of tenants fail to pay their rent on time. The rate of delinquency goes down as ownership size increases**, with owners of 40 or more units reporting an average of 6 percent late payments per month. This indicates that large owners are much more businesslike about collecting rents on time.

The percent of tenants that owners say fail to pay their rent on time each month, by ownership size group is:

- 1 to 4 units 44%
- 5 to 10 units 22%
- 11 to 39 units 13%
- 40 or more units 6%
- All owners 24%

Figure 3-29
Average percentage of delinquent rents in a typical month by ownership size
*Calculated Using Unit Weights (p<.001)*




*Note: The bars represent about 68% of the data (one standard deviation). The mid-point represents the average percentage of tenants delinquent in their rents by size class.*

In Figure 3-29 we also show the *standard deviation* for rent delinquencies in each ownership group, which is a measure of how spread out the data is. The standard deviation is represented in the graph by the bar that extends up and down from the average delinquency rate for each group of owners – it shows the range of outcomes covered by approximately two-thirds of the data. In the case of small owners (1 to 4 units), the range of monthly delinquency rates that is encompassed by a standard deviation extends all the way from 20 to 69 percent. The data is very dispersed, showing much variation among small owners in collecting rent in a timely manner. The range of variation in delinquency rates shrinks for larger owners. For owners of 40 or more units, a standard deviation includes delinquency rates from 0 to 22 percent. It is also noteworthy that the highest rates of rent delinquencies are reported by those who have owned RSO properties for more than 10 years.[33]

Owners who also have properties that are not under rent stabilization were asked a follow-up question: "Is this more or less delinquency than for your rental units that are not under rent control?"[34] The responses were:

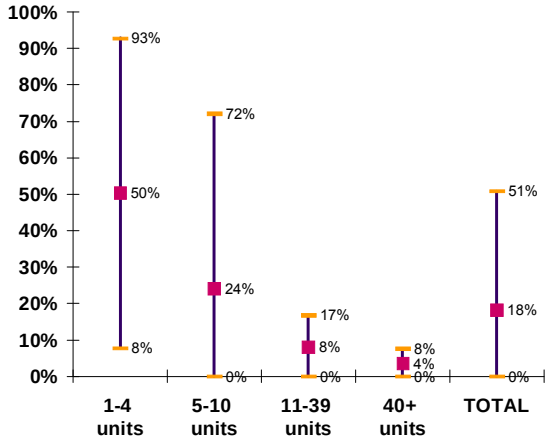
- More 24%
- The same 45%
- Less 24%

This suggests that there is not a difference between RSO and non-RSO properties in the rate of rent payment delinquencies.

## Evictions

Owners were asked, "In the past two years, how many times have tenant eviction procedures for delinquent rent payments been started at rent-stabilized units?" Only thirty-nine percent of the sample responded to the question.

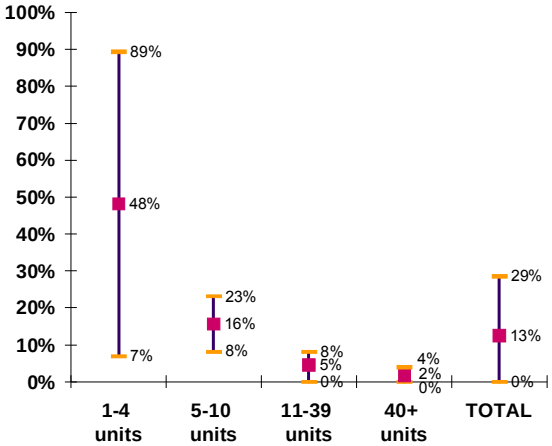
Figure 3-30
Tenant Evictions for Delinquent Rent in the Past Two Years as a Percent of Number of Units Owned
*Calculated Using Unit Weights (p<.001)*




**The high rent delinquency rates reported by owners of 1 to 4 units appear to be accompanied by high eviction rates; over the course of two years, evictions are reported for 48 percent of their units**, with a large standard deviation that encompasses rates as lows as 7 and as high as 89 percent (Figure 3-30). Eviction rates for delinquent rent, and the range of variation in those rates, drop dramatically as ownership size increases. The average rate for owners of 5 to 10 units is 16 percent, for owners of 11 to 39 units it is 5 percent, and for owners of 40 or more units it is 2 percent. For all owners it is 18 percent.

Eviction procedures may also be filed for tenants' behavior towards other tenants, the building and their units. In these cases, owners may initiate eviction procedures for undesirable "nuisance" or disruptive behavior.[35] Only 27 percent of owners responded to this question, and they report slightly lower rates of initiating eviction procedures for disruptive behavior than for rent delinquencies (Figure 3-31). On average, owners of 1 to 4 units report that over the course of two years, evictions for disruptive behavior are initiated for 50 percent of their units, with a very large standard deviation that extends from 8 percent to 93 percent. Eviction rates for disruptive behavior, and the range of variation rates in those rates, drop dramatically as ownership size increases. The average rate for owners of 5 to 10 units is 24 percent, for owners of 11 to 39 units it is 8 percent, and for owners of 40 or more units it is 4 percent. For all owners it is 13 percent

Figure 3-31
Tenant Eviction Procedures for Disruptive Behavior in the Past Two Years as a Percent of Number of Units Owned
*Calculated Using Unit Weights (p<.001)*




**Evictions for rent delinquency are highly correlated with evictions for disruptive behavior, that is, the owners that are filing for evictions for rent delinquency are the same as those that are filing evictions for disruptive behavior.**

The fact that many owners did not respond to the questions about evictions and that a few owners report very high rates of evictions raises the question of whether only a subset of owners undertake evictions. We explored this question by analyzing "declarations of intent to evict" that

owners have filed with the Housing Department's Rent Stabilization program over the past decade, as shown in Table 3-2. What we see is that **93 percent of owners have never filed a declaration of intent to evict with the Housing Department, and 3 percent of owners account for 60 percent of all declared evictions.**

Where are the properties held by owners with a high propensity to evict located? The geographic distribution of all RSO properties, all RSO evictions, and evictions by the subset of landlords with a high propensity to file a declaration of intent to evict tenants (declarations of intent filed for 50 percent or more of tenants) are shown in Table 3-3. What we see is that **declarations of intent to evict are over-concentrated in West Los Angeles (eviction rate 223 percent of the City average), South Valley (eviction rate 175 percent of the City average), and Central Los Angeles (eviction rage 139 percent of the City average)**. We also see that the geographic distribution of the 3 percent of property owners with a high propensity to evict tenants, who account for most evictions, follows the overall geographic distribution of evictions. **Evictions appear to be concentrated in the areas of the City where rents are highest.**

Owners are required to file a declaration of intent to evict with the Housing Department when they evict tenants from RSO properties

Table 3-2

Owners of RSO Properties Broken Out by the Percent of Their Units for which Declarations of Intent to Evict Have been Filed

| Units with Evictions from 1998 to 2008 as a Percent of All RSO Units Owned | Number of Owners | Percent of RSO Owners | Number of RSO Units with Evictions | Percent of All Evictions |
|---|---|---|---|---|
| 0% | 79,971 | 93% | 0 | 0% |
| .05%-9.9% | 832 | 1% | 1,884 | 12% |
| 10%-19.9% | 672 | 1% | 1,204 | 8% |
| 20%-29.9% | 1,015 | 1% | 1,586 | 10% |
| 30%-39.9% | 703 | 1% | 1,110 | 7% |
| 40%-49.9% | 98 | 0% | 371 | 2% |
| 50%-100% | 2,952 | 3% | 9,258 | 60% |
| TOTAL | 86,243 | 100% | 15,413 | 100% |

*Source: Housing Department, City of Los Angeles, 10,851 declarations of intent to evict received September 24, 1998 to March 28, 2008*

Table 3-3

Geographic Distribution of Declarations of Intent to Evict

| Area Planning Commission | Percent of All RSO Properties | Percent of All RSO Declarations | Eviction Index: Values >1 = Over Concentration | Percent of All Declarations by Owners Evicting 50%+ of Units |
|---|---|---|---|---|
| North Valley | 4% | 2% | 0.56 | 2% |
| South Valley | 9% | 16% | 1.75 | 16% |
| Western | 10% | 23% | 2.23 | 26% |
| Central | 21% | 30% | 1.39 | 28% |
| East | 18% | 13% | 0.71 | 12% |
| South | 32% | 14% | 0.45 | 13% |
| Harbor | 6% | 3% | 0.48 | 3% |

*Source: Housing Department, City of Los Angeles, 10,851 declarations of intent to evict received September 24, 1998 to March 28, 2008*

Table 3-4

Reports in Owner Survey of Evictions for Disruptive Behavior and Filings of Declarations of Intent to Evict with the City of Los Angeles Housing Department

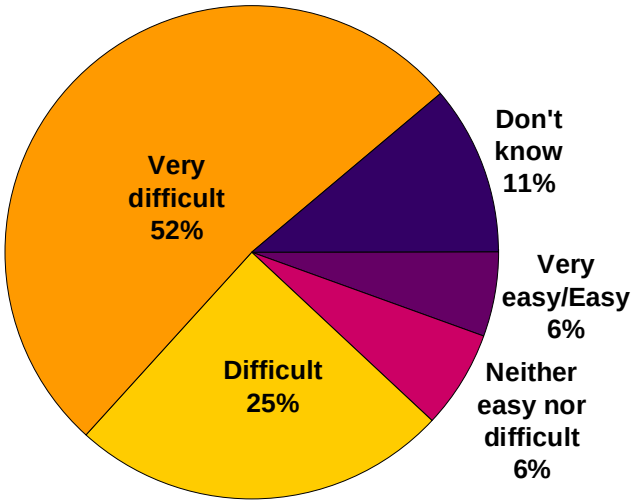
*Unweighted Count of Survey Responses and LAHD Records*
*Percents Shown in Table Add up to 100%*

| | Notice of Intent to Evict Filed with LAHD 2006 to 2008 | |
|---|---|---|
| Evictions for Disruptive Behavior in Past 2 Years Reported in Survey | No Eviction Notice Filed | Eviction Notice Filed |
| No Response to Survey Question | 70.4% | 3.0% |
| No Evictions Reported | 0.3% | 0.0% |
| Evictions Reported | 24.6% | 1.7% |

*Source: Economic Roundtable Owner Survey and Housing Department, City of Los Angeles, landlord declaration records*

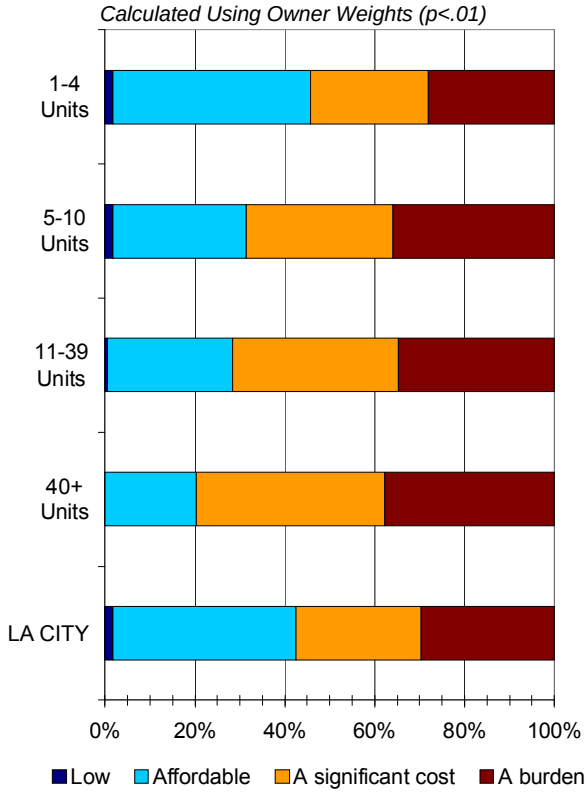
for nuisance behavior that involves allegations of illegal drug activity. These Housing Department records of landlord filings of declarations of intent to evict RSO tenants were integrated with owners' responses to the survey question asking if they had initiated procedures to evict tenants for disruptive behavior in the past two years. The results are shown in Table 3-4. Of the 26 percent of owners who reported in the survey that they had evicted tenants for disruptive behavior in the past two years (bottom row total in Table 3-4), less than one-in-fifteen filed a declaration of intent to evict with the Housing Department from January 2006 through March 2008.[36]

Figure 3-32
Legal Requirements to Evict for Disruptive Behavior
*Calculated Using Owner Weights*




Many owners said in focus groups that it is much more difficult to evict tenants for disruptive behavior than for rent delinquency**. Owners often stated that the RSO makes it more difficult to evict disruptive tenants; it should be noted that the RSO does not restrict such evictions**. Participants in both renter and owner focus groups commented on the destabilizing effect that anti-social tenants have on the living environment in apartment buildings. Both renters and owners said that even though corroborating evidence is needed to win this type of eviction case in court, it is difficult for tenants to testify against their neighbors in order to provide the needed evidence, making it difficult to win these cases. To gauge the scope of this issue, owners were asked, "How would you describe the legal requirements for evicting tenants from rent-stabilized units for undesirable or disruptive behavior?" In total, **77 percent of owners reported that evicting disruptive tenants is difficult or very difficult** (Figure 3-32).

Figure 3-33
Views about Annual Rental Unit and SCEP Fees
*Calculated Using Owner Weights (p<.01)*




## Tenant Costs

### *RSO and SCEP Fees*

Owners were asked, "How would you describe the annual rental unit fee (this year it is $18.71 per unit for registration and $35.52

for SCEP) that the Housing Department charges?" As shown in Figure 3-33,[37] citywide responses were:

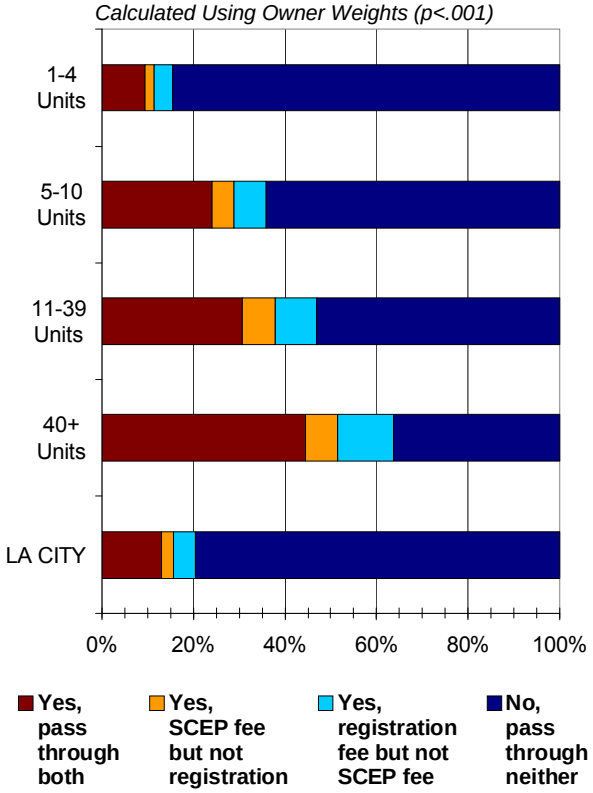
- Low 2%
- Affordable 41%
- A significant cost 28%
- A burden 30%

Small owners are much more likely than large owners to say that these costs are affordable – this is the most frequent response of owners of 1 to 4 units. Large owners are more likely to say that the costs are significant or a burden. The most frequent response of owners of 40 or more units is that these costs are significant.

*Passing Fees on to Tenants*

The survey questionnaire explained that Los Angeles allows owners to pass half of the $18.71 registration fee and the entire $35.52 SCEP program fee to tenants and then asked,

Figure 3-34
Do you pass on rental unit fees to tenants?
*Calculated Using Owner Weights (p<.001)*

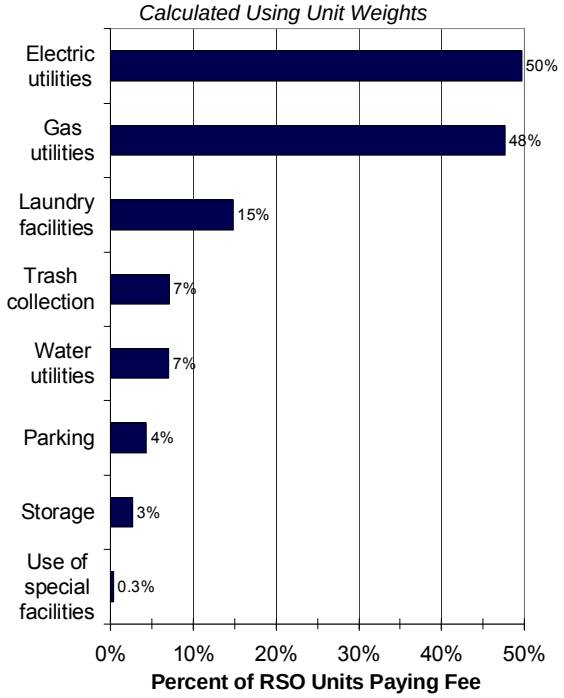



"Do you pass these costs on to your tenants?" **Citywide, four-fifths of owners do not pass either fee on to tenants**:

- Yes, pass through both 13%
- Yes, SCEP fee but not registration 3%
- Yes, registration fee but not SCEP fee 5%
- No, pass through neither 80%

Among owners of 1 to 4 units, 85 percent do not pass through either fee. Among owners of 40 or more units, 45 percent pass through both fees (Figure 3-34[38]). If only one fee is passed through, it is more likely to be for the RSO registration rather than for SCEP.

Figure 3-35
Additional Costs Paid by Tenants
*Calculated Using Unit Weights*




*Services for which Tenants Pay Additional Costs*

**Tenants in 63 percent of RSO units pay additional costs for specific utilities or services.** The prevalence of additional fees is

consistent across all sizes of properties and regions of the City. The percent of units that pay additional fees for different types of utilities and services is shown in Figure 3-35.

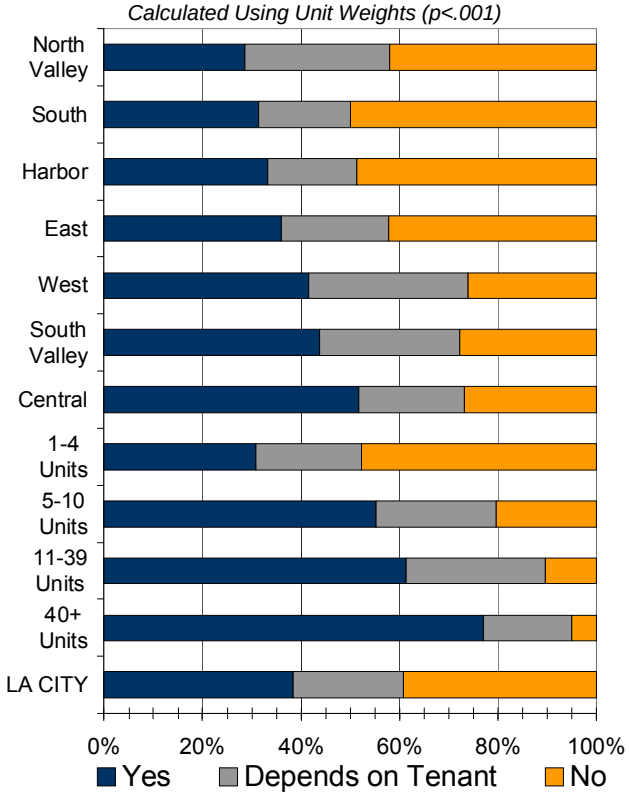
Electric and gas utilities are the most frequent additional fees, paid by roughly half of tenants. Fifteen percent pay for use of laundry facilities, 7 percent each pay for trash and water utilities, 4 percent pay for parking, 3 percent for storage, and 0.3 percent for use of special facilities.

It is noteworthy that when compared to renter responses (Chapter 2), owners under-report the share of tenants who pay their own utility costs.[39]

*Annual Rent Increases*

Owners were asked, "Do you usually increase rents by the annual amount allowed under LA's rent control program?" Their responses are shown in Figure 3-36[40] and are generally similar to responses provided by tenants in the renter survey (Chapter 2).[41]

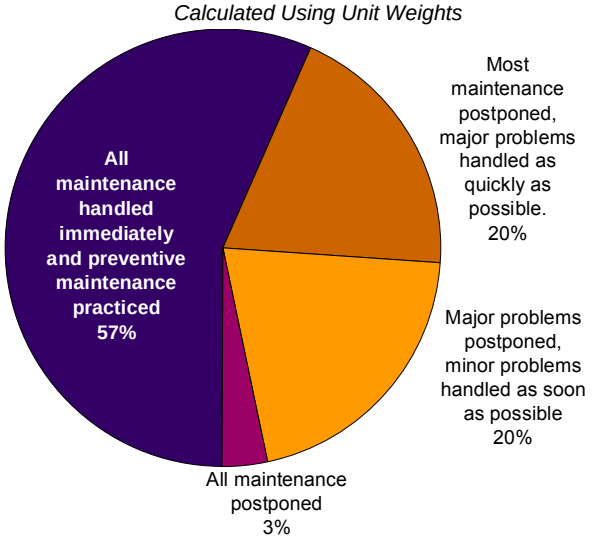
Figure 3-36
Do you usually increase rents by the annual amount allowed under LA's rent control program?
*Calculated Using Unit Weights (p<.001)*




**Small owners are much less likely to increase their rents than large property owners – rents are increased annually for tenants at 31 percent of properties with 1 to 4 units, compared to 77 percent who can expect annual increases at properties with 40 or more units.** This demonstrates the different perspectives of small and large property owners, with large owners being much more likely to manage their properties as a business.

**The likelihood of annual rent increases also varies by region of the City. Rents are raised annually at 52 percent of RSO properties in the Central region of the City compared to only 31 percent of properties in South Los Angeles 29 percent of properties in the North San Fernando Valley.**

Figure 3-37
What level of maintenance are you able to provide with the income from rent-controlled property?
*Calculated Using Unit Weights*

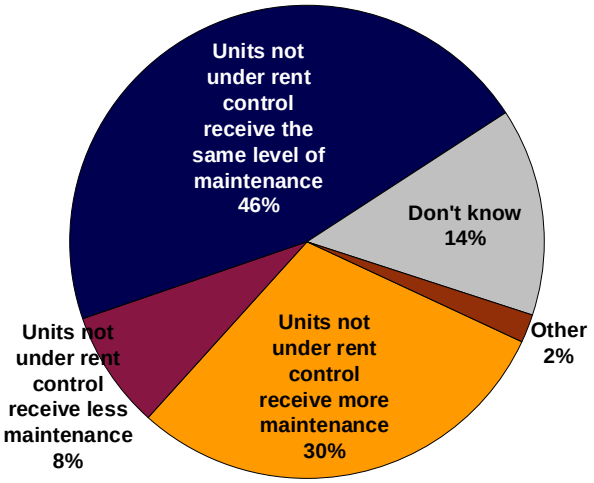


## FINANCIAL OUTCOMES

### Property Maintenance

In pre-survey focus groups, many owners cited the problem of maintaining their units. The survey followed up on this by asking, "What level of maintenance are you able to provide with the income from rent-stabilized property?" **Fifty-seven percent of owners say that all maintenance is handled immediately and preventive maintenance is practiced** (Figure 3-37). There is little difference in the ability of owners to maintain their properties based on ownership size class. The standards of maintenance reported for Los Angeles' inventory of RSO housing are:

Figure 3-38
How does this compare to the level of maintenance for your rental units that are not under rent control?
*Calculated Using Unit Weights*




- All maintenance handled immediately and preventive maintenance practiced 57%
- Most maintenance postponed, major problems handled as quickly as possible 20%
- Major problems postponed, minor problems handled as soon as possible 20%
- All maintenance postponed 3%

Owners that also have properties that are not under rent stabilization were asked a follow-up question: "How does this compare to the level of maintenance for your rental units that are not under rent control?" The response provided by owners (shown in Figure 3-38) are as follows:

- Units not under rent control receive the same level of maintenance 46%
- Units not under rent control receive more maintenance 30%

Table 3-5
What were the reasons for acquiring rent-controlled units?
*More than one reason allowed (p<.001)*

| Number units owned | As a resi-dence | Income from rent | Long-term capital gains | Tax shelter | Retire-ment security | Future security for family | Acquired before RSO enacted | Did not know about RSO | Inherited property | To provide affordable housing |
|---|---|---|---|---|---|---|---|---|---|---|
| *Owner weighting* | | | | | | | | | | |
| **1-4** | 43% | 30% | 16% | 8% | 33% | 25% | 25% | 30% | 9% | 7% |
| **5-10** | 23% | 38% | 32% | 10% | 45% | 28% | 33% | 26% | 12% | 8% |
| **11-39** | 5% | 53% | 39% | 14% | 49% | 33% | 23% | 17% | 5% | 7% |
| **40+** | 22% | 37% | 29% | 10% | 27% | 28% | 31% | 23% | 15% | 7% |
| **Total** | 36% | 33% | 21% | 8% | 36% | 26% | 36% | 33% | 21% | 8% |
| *Unit weighting* | | | | | | | | | | |
| **1-4** | 42% | 32% | 17% | 8% | 34% | 25% | 26% | 29% | 9% | 7% |
| **5-10** | 20% | 39% | 30% | 10% | 46% | 31% | 29% | 24% | 13% | 8% |
| **11-39** | 6% | 55% | 37% | 14% | 46% | 31% | 32% | 20% | 6% | 10% |
| **40+** | 6% | 63% | 46% | 16% | 37% | 35% | 30% | 11% | 6% | 15% |
| **Total** | 25% | 42% | 28% | 11% | 40% | 29% | 28% | 24% | 9% | 9% |

- Units not under rent control
  Receive less maintenance 8%
- Other 2%
- Don't know 14%

If we exclude the 2 percent who answered "other" and the 14 percent who answered "don't know," **two-thirds of RSO units are reported by owners to be maintained at a level that is as good as, or better than, units that are not under rent control, and one-third are reported to have a lower level of maintenance.**

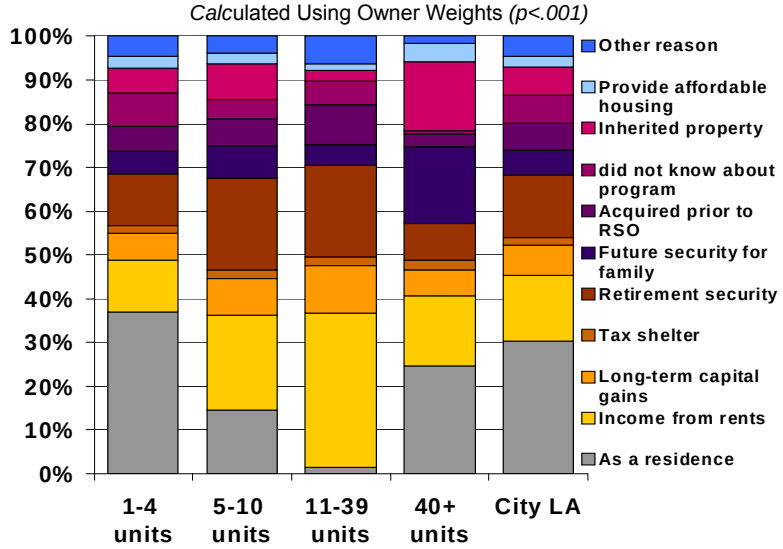
## Reasons why Owners Acquired RSO Properties

Owners were asked to identify the reasons why they acquired rent-stabilized properties. The reasons they provided units vary by the number of units that they own.[42] The most frequently stated reasons are:

- *Income from residential rents* for owners of 11 to 39 units (53 percent) and owners of 40 or more units (37 percent).
- *Retirement security* for owners of 5 to 10 units.
- *As a residence for self or family members* for owners of 1 to 4 units

A complete breakout of reasons provided by owners is shown in Table 3-5.[43] Owners of 11 to 39 units selected all reasons that are related to income and finances more frequently than any

Figure 3-39
Primary Reason why Owners Acquired Rent-Controlled Property
*Calculated Using Owner Weights (p<.001)*




Text Box 3-5
Other reasons for acquiring RSO property

*Lower Cost*
- *Low property price*
- *The property was cheap and a foreclosure*
- *Big mistake, bought them because they were affordable; more expensive in the long run since they don't appreciate as much and there are too many problems and fees involved in owning these units*
- *Good opportunity to purchase at a decent price*

*Provide Quality Housing*
- *Will do a better job of keep up the property than the previous owner*
- *Provide good housing and learning centers for our tenants*
- *Good owners change the complexion of a community and it takes money*

*Investment*
- *Long term development, demolish and build condos*
- *Personal investment – first home purchase*
- *1031 exchange*
- *It came with two other non-rent controlled units*
- *Bad real estate advice*
- *Never would try to purchase rent control units; it is a major negative*

*Unintentional*
- *Most apartments are under rent control in LA, and I live in LA*
- *Adjacent to my commercial property*
- *Realtor never said it was rent controlled*

other group. When they bought the property, owners of 1 to 4 units were more likely than owners of 5 or more units not to know that it was under rent stabilization.[44]

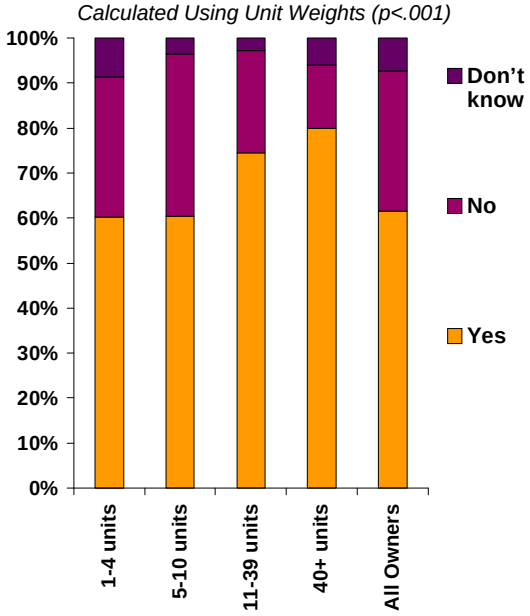
A follow-on question asked owners to identify a single primary reason for acquiring rent-stabilized property. Forty-four percent acquired their properties as some form of investment and income (Figure 3-39). Thirty percent of respondents acquired their units as a residence. A total of **19 percent of owners "fell into" the RSO rental housing market** by: inheriting the property (6 percent), acquiring their property prior to the enactment of the RSO (7 percent), or simply because they did not know their property was under rent stabilization when they purchased it (6 percent).[45] Three percent of owners acquired their units to provide affordable housing for their communities. Five percent cited other reasons for acquiring their units (Text Box 3-5).

As ownership size increases, the share of owners who purchased RSO properties as a business investment increases, and the share that purchased the property as a personal residence decreases. Looked at from the perspective of the rental inventory (i.e., using unit weights), properties held by owners of 1 to 4 units are more likely than properties with 5 or more units to have been acquired as a personal residence.[46] Changing perspectives and looking at the response patterns of owners as individuals (i.e., using owner weights), a surprising 22 percent of owners of 40 or more units report that they purchased their property as a residence for themselves or family members.

Looking at motivations overall for acquiring RSO properties, the most frequently reported reasons relate to income - 44 percent of owners reported goals related to profit. Comments in owner focus groups included:

- *The reasons are fluid. I'm investing for income but I'm also trying to build or make something.*
- *Income and equity growth make money.*
- *If you're going to stay in LA, RSO is most of what there is to buy.*
- *The perspective of owners changes dramatically from the time they first purchase rental property in LA. They endure a lot of frustration with inspections and paperwork under the RSO. If they knew then what they know now, many would not have bought their properties.*
- *If you bought in the past 5 years, the financials are upside down.*
- *Bought 10 years ago. It was a huge amount of work to get up to code. Just starting to have a positive cash flow.*
- *Real estate brokers are listing the ages of the tenants on the building profile for RSO properties. Older tenants with shorter life expectancy make the property more valuable.*

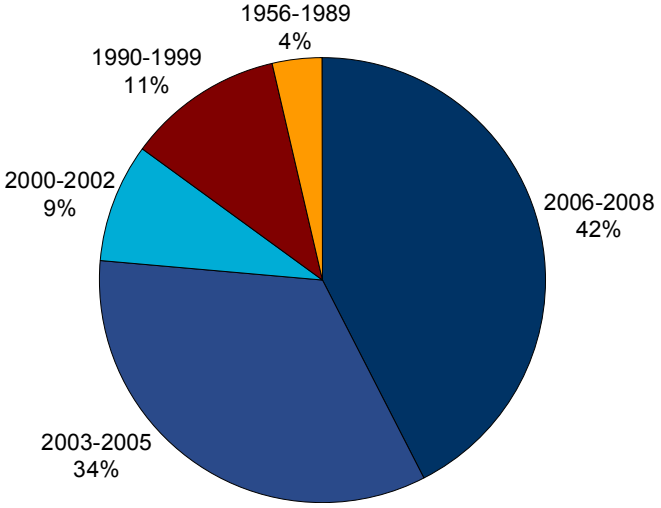
Figure 3-40
Debt on the Rent-Stabilized Inventory
*Calculated Using Unit Weights (p<.001)*



## Debt on Rent-Stabilized Property

Owners were asked, "Is there a mortgage, equity line of credit, or similar debt on your rent-stabilized property?" **Sixty-five percent of the rent-stabilized housing inventory is encumbered by debt**, as shown in Figure 3-40.[47] **The rate of debt-burdened property increases as property size increases** – from a low of 60 percent for properties with 1 to 4 units, to 80 percent for properties with 40 or more units.

Figure 3-41
Year when Debt on Property was Assumed
*Owner Survey Respondents, Calculated Using Unit Weights*

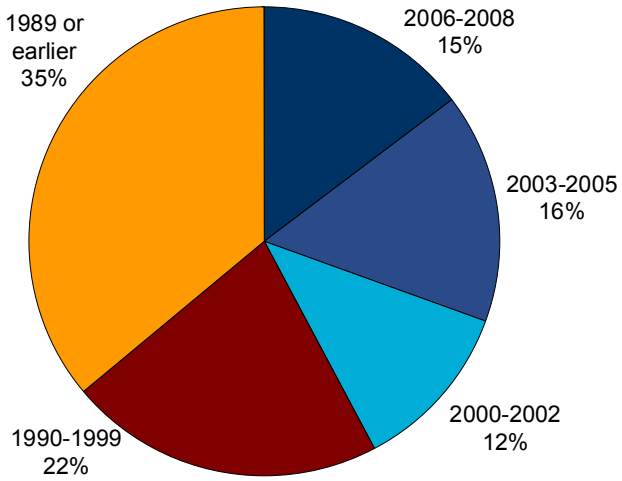



The follow-up question for owners with debt on their property was, "What was the most recent year in which this property was mortgaged or refinanced?" There was little difference by ownership size in the year when debt was assumed. The distribution of all units owned by survey respondents by the year debt was incurred is shown in Figure 3-41. **Eight-five percent of the units with a debt burden were financed between 2000 and early 2008.** When we consider that only 65 percent of units are encumbered by debt, this means that 55 percent[48] of all RSO units have debt incurred in 2000 or later. This is the interval when financing has often created debt burdens that exceed rental income by substantial margins, as discussed in Chapters 4 and 6.

By linking Assessor's sales data to the total RSO inventory, we are able to see how much of this debt is associated with property purchases (Figure 3-42) and how much is the result of refinancing.

What we see is that **43 percent of units in the RSO inventory have been purchased since 2000, suggesting that 12 percent of the RSO inventory is burdened by debt that is the result of refinancing rather than purchase**.

Figure 3-42
Year when Properties were Purchased
*Total Units in RSO Inventory, Assessor's Land Reappraisal Date*



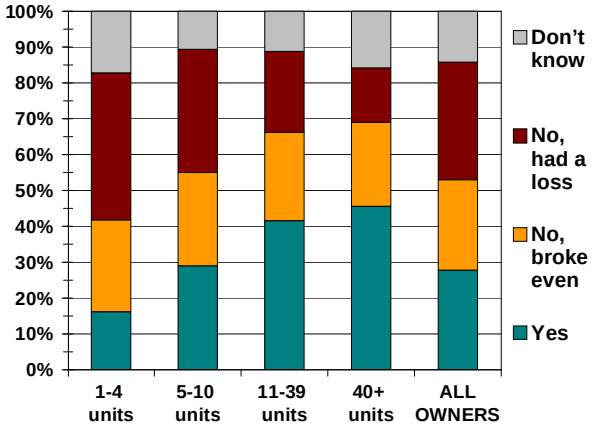

## Profit and Reasonable Return on Investment

### *Profit*

Owners were asked, "Did your rent-stabilized units make a profit last year?" Responses are shown in Figure 3-43.[49] Using unit weights to reflect the total RSO inventory, the distribution of answers about profit is:

- Yes 28%
- No, broke even 25%
- No, had a loss 33%
- Don't know 14%

Figure 3-43
Did you make a profit last year?
*Calculated Using Unit Weights (p<.001)*




If we remove the owners who said they did not know if they made a profit, the outcomes reported for RSO properties are that almost two-thirds of units produced a profit or broke even and slightly over a third had a loss (yes, made a profit: 33 percent; broke even: 29 percent; no, had a loss: 38 percent).

The likelihood of reporting a profit increases along with ownership size. Owners of 1 to 4 units are more likely to report a loss in operating their rental properties than owners of 5 or more units.[50] Additionally, owners of 1 to 4 units are more likely to report that they aren't sure if they made a profit in the past year than owners of 5 or more units.[51]

A follow-up question asked owners who had units that are not under rent stabilization, "Is this more or less profit than from your units that are not under rent control?" A total of 826 owners responded to both questions, creating a sample that was tilted toward larger owners (Table 3-6).[52] The distribution of answers about whether non-RSO units are more or less profitable than RSO units is:

- More 31%
- Less 28%
- The same 15%
- Don't know 26%

Less than a third of owners answered that their properties that are not under rent control are more profitable than their properties that are rent control.

Table 3-6
Profit Comparison for RSO and Non-RSO Units
*Calculated Using Owner Weights*
*(p<0.001)*

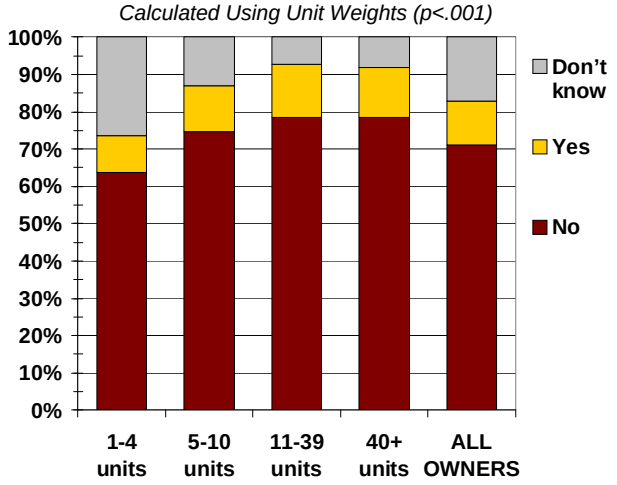
| Is this more or less profit than from your units that are not under rent control? | Did your rent-controlled units make a profit last year? Yes | No, broke even | No, had a loss | Don't know or not sure | Total |
|---|---|---|---|---|---|
| More | 5% | 11% | 13% | 2% | 31% |
| Less | 7% | 6% | 15% | 1% | 28% |
| The same | 6% | 4% | 3% | 1% | 15% |
| Don't know | 2% | 6% | 7% | 10% | 26% |
| Total | 20% | 27% | 39% | 14% | 100% |

*Reasonable Return on Investment*

RSO Owners are permitted to increase the rent annually by a pre-determined percentage. The percentage is based on the annual change in the Consumer Price Index for the Los Angeles region.[53] In the pre-survey focus groups, some owners voiced frustration about the difficulty of maintaining their units and also making a profit under the revenue ceiling resulting from allowable rent increases. In one focus group an owner said, "rent increases do not cover operating cost increases for older buildings… [we] are reluctant to pay the cost of capital improvements and [instead] only do what [we] have to."

The survey asked, "Does the allowable yearly rent increase for rent-stabilized units enable you to get a reasonable return on the investment in your property?" **Owners representing over 70 percent of the RSO inventory report that they do not get a reasonable return** (Figure 3-44).[54] The major difference in responses among ownership size groups is the percent that say they do not know the answer to this question. The share of owners who do not know if they made a profit decreases as ownership size increases, from 26 percent for owners of 1 to 4 units to 8 percent of owners of 40 or more units.[55] There are no significant differences in responses to this question across regions that are not accounted for by differences in ownership size.[56]

Figure 3-44
Do you get a reasonable return from rent increases?
*Calculated Using Unit Weights (p<.001)*



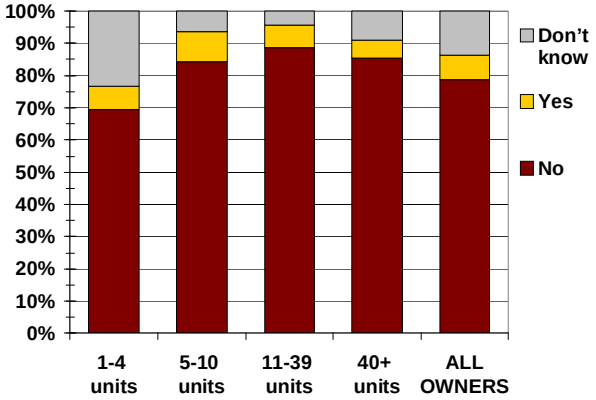

A follow-up question asked owners, "Have rent increases kept up with increases in operating costs?" **Owners representing over three quarters of the RSO inventory say that rent increases do not keep up with operating costs** (Figure 3-45).[57] The pattern of responses is similar to the previous question about obtaining a reasonable return on investments in RSO properties.[58] The major variation is in the level of uncertainty among different ownership size groups. Most notably, 24 percent of owners of 1 to 4 units do not know if rent increases keep up with operating costs.

The level of uncertainty about return on investments and operation costs reported by owners of 1 to 4 reinforces the conclusion discussed earlier that many small owners are managing their units without knowing the full costs of and returns from their properties.

*Applications for Just and Reasonable Rent Increases*

The Rent Stabilization Ordinance allows owners to apply for a "just and reasonable" rent increase if they have "incurred reasonable operating expenses which have exceeded the rent increases allowed by the Ordinance"[59] This relief mechanism is based on the assumption that the owner received a reasonable return on the property before rent stabilization was enacted and calls for the owner to present financial records that show net operating income in both the base year, 1977, and the current year. If data for 1977 is not available, a more recent year can be used as the base year.[60]

Figure 3-45
Have rent increases kept up with increasing Operating Costs?
*Calculated Using Unit Weights (p<.001)*




From 1998 through 2007, an average of 13 applications a year were submitted to the

Housing Department for Just and Reasonable rent increases. There has been some increase in applications in recent years, with an average of 36 applications a year submitted in 2006 and 2007. From February 2001 through June 2008, 139 applications were acted upon by the Housing Department, with rent increases recommended for 62 applicants. The average amount of *requested* increases was $195 per month per unit; the median amount was $152. The average amount of *approved* increases was $135 per month per unit; the median amount was $126.

Anecdotal information from property owners indicates that it is very difficult to produce base year information for operating costs in 1977. The small number of applications that have been submitted – representing one-tenth of one percent of rent-stabilized properties – appears disproportionately small compared to the 77 percent of owners reporting that rent increases have not kept up with increases in operating costs.

**Factors Associated with Reporting a Profit or a Loss**

Information from the owner survey was used to create a predictive model to answer the question: "Who makes a profit under rent control?" The model is based on a logistic regression algorithm that estimates the probability of an owner reporting a profit.[61] Unit weighting was used in order to reflect survey respondents' shares of RSO housing in the City of Los Angeles. Only owners who gave yes or no answers about whether they made a profit were included in the model.[62] In addition, owners who did not know if they had debt or did not know if the yearly rent increases provide a reasonable return were excluded. The owner characteristics used as predictors, which are shown in Table 3-7, include:

- Number of units owned
- Year when they purchased RSO properties[63]
- Whether or not they currently have debt on the property
- Their annual rent increase practices
- The level of property maintenance that they provide
- Whether they report that they have received a reasonable return on their investment
- The level of rent delinquency among their tenants

Potential reasons why owners acquired RSO properties were also included as predictors. These include:

- As a residence for self or family members
- For income
- To provide affordable housing
- For long-term capital gains, or tax shelter
- As retirement security
- As future security for family
- The property was acquired before rent control, or by inheritance
- Did not know much about the rent control program
- The share of owners with each predictive attribute who reported a profit is shown in Table 3-7, along with the odds ratio for reporting a profit in comparison to a reference group of owners.[64] Owners of more units appear better able to offset operating costs,

Table 3-7

Probability that Owners Will Report a Profit on Their Rent-Controlled Property

*Sample of 958 Owners who Answered All Questions Used in Model; Calculated Using Unit Weights*

| Variables | | Number of Respondents # | Number of Respondents % | RSO Owners with Profit # | RSO Owners with Profit % | RSO Owners with No Profit # | RSO Owners with No Profit % | Odds of Reporting Profit |
|---|---|---|---|---|---|---|---|---|
| **Did your rent-controlled units make a profit?** | | | | | | | | |
| **28a** | Yes | **432** | **47%** | **432** | | **-** | | **-** |
| **c** | No, had a loss | **487** | **53%** | **-** | | **487** | | **-** |
| **Number of units owned** | | | | | | | | |
| **4** | 1 to 4 units | 349 | 38% | 100 | 29% | 249 | 71% | ref |
| | 5 to 10 units | 178 | 19% | 74 | 42% | 105 | 59% | 1.86 |
| | 11 to 39 units | 150 | 16% | 87 | 58% | 63 | 42% | **3.23** |
| | 40+ units | 241 | 26% | 171 | 71% | 70 | 29% | **7.4** |
| **Do you have a debt on the RSO property?** | | | | | | | | |
| **30a** | Yes | 703 | 77% | 298 | 42% | 406 | 58% | Ref |
| **b** | No | 215 | 23% | 134 | 62% | 81 | 38% | 1.32 |
| **Average year of purchase of all properties under the RSO** *(Assessor's data)* | | | | | | | | |
| | 1999 or before | 561 | 61% | 330 | 59% | 231 | 41% | Ref |
| | 2000 or after | 358 | 39% | 102 | 28% | 256 | 72% | **0.25** |
| **What were the reasons for acquiring rent-controlled units?** | | | | | | | | |
| **44a** | Residence | 197 | 21% | 49 | 25% | 148 | 75% | **0.43** |
| **c** | Income | 446 | 49% | 240 | 54% | 206 | 46% | 1.4 |
| **f** | Retirement security | 382 | 42% | 197 | 52% | 185 | 48% | **0.62** |
| **g** | Future security for family members | 268 | 29% | 117 | 44% | 152 | 57% | 1.46 |
| **d,e** | Long-term capital gains &/or Tax shelter | 338 | 37% | 166 | 49% | 172 | 51% | 1.03 |
| **h,j** | Inherited or acquired prior to the RSO | 297 | 32% | 175 | 59% | 123 | 41% | 0.9 |
| **i** | Did not know about the program | 208 | 23% | 63 | 30% | 144 | 69% | **0.46** |
| **b** | To provide affordable housing | 68 | 7% | 27 | 40% | 41 | 60% | 0.47 |
| **Do you increase the rent by the annual amount permitted?** | | | | | | | | |
| **16a** | Yes | 554 | 60% | 286 | 52% | 268 | 48% | 1.1 |
| **b** | Depends on the tenant | 212 | 23% | 100 | 47% | 112 | 53% | 1.07 |
| **c** | No | 144 | 16% | 42 | 29% | 101 | 70% | Ref |
| **What level of maintenance are you able to provide with the income from rent-controlled property?** | | | | | | | | |
| **26a,c** | All maintenance postponed or most maintenance postponed, major problems handled ASAP | 223 | 24% | 72 | 32% | 151 | 68% | **0.4** |
| **b** | Major problems postponed, minor problems handled ASAP | 199 | 22% | 70 | 35% | 129 | 65% | **0.57** |
| **d** | All maintenance handled immediately & preventive maintenance practiced | 477 | 52% | 280 | 59% | 197 | 41% | Ref |
| **Does the yearly rent increase enable you to get a reasonable return on your investment?** | | | | | | | | |
| **17a** | **Yes** | 138 | 15% | 116 | 84% | 22 | 16% | **5.83** |
| **b** | **No** | 781 | 85% | 316 | 40% | 465 | 60% | Ref |
| **Average percentage of tenants delinquent in rent in a typical month** | | | | | | | | |
| **39** | | **Average** | **SD** | **Average** | **SD** | **Average** | **SD** | |
| | Average monthly percent of rent-delinquent tenants | 24% | 22 | 15% | 16 | 31% | 23 | **0.99** |
| **Total cases** | | | | | | | | |
| Unweighted cases in analyses: | | 958 | 958 | 508 | 508 | 450 | 450 | 586 |
| Weighted cases in analyses: | | 919 | 919 | 432 | 432 | 487 | 487 | 526 |

*Notes on Table:*

a. The odds ratio is the odds an owner with a given characteristic will report a profit compared to odds for reference group.
b. Numbers in the left column correspond with the survey questionnaire.
c. Odds ratios shown in boldface had significant (p<.05) prediction effect. "Ref" identifies the reference group for each question.
d. SD stands for Standard Deviation
e. R-square for model = .33

since these owners consistently report making a profit.

Compared to owners of 1 to 4 units, the model shows that the odds for profit were:

- 186 percent higher for owners of 5 to 10 units.
- 323 percent higher for owners of 11 to 39 units.
- 740 percent higher for owners of 40 or more units.

In addition, the model shows:

- For owners who purchased most of their units in or after 2000, the odds for profit were 75 percent less than for those who purchased most units before 2000.
- For owners who said they acquired their property for income from rents, the odds for profit were 40 percent greater than for owners not citing this reason.
- For owners who said they acquired their property for future security for their family, the odds for profit were 46 percent greater than for owners not citing this reason.
- For owners who acquired their property to provide a residence for themselves or a family member, the odds for profit were 57 percent less than for owners not citing this reason
- For owners who acquired their property for retirement security, the odds for profit were 38 percent less than for owners not citing this reason.
- For owners who said they acquired their property without knowing they were under the RSO, the odds for profit were 54 percent less than for those who did not cite this reason.
- Owners who report making a profit have lower rates of rent delinquency (15 percent) than those who report a loss (31 percent). The odds of reporting a profit increase 0.99 percent for every 1 percent decrease in rent delinquency.

Over half of survey respondents say that all maintenance is handled immediately and preventive maintenance is practiced. Other responses entail different approaches to postponing maintenance. There is no significant statistical difference between owners that postpone most maintenance and owners that postpone all maintenance. In comparison to owners that handle all maintenance immediately:

- The odds for profit were 43 percent less for owners that just postpone major problems.
- The odds for profit were 60 percent less for owners that postpone all or most maintenance.

Among all survey respondents, 53 percent of owners that said they made a profit also said that the annual rent increases allowed under the RSO provide a reasonable return on their investment. For owners who reported getting a reasonable return on their investment, the odds for profit were 583 percent higher than for those who reported otherwise.

In the analysis, rent delinquency is inversely related to whether or not owners report a profit. The average monthly rate of rent delinquency among owners reporting a profit is 15 percent. The average rate of rent delinquency among owners reporting a loss is 29 percent.

In summary, the following characteristics all help predict the likelihood that owners of rent-stabilized property will report making a profit rather than having a loss:

*Report Making a Profit*

- Purchased prior to the year 2000
- Purchased for income or future security of family members

- Own a larger number of units
- Minimal rent delinquency
- Immediate maintenance

*Report Operating at a Loss*

- Own small number of units
- Purchased on or after 2000
- Higher rent delinquency
- Purchased as residence or to supply affordable housing
- Postponed maintenance

Table 3-8
Owners Reporting a Profit and a Reasonable Return
*Data for 1,855 Owners that Responded to Both Questions*
*Calculated Using Unit Weights*
*(p<.001)*

| | ***Get a reasonable return on your investment?*** | | | |
|---|---|---|---|---|
| ***Make a profit last year?*** | Yes | No | Don't Know | ALL OWNERS |
| Yes | 7% | 18% | 3% | 28% |
| No, broke even | 2% | 19% | 4% | 25% |
| No, had a loss | 1% | 27% | 5% | 33% |
| Don't know or not sure | 2% | 7% | 5% | 14% |
| ALL OWNERS | 12% | 72% | 17% | 100% |

*Owner Risk*

The owner at highest risk of having a loss will have 1 to 4 units, will have purchased the property in 2000 or later, will have acquired the property for a personal residence or to supply affordable housing, will postpone maintenance, and will have more than minimal numbers of tenants delinquent in their rent every month.

What conclusions can we draw from this information? Owners were surveyed in late 2007 and early 2008, at a time when the real estate market was beginning to slump and over half of the RSO inventory was held by owners who had incurred debt since 2000. This means that many owners have disadvantageous capitalization rates on their property and may well face a cooling rental market.

Given these circumstances, there is some encouragement in the fact that only a third of the inventory is held by owners who report having had a loss last year (Table 3-8). On the other hand, nearly three-quarters of the inventory is held by owners who report that they are not getting a reasonable return on their investment. Furthermore, **only 7 percent of the inventory is held by owners who report that they are both making a profit and getting a reasonable return on their investment**.

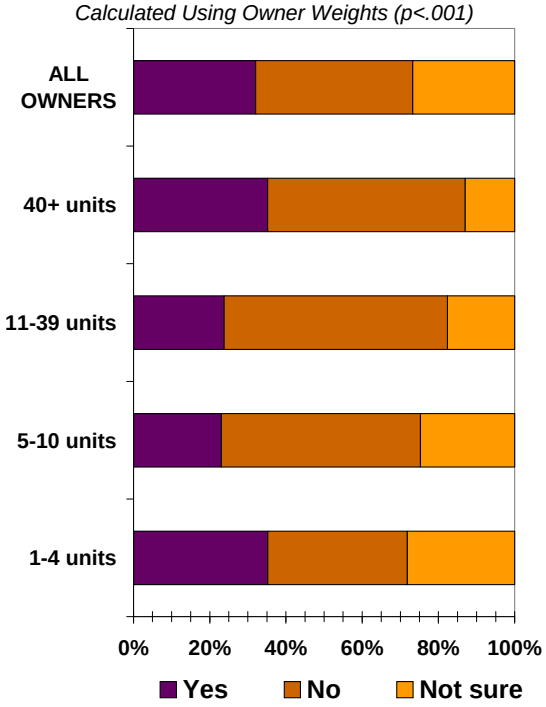
**There is a broad public interest in encouraging housing investors to be equity holders in the City's inventory of rent-stabilized housing and in validating the expectation of a reasonable long-term return on their investment.** While it is not realistic for the City to attempt to alter the overall dynamics of the rental housing market, **it is reasonable to take steps that will improve efficiencies for owners without having adverse impacts on renters.**

If the RSO is seen as imposing unnecessary and unworkable restrictions on owners, it is likely that more owners will try to by-pass the system. An owner who made the following comments after a focus group meeting drew an interested audience from other owners:

- *I don't pull permits or get near the City.*
- *Rent control can work when you don't have crazy tenants.*
- *I am untraceable. I have corporate front names for my properties that tenants can't trace to me.*
- *Don't bother with a tenant improvement plan. Give the tenants the date and type of improvements and then just do it.*
- *Just do the capital improvements – no permits, just an equity line of credit.*

- *I am rolling in cash and looking to buy other RSO properties.*
- *I don't have problems with tenants – I don't let the RSO create them.*
- *I don't require a lease – tenants will take advantage of it and it will work against me.*

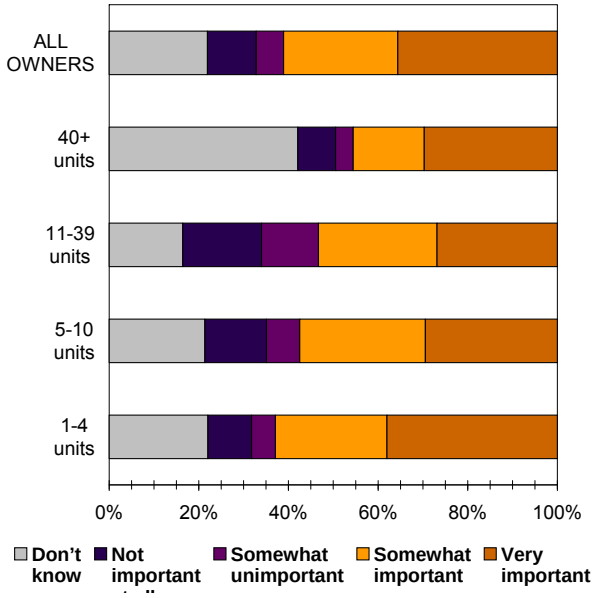
Figure 3-46
If you were deciding again today, would you still acquire your rent-controlled units?
*Calculated Using Owner Weights (p<.001)*




### Re-investing in Rent-Stabilized Housing

Owners were asked, "If you were deciding again today, would you still acquire your rent-stabilized units?" As shown in Figure 3-46,[65] owners of 1 to 4 units are evenly divided between "Yes" (35 percent), "No" (37 percent) and "Not Sure" (28 percent). However, as the ownership sizes increases, a greater percent of owners say they would not still acquire their rent-stabilized property, and the degree of uncertainty – respondents saying "Not Sure" – decreases. Among all owners citywide, a third (32 percent) say they would still acquire their rent-stabilized property, a plurality (41 percent) say they would not still acquire the property, and a quarter (27 percent) are unsure. These views are consistent with the overall tone of the survey. **The predominantly negative view of owners about investing in rent-stabilized property is cause for concern. There is a broad public interest in ensuring that investors see this housing as a reasonable and sound investment.**

Figure 3-47
How important is it for Los Angeles to provide affordable housing for renters?
*1,949 Respondents; Calculated Using Owner Weights (p<.001)*




## Overall Housing Needs

### Affordable Housing

*Importance of Affordable Housing*

The need for affordable rental housing is at the heart of the Rent Stabilization Ordinance. To explore views about this need owners were asked, "How important is it for the City of Los Angeles to implement policies and programs that provide affordable housing for renters?"

**Sixty-one percent of owners say that affordable rental housing is somewhat im-**

**portant or very important, demonstrating strong support among these equity holders for meeting housing needs** (Figure 3-47).[66] Support is strongest among owners of 1 to 4 units (63 percent), and decreases as ownership size increases, dropping to 46 percent among owners of 40 or more units.[67] Interestingly, owners of 40 or more units express the highest level of uncertainty about whether it is important to meet this need, with 42 percent saying they don't know versus 22 percent of owners of 1 to 4 units giving this answer. Only 17 percent of owners state that it is somewhat unimportant or not important at all to meet this need.

*Actions to Provide Affordable Housing*

A follow-up question asked owners, "What should Los Angeles do to provide enough affordable housing for renters?" The question offered 13 options, shown in Figure 3-48.[68] Respondents were asked to rate the importance of each option, and were given a fourteenth option of writing in a suggestion (Text Box 3-6).

**Owners express support for a broad range of public sector actions to meet LA's affordable housing needs. The reason for this activist posture heard in a number of focus groups is that many owners believe that a disproportionate share of the citywide responsibility for providing affordable housing is falling on the shoulders of RSO owners.**

The support for different types of public action ranges from a full 80 percent of owners who say that building affordable senior housing is somewhat or very important down to 44 percent who support a citywide tax to pay for affordable housing. The only option other than the citywide tax that is supported by less than half of owners is to reduce parking requirements for new housing.

Fifty-four percent of owners say that it is somewhat or very important to let the private

Text Box 3-6

What should Los Angeles do to provide enough affordable housing for renters?

*Open-ended responses by owners*

*Inclusionary Initiatives*

- *If a building has a larger number of rental units (>10) then they should be required to have some affordable units.*
- *Adopt an inclusion ordinance so that the bigger, more well financed developers are required to build a larger share of truly affordable units as part of the development. Most new affordable units are not affordable to real life low-income tenants.*

*Regulatory Relief*

- *Eliminate financial disincentives for rent controlled apartments.*
- *Relax zoning and height restrictions.*
- *Decrease required parking*
- *More density*
- *Lower code restrictions on affordable housing.*
- *[Allow] variances for illegal units that are safe.*
- *Eliminate property taxes on rent control property - provide free insurance.*

*Market Solutions*

- *Control nothing or control everything.*
- *Phase out rent control and let the market correct itself. It is working nationwide.*
- *Stop government from pushing us around, and take away their power to strip us of our assets and freedom, that doesn't make for an enticing investment.*
- *Let the private market solve housing.*
- *It is ridiculous to expect the private market to solve housing problems- recognizing the number of homeless.*

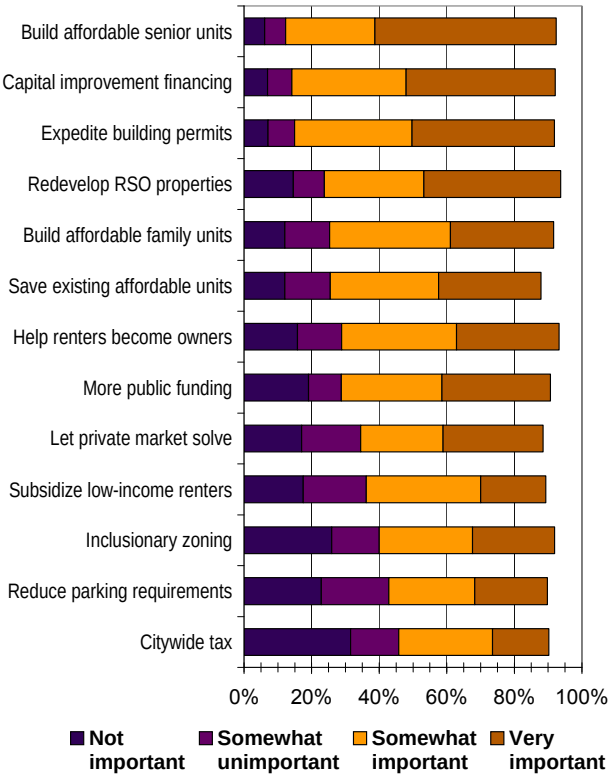
*Other*

- *Revitalize and renovate old buildings and convert them into rental units.*
- *Let the city build affordable housing and service the units.*
- *Help more renters become homeowners.*
- *Have rent control available only for those who need it!*

sector solve housing problems. Thirty-five percent say that leaving this problem in the hands of the private sector is somewhat unimportant or not important at all.

The options for public sector action that owners were asked to rate fall into three clusters that were validated with statistical tests.[69] These clusters are listed below and then the level of support from each ownership size group for each cluster of interventions is discussed.

Figure 3-48
What should Los Angeles do to provide enough affordable housing for renters?
*1,973 Respondents; Calculated Using Owner Weights*




1. *Renter assistance and special needs groups*
   - Help more renters to become home owners
   - Subsidize the rent of more low-income renters
   - Build affordable units that are big enough for families
   - Build affordable units for low-income senior citizens

2. *Owner assistance*
   - Provide financial assistance for owners of rent-stabilized property to redevelop their property and build more rental units
   - Make it more feasible for owners of rent-stabilized property to finance capital improvements
   - Reduce the amount of parking required when building new housing
   - Expedite the approval of building permits for affordable housing
   - Let the private market solve housing problems

3. *City-wide subsidized affordable housing*
   - Require all new apartment buildings to have some affordable housing
   - Levy a citywide tax so that everyone contributes to meeting the need for affordable housing
   - Spend more public money on building affordable apartments
   - Preserve existing affordable housing

A composite score was calculated for the ratings that each ownership group gave to the list of possible public sector actions in each cluster.[70] Composite scores of 2.5 or more indicate that most owners view the strategies as being important.

A majority of owners support the first cluster of initiatives for providing assistance to renters and special needs groups, as shown in Figure 3-49, with an overall composite score of 2.6

for this cluster. This slim majority rests on a preponderance of support among the most numerous ownership group – owners of 1 to 4 units. There is less than majority support among owners of 11 or more units. Despite the overall support of small owners for these initiatives, there is wide variation in outlook, with the standard deviation for owners of 1 to 4 units encompassing the complete range of ratings – 1 to 4.[71]

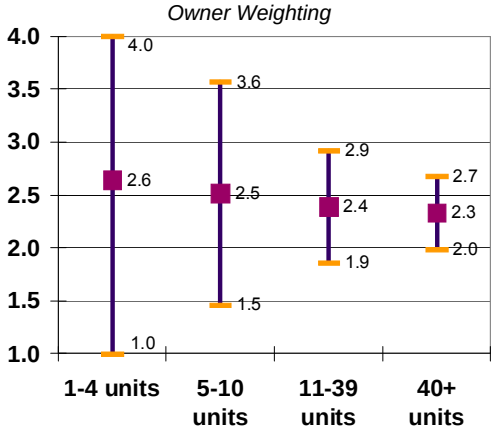
The strongest support is demonstrated for the second cluster of actions that would assist owners in providing affordable housing, as shown in Figure 3-50, with an overall composite score of 2.9 for this cluster. Every ownership groups expresses strong support for this cluster. Owners of 1 to 4 units express slightly below average level of support, and have the greatest variation in views, but overall this set of options enjoys strong support.

What about widening the base of support for paying for affordable housing needs? RSO property owners responding to the survey as well as in focus groups voiced concern about the lack of citywide engagement in shouldering this cost. The third cluster of public actions includes strategies through which the entire city would share greater responsibility for providing affordable housing. The overall composite score for this cluster is 2.5, indicating support from a bare majority of owners. The strongest support comes from owners of 1 to 4 units, as shown in Figure 3-51. Although the principal of broadening the base of support for affordable housing appeals to many owners, the prospect of higher public costs and possibly taxes diminishes the appeal.

Owners participating in post-survey focus groups provided many thoughtful comments about meeting affordable housing needs, including:

- *Everyone has an interest in decent housing at a fair rent. The City needs to encourage people to come together. Renter advocate groups are not the right people for finding common ground.*
- *Coop ownership is an important and neglected concept. Other cities do this.*

Figure 3-49
Renter Assistance Strategies
*Owner Weighting*




Note: The bars represent about 68% of the data (one *standard deviation*). The mid-point represents the percent of owners in each size class that support the cluster of initiatives.

Figure 3-50
Owner Assistance Strategies
*Owner Weighting*

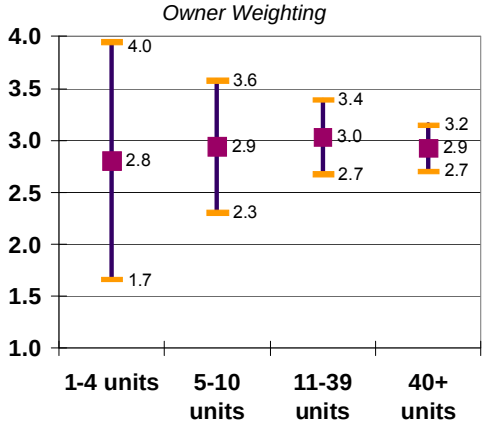
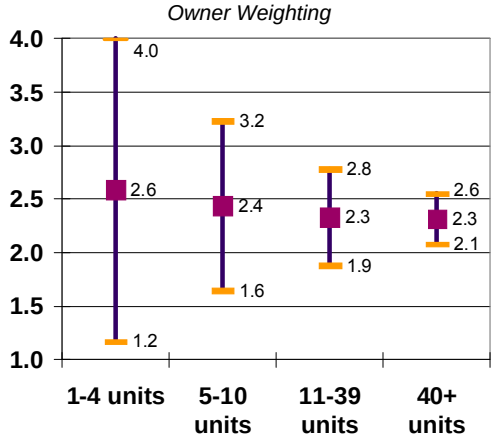



Figure 3-51
Citywide Subsidy Strategies
*Owner Weighting*



- *A tenant-in-common approach allows renters to buy their buildings as a group. This would require educating lenders.*
- *Frame development of affordable housing as a private sector opportunity*
- *There needs to be affordable housing for middle-income households*
- *Making housing affordable: If the city keeps the RSO, have it apply to all buildings, but also make it fairer, and more like the inclusionary zoning approach, where certain numbers of units in all rental buildings would be rent controlled. Don't place 100 percent of the burden of the RSO program on small owners with limited finances and income.*
- *The US is facing many upcoming societal changes, such as continually rising gas prices and shortages. Los Angeles needs to change into a more densely settled, European style city, with less private car trips and more public transit. But the city government cannot create solutions to the shortages of housing and affordable housing on its own.*
- *In the landlord business, there is awareness of social responsibility, such as the need for affordable housing, especially for groups like seniors on fixed incomes. The City of LA is in the property management business, too, due to the Housing Department's programs. The government should spread the costs of the RSO program (rent savings to those in RSO units) to all city residents.*
- *Government's only purpose should be master planning, incentives and infrastructure. Micro-managing the rental housing market is not helping.*
- *Preserving and maintaining existing buildings is important, but the city needs to allow owners to receive enough income.*
- *The city government works for the rich class of owners, but leans upon the small property owners, and extracts rent money from small tenants as well.*
- *New CRA-sponsored buildings get big incentives to redevelop at higher densities. Mom and pop owners get lumped together with larger property owners when it comes to receiving blame about housing conditions, rules and restrictions associated with the RSO and SCEP inspections. But the mom and pop owners don't have the scale of capital needed to invest in redevelopment projects and receive CRA subsidies.*
- *The free market would solve all the city's housing issues. Neighboring cities without rent control do fine in providing housing, and do not have exorbitant rents.*
- *What is the more important goal? To build more units, or maintain a certain number of affordable units? It is difficult to accomplish both.*

## Redeveloping RSO Properties

### *Interest in Developing at Greater Density*

Many rent-stabilized properties were developed when the City was younger and land was comparatively inexpensive – the oldest RSO units were built in 1804. Consequently, many RSO

properties are developed at lower densities than are permitted under current zoning guidelines. One possibility for expanding the inventory of rental housing while preserving the current supply of rent-stabilized units is higher density redevelopment of RSO properties. To gauge owner's interest in this idea, the following explanatory information and question were presented: "*Los Angeles rent control regulations allow owners to redevelop rent-controlled property and build more units if the rent-controlled units are replaced. For example, if zoning regulations permit 20 units on a site that currently has 4 units, the owner can demolish the 4 units and build 20 new units if 4 of the new units are set aside for affordable housing. This leaves 16 new units that are not under rent control.* If it were profitable, would you be interested in redeveloping your rent-controlled property in this manner?"

Citywide responses to this question break out in thirds, as shown in Figure 3-52:[72]

- 34% Yes
- 34% No
- 32% Not sure

Figure 3-52
Interest in Redeveloping RSO Property at Higher Density
*1,965 Respondents; Calculated Using Owner Weights (p<.001)*

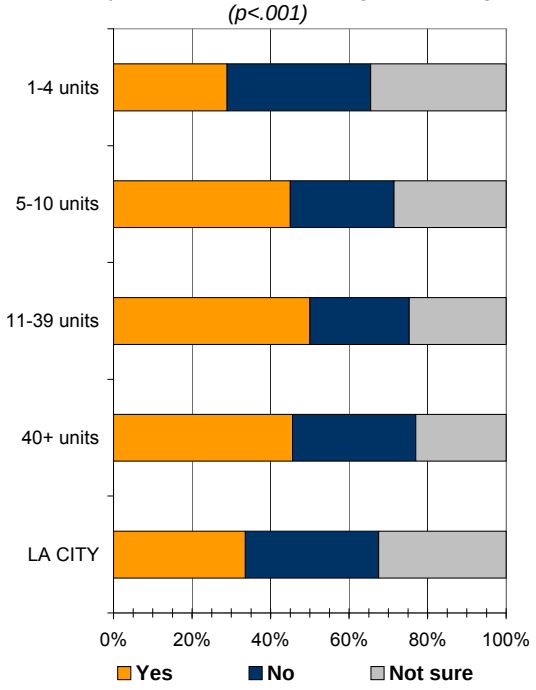
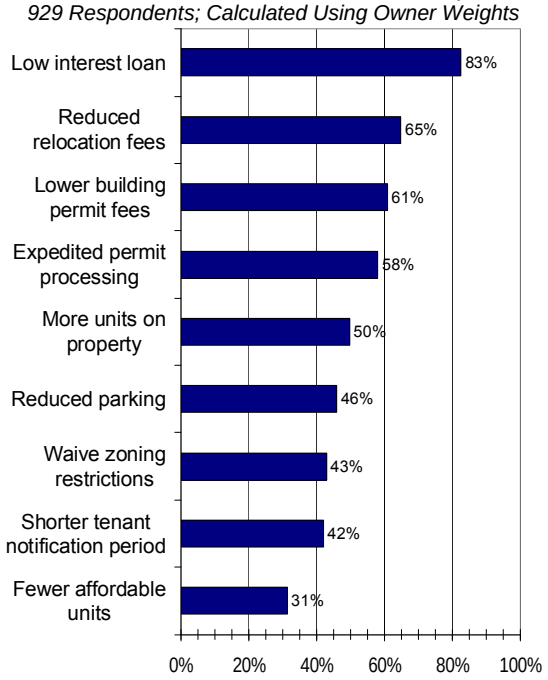



Figure 3-53
Assistance Needed to Redevelop
*929 Respondents; Calculated Using Owner Weights*




**Two-thirds of owners answer the question with a yes or a maybe.** Interest is greatest among owners of 5 to 39 units. The fall-off in interest among owners of 40 or more units may be because more of these properties are already developed at higher densities. Owners of 1 to 4 units express the least interest in redevelopment, possibly because some owners do not want denser occupancy at the property where they live.

*Making it Profitable to Redevelop*

A follow-up question asked, "What would make it profitable for you to redevelop your rent-stabilized property and build more units on the site?" The answers provided by owners are shown in Figure 3-53. **The most frequently identified type of assistance is low interest loans**. This is the highest priority for every ownership size group except owners of 40 or more units; for these larger owners the highest

priority is reduced relocation fees for tenants who would be displaced by redevelopment (87 percent for reduced relocation fees, 73 percent for low interest loans). The four types of assistance that a majority of owners say are needed to make it profitable to redevelop their properties at a higher density are:

- Low interest loan 83%
- Reduce relocation fees 65%
- Reduced building permit fees 61%
- Expedited building permit processing 58%

**Specialized Rental Markets**

The survey obtained responses from owners in two distinct rental markets – mobile home parks[73] (10 respondents) and residential hotels (15 respondents).[74] *It is important to note that these are very small samples.* For the most part, the responses of these owners fit the overall pattern of survey respondents, with several important exceptions that reflect the distinctive management issues and tenant concerns of their respective housing types.[75]

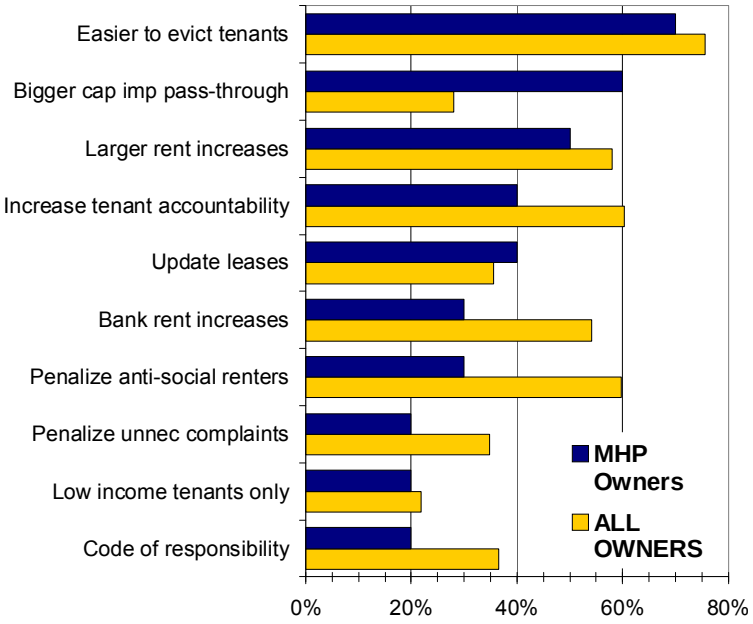
*Mobile Home Parks*

Survey respondents own mobile home parks that accommodate 1,263 mobile homes, representing 21 percent of the mobile home park spaces in the City.

Owners were asked what they think are the most important things to change in the rent stabilization program. Responses of mobile home park owners are shown along side all survey respondents in Figure 3-54.[76] The highest priority is to make it easier to evict problem tenants. All owners select this option with the highest frequency.

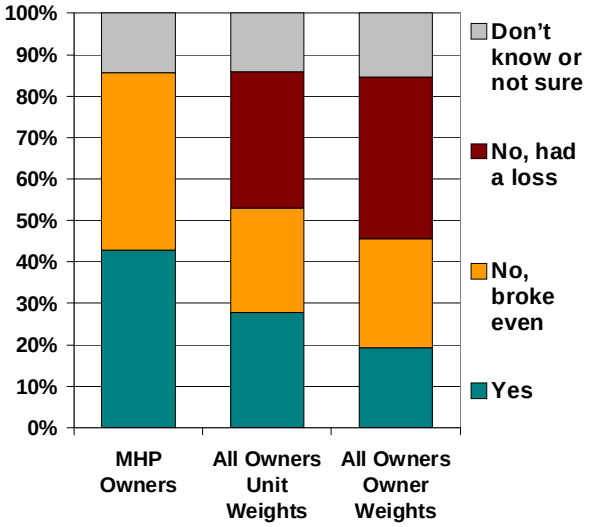
- Sixty percent of MHP owners want to be able to pass through a larger share of capital improvement costs to tenants versus only 28 percent of all owners. Mobile home parks cover large parcels and have significant infrastructure costs.
- Mobile home park owners are less concerned about issues related to tenant responsibility – possibly because most mobile home park tenants own their own homes and rent only the

Figure 3-54
Most Important Things to Change in the RSO Program
*Unweighted Data for MHP Owners, Owner Weights for Total Sample*



land, making accountability less of an issue.
  - Only 40 percent want to increase tenant accountability compared to 60 percent of all owners
  - Only 30 percent want to penalize anti-social renters compared to 60 percent of all owners
  - Only 20 percent want a code of responsibility compared to 36 percent of all owners
- Only 30 percent of mobile home park owners want to be able to bank unused rent increases for future years compared to 54 percent of all owners – possibly because 100 percent of mobile home park owners say that they increase the rent every year.

Figure 3-55
Did you make a profit last year?




In responding to the question about whether or not they made a profit last year, none of the mobile home park owners reported a loss (Figure 3-55).[77] In contrast, using unit weights, one out of three owners in the total sample reported a loss, and using owner weights, almost four out of ten reported a loss.

When asked if rent increases keep up with operating costs, 90 percent said "no," and 10 percent said "don't know." No mobile home park owner replied that rent increases keep up with operating costs.

Comments from a focus group with mobile home park owners highlight some of the distinctive issues that concern them:

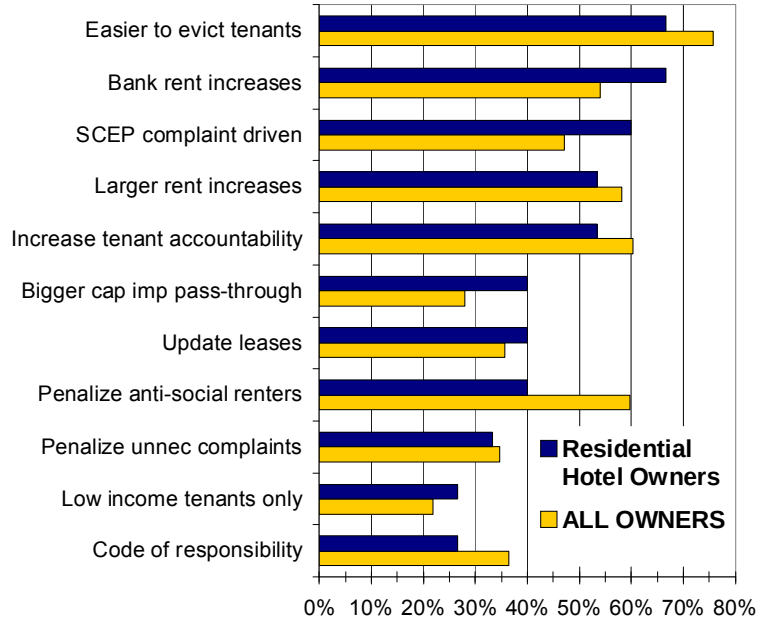
- *The policy of allowing fees to be passed through to tenants creates a lot of conflict. Mobile Home Park tenants get upset about any cost that is "outside of the regular rent," and they tend to agitate amongst fellow tenants in the common areas of the mobile home parks. Rather than stir up this ill feeling, most mobile park owners do not use the passthrough program.*
- *Vacancy decontrol rules for mobile home parks covered by the RSO are extremely unfair. Decontrol is limited to a 10 percent increase over the previous rent, or to whatever is the highest rent is in the park, whichever is less. This prevents RSO sites from ever catching up with the market, and creates bad feeling between residents when rents are not comparable based on different amenities (ocean view vs. back lot, etc.).*
- *Maintenance in RSO units differs significantly form non-RSO rental units, because RSO owners have less income coming in with which to invest. Thus, many RSO units are maintained at a level that makes them look as if they are in a 1960s time warp. No capital is available for major upgrades of the property; they are only maintained to look like they did when built.*

- *Mobile home park owners often avoid attempting to pass through capital improvement costs because of negative tenant feelings that are aroused*
- *There is pressure to maintain parks, for example the roads, but tenants do not like to pay any costs other than their regular rent payments*
- *Mobile home parks are communal environments – the owners provide the setting for tenants to organize.*
- *Other jurisdictions allow rents to go up to market levels when sites turn over, as is the case with rent-stabilized apartments in LA. But in mobile home parks in LA, tenants sell aging mobile homes for high prices, which they can obtain because the new buyers retain the benefit of the old rent levels*
- *The best new mobile homes on the market sell for $100,000 to $140,000, but aging substandard mobile homes sell for two to three times this amount because the buyers are able to retain the benefit of low rent levels that were set long ago and then controlled by the RSO.*
- *Many mobile home parks have units that never move and are never allowed to decontrol. Other cities allow vacancy decontrol in mobile home parks.*

*Residential Hotels*

Survey respondents own 71 residential hotels, 64 of them in the Central Los Angeles APC, which includes downtown Los Angeles and the single room occupancy hotels serving Skid Row. The residential hotels owned by respondents have 5,163 units, 4,845 of them in Central Los Angeles. This represents 17 percent of the residential hotel rooms in the City and 23 percent of the rooms in Central Los Angeles.

Figure 3-56
Most Important Things to Change in the RSO Program
*Unweighted Data for Residential Hotel Owners, Owner Weights for Total Sample*




Owners of residential hotels have more extensive business experience than the RSO property owners in general - 93 percent have been owners for more than 10 years and 60 percent own more than one property, versus 65 and 38 percent, respectively, for the overall sample of owners.

In replying to the question about whether they increase rents every year, 33 percent of hotel owners said “no” (vs. 39 percent of all owners), and 67 percent said “yes” (vs. 38 percent of all owners), and none said that it depends on the tenant (vs. 22 percent of all owners).

Answers to the question about changes they would like to make in the rent stabilization program (Figure 3-56)[78] show three changes they appear to support more strongly than the overall sample of owners:

- Banking unused rent increases for future years
- Making SCEP a complaint-driven program rather than a regularly scheduled inspection program
- Increasing the share of capital improvement costs that can be passed through to tenants

Like mobile home park owners, residential hotel owners appear to be less concerned than the overall sample of owners about issues related to tenant responsibility, including penalizing anti-social behavior and creating a joint code of responsibility.

Figure 3-58
Interested in discussing the results of this survey?
*Unweighted Count of Survey Responses*

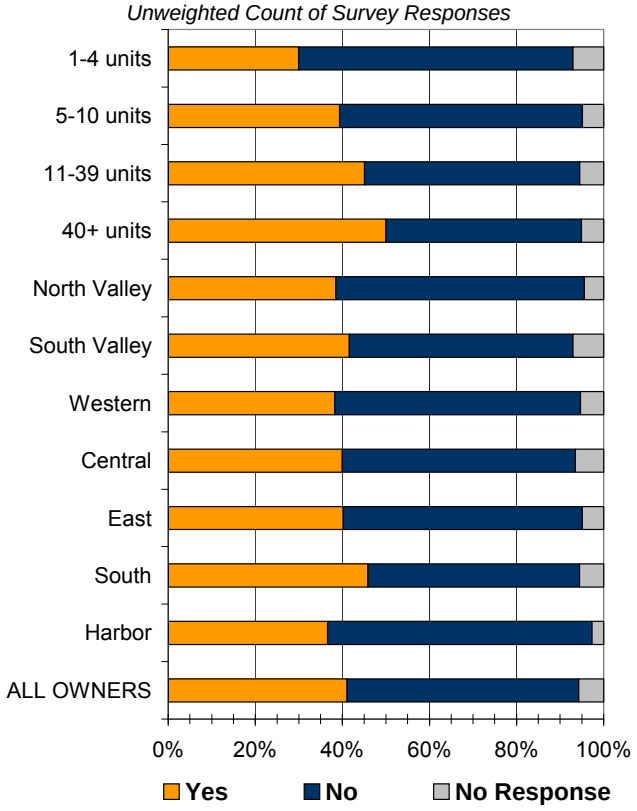
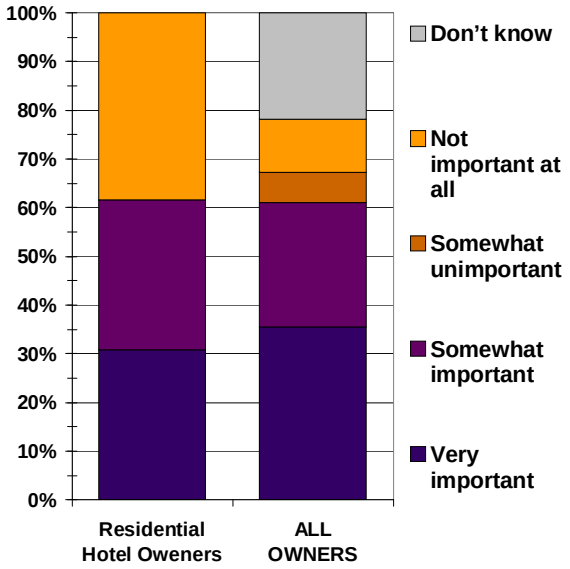



Figure 3-57
How important is it for the City of Los Angeles to provide affordable housing?
*Unweighted Data for Residential Hotel Owners, Owner Weights for Total Sample*




Similar to other respondents of the survey, roughly 60 percent of residential hotel owners said that affordable housing is important (Figure 3-57).[79] However, about 40 percent of hotel owners, compared to 11 percent of owners citywide, responded that it is not important at all for the City of Los Angeles to provide affordable housing. This unusually large negative response is noteworthy given that most of the residents of these hotels have very low incomes and need affordable housing to escape homelessness.

## Post-Survey Discussions

The final item on the survey was, "*The Economic Roundtable will hold focus groups in different areas of Los Angeles to discuss the results of this survey.* Are you interested in being invited to participate in a focus group of property owners and managers?" Forty-one percent of owners

responded that they were interested in participating in one of the seven post-survey focus groups that were held throughout the City, as shown in Figure 3-58.[80] Interest increased with ownership size, growing from 30 percent among owners of 1 to 4 units to 50 percent among owners of 40 or more units. Interest was consistent across the City's seven planning regions, with the highest level of interest in South Los Angeles, where 46 percent of survey respondents expressed interest in participating. The seven focus groups were able to accommodate 80 of the owners who were interested in participating and provided important information that helped explain the motivation behind survey responses. **Equity holders in LA's rent-stabilized housing demonstrated strong interest in participating in constructive, focused dialogues about making the rent stabilization program more effective.**

## *SUMMARY*

*Ownership Structure*

- Most owners in all size classes have many years of experience in owning and managing residential rental property. Two-thirds have at least ten years of experience. Only 7 percent have two or less years of experience.
- Three-quarters of RSO owners have small holdings, 4 or less units, usually on a single property, with long-term experience (10 or more years) with this scale of ownership – they own one-quarter of RSO units.
- One-quarter of RSO owners have medium or large holdings (5 or more units), long-term ownership experience, and often own multiple properties, some of which are in other cities – they own three-quarters of RSO units.

*Vacancy Rates and Turnover*

- The survey interval of November 2007 through April 2008 covered a period of high demand for rental housing. Ninety-six percent of RSO units were occupied, 3 percent were vacant for rent, and 1 percent were vacant for other reasons.
- The point-in-time vacancy rate is low despite the fact that roughly a fifth of units turn over in the course of a year, indicating that owners have not had to wait long to find new renters for vacant RSO units.
- There is less turn-over in RSO units than in non-RSO units.

*Long-term Tenants*

- Eight percent of RSO units have been occupied by the same tenant for 15 or more years.
- If owners increase rent every year by the amount allowed by the Rent Stabilization Ordinance, rents are unlikely to be more than 35 percent less than market rates. It is probable that any gaps greater than this are the result of other factors, including years in the 1990s when the housing market was depressed and owners did not increase rents, and neighborhoods in which rents have increased more rapidly than the overall LA average.
- A small share of long-term RSO tenants with very low rents appears to have a disproportionate and adverse financial impact on a subpopulation of small property owners. To fairly balance the interests of tenants and owners, as called for by the Rent Stabilization Ordinance, it is reasonable to consider providing some relief for these small owners.

*Finding Tenants and Leasing Units*

- Overall, 47 percent of owners use word of mouth to find tenants. Next most frequently, 41 percent of owners use signs on their property.
- Eighty-eight percent of RSO tenants rent their unit with a written lease or rent agreement.

*Financing Capital Improvements*

- From January 2003 to April 2008, only 1.3 percent of RSO owners applied to pass through capital improvement costs to their tenants.

- Fifty-six percent of those who had not applied said it was because they had not heard of the program.
- The most widely expressed concern about the Capital Improvement Passthrough Program is that a larger share of the cost for maintaining the basic infrastructure of rent-stabilized housing needs to be shared by tenants.
- Prior to 1989, when the passthrough amount was 100 percent, the amount of investment was 189 percent greater and the number of units upgraded was 218 percent greater than in the following 18 years when the passthrough amount was reduced to 50 percent.

*SCEP Inspections*

- Sixty-seven percent of the City's RSO properties and 58 percent of market-rate properties were found to have code violations that required correction.
- An important factor affecting the likelihood of code violations is the age of a property.
- Nearly half of owners (48 percent) say that the SCEP program was either "very helpful for identifying needed maintenance," or "a useful service."
- Owners of properties built in1967 or later are 2.5 times more likely than owners of properties built in 1966 or earlier to say that SCEP is an "unnecessary expense."
- Owners of properties built in 1960 or earlier are 3.6 times more likely than owners of properties built in 1961 or later to say that SCEP is "very helpful for identifying needed maintenance."
- Owners of 10 or less units are 3.1 times more likely than owners of 11 or more units to say that SCEP is "very helpful for identifying needed maintenance."
- Comments by owners suggest that the preferable approach to strengthening the program is by replicating the best practices of the most knowledgeable and judicious inspectors.
- Owners of older, smaller properties tend to experience SCEP as a useful source of technical assistance for maintaining their properties. Owners of newer, larger properties tend to experience SCEP as an unnecessary intrusion into the management of their properties.
- The two most frequently expressed concerns about SCEP are the need for more consistency in how inspections are conducted and the need for greater tenant accountability for code violations they cause.

*Tenant Accountability and Reliability*

- Responses about problems with holding tenants accountable for things that should be their responsibility are almost evenly divided: 48 percent of owners say this is never or rarely a problem; 53 percent say it is sometimes or often a problem.
- Owners of 1 to 4 units report fewer problems with tenant accountability – they were 3 times more likely than owners of 5 or more units to report that holding tenants accountable for maintenance was never an issue.
- Owners who say that tenant accountability is often a problem are nearly twice as likely to have had a complaint filed against them for failure to comply with Rent Stabilization Ordinance regulations as owners who say that this is never an issue.

- Negative attitudes are often reciprocal between owners and tenants. Owners who have more positive views about their tenants appear, in turn, to be viewed more positively by their tenants.
- Among owners of 1 to 4 units an astounding 44 percent of tenants fail to pay their rent on time in an average month. The rate of delinquency goes down as ownership size increases, with owners of 40 or more units reporting an average of 6 percent late payments per month.
- There appears to be no difference between RSO and non-RSO properties in the rate of rent payment delinquencies.

*Evictions*

- Eighteen percent of owners report having evicted tenants for rent delinquency in the past two years.
- The high rent delinquency rates reported by owners of 1 to 4 units appear to be accompanied by high eviction rates; over the course of two years, evictions are reported for 48 percent of their units.
- Eviction rates for delinquent rent drop dramatically as ownership size increases – down to 2 percent for owners of 40 or more units.
- Evictions for rent delinquency are highly correlated with evictions for disruptive behavior, that is, the owners that are filing for evictions for rent delinquency are the same as those that are filing evictions for disruptive behavior.
- Fifty percent of owners of 1 to 4 units report that over the course of two years, evictions for disruptive behavior are initiated for 50 percent of their units. This rate drops to 4 percent for owners of 40 or more units. For all owners it is 13 percent.
- Ninety-three percent of owners have never filed a declaration of intent to evict with the Housing Department, and 3 percent of owners account for 60 percent of all declared evictions.
- Evictions for which a declaration of intent to evict is filed are over-concentrated in West Los Angeles (eviction rate 223 percent of the City average), South Valley (eviction rate 175 percent of the City average), and Central Los Angeles (eviction rage 139 percent of the City average).
- Evictions appear to be concentrated in the areas of the City where rents are highest.
- Seventy-seven percent of owners reported that evicting disruptive tenants is difficult or very difficult.

*Tenant Costs*

- Citywide, four-fifths of owners do not pass either the registration or the SCEP program fee to tenants.
- Tenants in 63 percent of RSO units pay additional costs for specific utilities or services.
- Electric and gas utilities are the most frequent additional fees, paid by roughly half of tenants. Fifteen percent pay for use of laundry facilities, 7 percent each pay for trash and water utilities, 4 percent pay for parking, and 3 percent for storage.

- Small owners are much less likely to increase their rents than large property owners – rents are increased annually for tenants at 31 percent of properties with 1 to 4 units, compared to 77 percent who can expect annual increases at properties with 40 or more units.
- The likelihood of annual rent increases also varies by region of the City. Rents are raised annually at 52 percent of RSO properties in the Central region of the City compared to only 31 percent of properties in South Los Angeles, and 29 percent of properties in the North San Fernando Valley.

*Property Maintenance*

- Fifty-seven percent of owners say that all maintenance is handled immediately and preventive maintenance is practiced.
- Two-thirds of RSO units are reported by owners to be maintained at a level that is as good as, or better than, units that are not under rent control, and one-third are reported to have a lower level of maintenance.

*Reasons for Acquiring RSO Property*

- The most frequently stated reasons for acquiring RSO properties are: income from residential rents, retirement security, and as a residence for self or family members.
- Nineteen percent of owners "fell into" the RSO rental housing market by inheriting the property, acquiring their property prior to the enactment of the RSO, or simply because they did not know about their property was under rent control when they purchased it.

*Debt on RSO Properties*

- Sixty-five percent of the rent-stabilized housing inventory is encumbered by debt.
- The rate of debt-burdened property increases as property size increases – from a low of 60 percent for properties with 1 to 4 units, to 80 percent for properties with 40 or more units.
- Eighty-five percent of the units with a debt burden were financed between 2000 and early 2008. This is the interval when financing has often created debt burdens that exceed rental income be substantial margins.
- Forty-three percent of units in the RSO inventory have been purchased since 2000, suggesting that 12 percent of the RSO inventory is burdened by debt that is the result of refinancing rather than purchase.

*Profit and a Reasonable Return on Investment*

- Almost two-thirds of RSO units produced a profit or broke even last year, and slightly over a third had a loss.
- The likelihood of reporting a profit increases along with ownership size. Owners of 1 to 4 units are more likely to report a loss than owners of 5 or more units.
- Less than a third of owners answered that their properties that are not under rent control are more profitable than their properties that are rent stabilized.

- Owners representing over 70 percent of the RSO inventory report that they do not get a reasonable return on their investment from RSO properties.
- Owners representing over three quarters of the RSO inventory say that rent increases do not keep up with operating costs.
- The owner at highest risk of having a loss will have 1 to 4 units, will have purchased the property in 2000 or later, will have acquired the property for a personal residence or to supply affordable housing, will postpone maintenance, and will have more than minimal numbers of tenants delinquent in their rent every month.
- Among all owners citywide, a third (32 percent) say they would still acquire their rent-stabilized property, a plurality (41 percent) say they would not acquire the property, and a quarter (27 percent) are unsure.

*Providing Affordable Housing*

- Sixty-one percent of owners say that affordable rental housing is somewhat important or very important, demonstrating strong support among these equity holders for meeting housing needs.
- Only 17 percent of owners state that it is somewhat unimportant or not important at all to meet this need.
- Owners express support for a broad range of public sector actions to meet LA's affordable housing needs. The reason for this activist posture heard in a number of focus groups is that many owners believe that a disproportionate share of the citywide responsibility for providing affordable housing is falling on the shoulders of RSO owners.

Chapter 4

# Impacts of the Rent Stabilization Ordinance on the Outcomes of Apartment Investments

Ken Baar

## INTRODUCTION

This chapter evaluates the impacts of the Rent Stabilization Ordinance (RSO) on the returns that apartment owners receive from rent stabilized property. It discusses trends in: apartment rents, operating expenses, net operating income, and values.

In considering the impacts of a particular rent control ordinance, it should be understood that rent control is a broad term that covers greatly varying types of rent regulations that have been adopted in the U.S. since World War II. The Los Angeles RSO limits annual rent increases to the annual percentage increase in the CPI and contains a "vacancy decontrol" provision. Under vacancy decontrol, apartment owners are permitted unlimited rent increases when units are voluntarily vacated[1] and the initial rent for the new tenant becomes the base rent for determining allowable annual rent increases.

Therefore, the rate of turnover of tenants plays a critical role in determining the impact of the RSO. To the extent that the rate of turnover is high, the impact of the RSO restrictions on rent increases is substantially reduced. Trends in market rents are another critical factor. The impact of the restrictions on annual rent increases depends on the extent to which rents could be increased in the absence of the annual rent increase ceiling.

A multitude of housing market factors, as well as the RSO, have a significant impact on the outcomes of investments in rental housing. These factors include mortgage interest rates, capitalization rates, vacancy rates, new construction, and trends in apartment operating costs and market rents.

This chapter provides an overall assessment of the impact of the RSO on the performance of investments in rent stabilized apartments. It is subject to the qualification that because the outcomes of apartment investments are governed by a multiplicity of factors that are in constant flux, an evaluation of the impact of the RSO on the operation of the rental housing business and the performance of rental housing investments is complex and imperfect. It is also critical to note that the impact of the RSO varies over time depending on changing trends in the overall rental housing market, varies between market areas and varies among buildings depending on their rate of turnover.

## RENTAL UNITS UNDER THE RSO AND THE OPERATION OF THE RENTAL HOUSING MARKET

This section discusses characteristics of units subject to the RSO and the operation of the rental housing market. It includes data on the size and ages of buildings subject to the RSO,

rates of turnover in tenants, and rates of increase in market rents. Detail on these factors is provided for the City and by Area Planning Commission region of the City (APC). Information on these factors is essential in considering the impact of the RSO on apartment owners.

The analysis in this section is largely based on data from a newly developed annual census survey, the American Community Survey (ACS), as well as decennial censuses and data provided by the City of Los Angeles Housing Department. The ACS is based on a one percent sample; in the case of Los Angeles, a sample of 6,600 renter occupied housing units.

Where census data is used, most of the analysis is based on Census Bureau Public-Use Microdata Sample (PUMS), which permits users to perform their own tabulations. Much of the analysis has been programmed to exclude buildings that are not covered by the RSO because they were constructed in 1980 or later. The exclusion of buildings constructed 1980 or later does not create a perfect match to the rental stock subject to the RSO, because the ordinance exempts buildings with an occupancy permit issued on or before October 1, 1978. However, as a practical matter, for the purposes of calculating averages, the differences between the two data sets are insubstantial.[2]

## Characteristics of the Rent Stabilized Stock

Los Angeles residents view the physical characteristics of the city's rental housing stock on a daily basis. This section quantifies these characteristics.

### *Size of Buildings*

One-third of all the rental units that are subject to the RSO are in buildings of four units or less, as shown in Table 4-1.[3] Another third are in buildings with five to nineteen units. At the other end of the spectrum, 16 percent of the units subject to the RSO are in buildings with 50 or more units.

**Age is a significant determinant of building size. In earlier eras, small rental buildings were the mainstay of the rental housing stock in Los Angeles.**

As of 1960, 57 percent of all rental units were in buildings with four or less units, compared to 32 percent of the units covered by the RSO.

Only 12 percent of the rental units constructed between 1960 and 1978 are in buildings of four units or less, while 57 percent are in buildings with 20 or more units, as shown in Figure 4-1.[4]

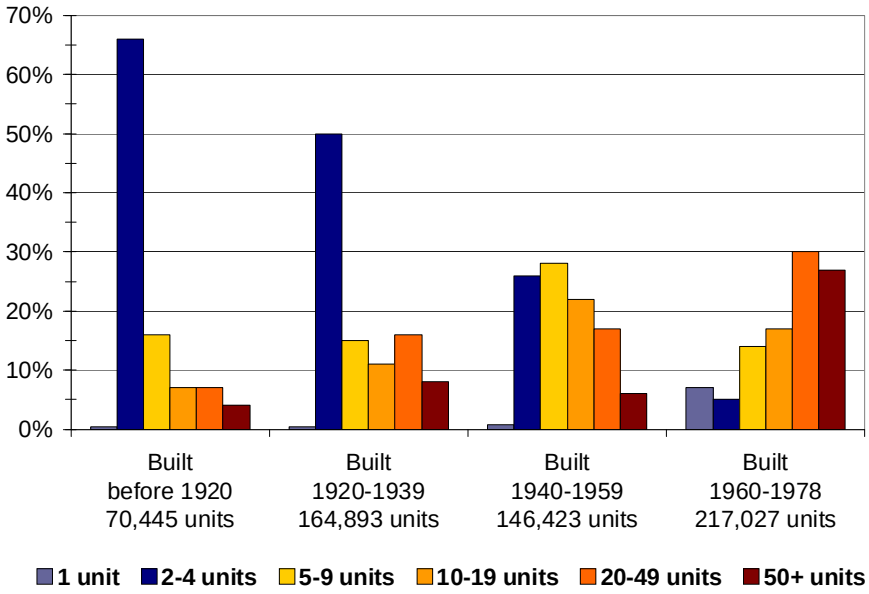
Table 4-1
Distribution of RSO Properties by Number of Units

| No. RSO Units on Property | Number of Properties | Number of RSO Units | Percent of RSO Units |
|---|---|---|---|
| 1 | 17,951 | 17,951 | 3% |
| 2 | 42,175 | 84,350 | 13% |
| 3 | 14,383 | 43,149 | 7% |
| 4 | 14,116 | 56,464 | 9% |
| 5 to 9 | 16,929 | 112,933 | 18% |
| 10 to 19 | 7,313 | 95,118 | 15% |
| 20 to 29 | 2,552 | 59,409 | 9% |
| 30 to 49 | 1,802 | 66,817 | 10% |
| 50 to 74 | 568 | 33,736 | 5% |
| 75 to 99 | 173 | 14,818 | 2% |
| 100 to 149 | 148 | 17,454 | 3% |
| 150 to 199 | 67 | 11,401 | 2% |
| 200 or more | 77 | 24,451 | 4% |
| **TOTAL** | **118,254** | **638,051** | **100%** |

*Source: LAHD Data base, Author's analysis*

The distribution of building sizes and ages varies dramatically among the Area Planning Commission (APC) regions of the City, as shown in Figure 4-2.[5] The older stock is mostly in buildings with four units or less and in two of the older sections of the City (*East LA* and *South LA*). In *Central LA*, *East LA*, and *South LA*, more than half of all units were constructed before World War II.

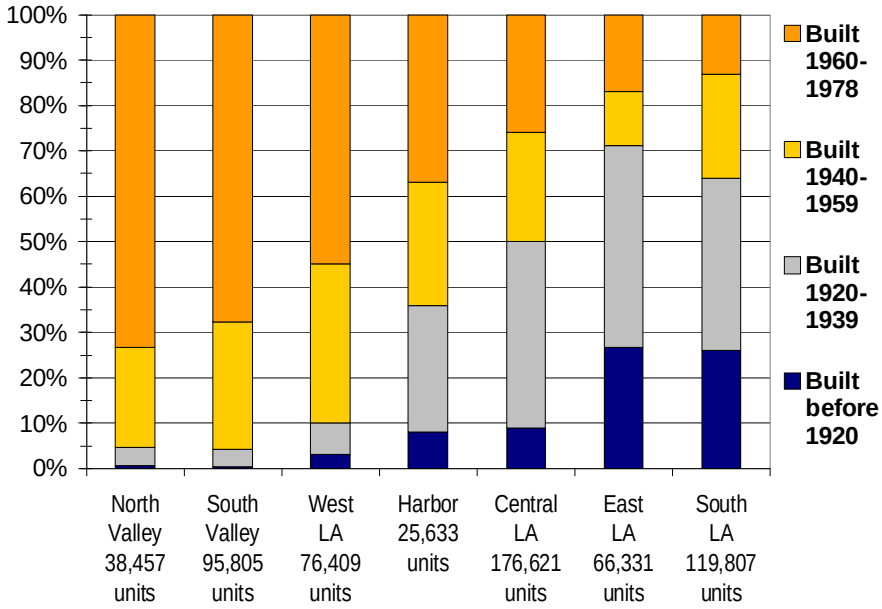
Figure 4-1
Units Covered by RSO by Age and Size of Building




*Source: County Assessor's and LAHD Database, Author's analysis.*

The correlation between the average number of units in the property and location is demonstrated in Table 4-2. In *East LA*, *South LA* and the *Harbor* area, more than half of the units are in buildings with four or less units, compared to less than 22 percent in the *Valley* and *Central LA*. Conversely, over half of the units in the *San Fernando Valley*, a newer area of the City, are in buildings with 20 or more units, compared to 15 percent or less of the units in *East LA*, *South LA* and the *Harbor* area.

Figure 4-2
Distribution of RSO Units by Location and Age of Building




*Source: County Assessor's and LAHD Database, Author's analysis.*

## Turnover in Tenancies

Tenant turnover rates are a critical determinant of the impact of the RSO. On the one hand, turnover in tenancies provide apartment owners with the opportunity to reset their rents at market levels. On the other hand, turnover triggers the expenses associated with rent losses during any period of vacancy,

the costs of cleaning and renewing apartments, leasing costs, and an owner's time showing apartments to attract new tenants. In focus group sessions that were conducted as a part of this study, apartment owners indicated that just the physical work associated with apartment turnover typically costs in the range of $1,500.

Table 4-2

Distribution of RSO Rental Units by Location and Size of Building

| Planning Region | Number of Rental Units | Percent of Units by Size of Building | | | | | |
|---|---|---|---|---|---|---|---|
| | | 1 unit | 2-4 units | 4-9 units | 10-19 units | 20-49 units | 50 + units |
| **LA CITY** | **618,767** | **3%** | **30%** | **18%** | **15%** | **20%** | **14%** |
| **North Valley** | 38,574 | 7% | 14% | 8% | 9% | 31% | 31% |
| **South Valley** | 97,242 | 6% | 11% | 15% | 15% | 30% | 23% |
| **West LA** | 77,125 | 7% | 19% | 25% | 20% | 16% | 13% |
| **Central LA** | 183,568 | 1% | 18% | 17% | 18% | 28% | 19% |
| **East LA** | 68,416 | 1% | 57% | 19% | 11% | 7% | 6% |
| **South LA** | 127,760 | 1% | 53% | 20% | 14% | 9% | 3% |
| **Harbor** | 26,082 | 3% | 50% | 19% | 14% | 8% | 7% |

*Source: County Assessor's and LAHD Data base, Author's analysis. Note: some records do not have geographic and are left out of this table.*

Census data on tenants in buildings constructed in 1979 or earlier (a surrogate for the RSO inventory) indicates that **19 percent of RSO tenants moved into their units within the past year, another 32 percent moved in within the past two to five years, 25 percent occupied their units for between five and nine years, and 23 percent of the tenants occupied their units for ten years or more.**[6] Combining the first two categories, 51 percent of RSO tenants had moved into their units in the past five years.

The following discussion provides data on differences in the rate of turnover of tenants within differing periods and within different portions of the city's rental housing stock.

Detailed data on turnover patterns were obtained from the 2000 Census. However, this data reflects a period that followed a decade in which rents increased at a slower rate than the CPI, as opposed to the period since 2000 in which market rents have increased at a more rapid rate than the CPI.

Data on rates of turnover in 2006 is subject to the limitation that the annual American Community Survey (ACS) sample is not large enough to provide an adequate data sample on smaller subsets such as older or larger apartment buildings.

*Variations in Turnover Rates by Size of Building and Age of Building*

**Census data indicates that there are differences in turnover rates among different portions of the rental housing stock and that turnover rates have declined since 2000**, as shown in Table 4-3. In the 2006 American Community Survey, 47 percent of the tenants *in all rental units* reported that they had occupied their units for five or more years, compared to a range of 26 to 30 percent of the tenants in the prior decennial census surveys. However, the turnover rate for tenants in 2006 was still over 50 percent within a five-year period.

Among buildings that were *constructed before 1980*, **the rate of turnover in buildings with 2 to 9 dwelling units was a little lower than the rate for buildings with 10 or more units**. In 2- to 9-unit buildings, 49 percent of all tenants moved in within the past five years,

while in buildings with 10 or more units 53 percent of all tenants have moved in within the past five years. The rate of turnover was similar when the sample was limited to buildings with 20 more units.

Table 4-3
Length of Time in Same Rental Unit 1980-2006
*All Rental Units in the City of Los Angeles*

| Decennial Census | | | | | American Survey | |
|---|---|---|---|---|---|---|
| *Length of Tenancy* | **1980** | **1990** | **2000** | | *Length of Tenancy* | **2006** |
| 0 - 1.25 years | 36% | 36% | 31% | | < 1 year | 21% |
| 1.3 - 5.3 years | 39% | 34% | 42% | | 1 - 4.9 years | 33% |
| 5.4 - 10.3 years | 14% | 14% | 14% | | 5 - 9 years | 25% |
| 10.4+ years | 11% | 16% | 14% | | 10+ years | 22% |

*Source: U.S. Census, 1980, 1990, & 2000 decennial censuses and ACS 2006*

*Comparison of Turnover Rates RSO versus Non-RSO Units*

**Rates of turnover are not substantially higher in the newer portions of the Los Angeles stock that are not covered by the RSO than in RSO units.** In units *constructed between 1980 and 1999*, 59 percent of all tenants moved in within a five-year period, compared with 51 percent in the pre-1980 rental stock.[7] It should be noted that the post-1980 rental stock is in substantially larger buildings on the average, which also have higher rates of turnover than in the pre-1980 stock.

## Trends in Market Rents

**Since 2000, median rents for all Los Angeles rental units, including rent-controlled units and units constructed after 1978, have increased at a rate substantially above the rate that rents increased during the prior decade** (see Table 4-4) and substantially above the rate of increase in the Consumer Price Index (CPI).[8] From 2000 to 2006, the median rent for all rental units increased from $672 to $939, a 40 percent increase, compared to a 23 percent increase in the CPI during this same period, and an 18 percent increase in rents during the prior decade (Figure 4-3).[9] From 2000 to 2006, median rents in the pre-1980 RSO stock, increased by 40 percent, compared to a 38 percent increase in non-RSO buildings constructed between 1980 and 1999.

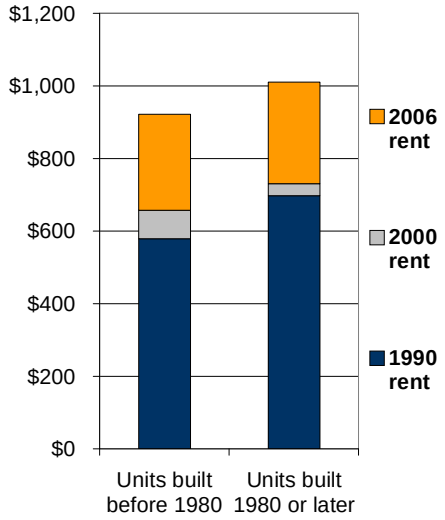
In dollar terms, from 2000 to 2006, the median monthly rent for units constructed before 1980 increased by $265 to $922 a month. This is $88 less than the median rent for units constructed

Table 4-4
Percent Increase in Median Rents
Units Constructed 1979 or Earlier
Compared with Units Constructed 1980 or Later

| | Constructed 1979 or earlier | Constructed 1980 or later |
|---|---|---|
| Increase 1990-2000 | 14% | 5% |
| Increase 2000-2006 | 40% | 38% |

*Sources: PUMS 1990 and 2000 Census, 2006 ACS*

Figure 4-3
Median Rents for Units Built before 1980 versus 1980 or Later




*1990, 2000 Census, 2006 ACS, PUMS*

1980 or later.

**From 2000 to 2006, the greatest percentage increases in rents occurred in the areas that had the lowest rents in 2000.** In *East LA* and *South LA*, which had median rents of about $570 in 2000, the median rent increased by over 40 percent, as shown in Table 4-5. Conversely, in *West LA*, which had the highest rents, the increase from 2000 to 2006 was only 29 percent.

The increases from 2000 to 2006 in *median* rents of RSO buildings varied among the 7 APC's by $47, ranging from a low of $233 to a high of $280 Increases in *mean* (average) rents differed by $91, ranging from $238 to $329. Among five of the APC's (excluding *West LA* and the *Harbor* area), the differential in *mean* rent increases from 2000 to 2006 was only $33, ranging from $268 to $301.

*Rent Increases Since 2006*

In May 2008, the CPI rent index for the LA region was 10 percent higher than the annual average level in 2006.[10] This compares with a 7.6 percent increase in the CPI all-items during the same period, indicating that when this report was written, rent inflation still exceeded the overall rate of inflation in LA's economy.[11]

*Rents of Newer Tenants versus Longer Term Tenants*

Data on average rent levels based on length of occupancy reveals substantial differences between the rents of recent movers and long-term tenants, as shown in Figure 4-4.[12] In 2006, the average rent of tenants who had moved into their units within the two prior years was approximately 15 percent higher than the average rent of tenants who had moved in more than two years ago. This difference is probably **attributable to the increases obtained upon vacancies** and the likelihood that tenants with lower rents are more likely to stay in place.

Table 4-5
Increases in Median and Average Rents from 2000 to 2006 by APC
Rental Housing Constructed before 1980

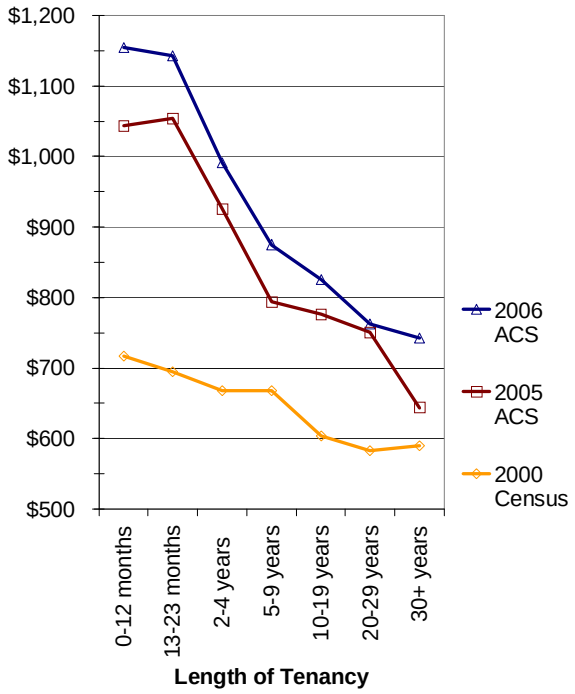
| | LA CITY | North Valley | South Valley | West LA | Central LA | East LA | South LA | Harbor |
|---|---|---|---|---|---|---|---|---|
| | **MEDIAN RENT** | | | | | | | |
| Median Rent 2000 | $657 | $693 | $734 | $859 | $610 | $567 | $570 | $658 |
| Median Rent 2006 | $922 | $970 | $1,010 | $1,110 | $890 | $800 | $820 | $900 |
| **Dollar Increase 2000-2006** | **$265** | **$277** | **$276** | **$251** | **$280** | **$233** | **$250** | **$242** |
| **Percent Increase 2000-2006** | **40%** | **40%** | **38%** | **29%** | **46%** | **41%** | **44%** | **37%** |
| | **MEAN RENT** | | | | | | | |
| Mean Rent 2000 | $735 | $782 | $847 | $959 | $693 | $592 | $600 | $704 |
| Mean Rent 2006 | $1,016 | $1,083 | $1,144 | $1,288 | $981 | $860 | $873 | $942 |
| **Dollar Increase 2000-2006** | **$281** | **$301** | **$297** | **$329** | **$288** | **$268** | **$273** | **$238** |
| **Percent Increase 2000-2006** | **38%** | **39%** | **35%** | **34%** | **42%** | **45%** | **46%** | **34%** |

*Sources: PUMS Census 2000 and ACS 2006, Economic Roundtable Analysis*

The rent differential between new and long-term tenants has increased markedly since 2000. The growing difference since 2000, between the average gross rents of RSO tenants who had been in their units 12 months or less versus tenants in their units for 5 to 9 years, as reported by the Census Bureau, is as follows:

- 2000 Census: $49
- 2005 ACS: $249
- 2006 ACS: $279

Figure 4-4
Average RSO Rents in 2000, 2005 and 2006 based on Length of Tenancy
*Rents in current-year dollars*




*Sources: PUMS- Census 2000, ACS 2005 and 2006 PUMS.*

**Summary**

Information about the RSO inventory and the rental market presented in this section indicates that:

- *The RSO inventory of units can be divided into thirds: a third are on properties with 4 or less units, a third are in properties with 5 to 19 units, and a third are in properties with 20 or more units.*
- *Building size is largely a function of the period in which a building was constructed – in earlier eras, small buildings were the mainstay of rental housing.*
- *Fifty-one percent of RSO tenants moved into their current unit within the past 5 years, 21 percent 5 to 9 years ago, and 23 percent 10 or more years ago.*
- *Turnover rates have declined since 2000.*
- *The rate of turnover in buildings with 2 to 9 dwelling units was a little lower than the rate for buildings with 10 or more units.*
- *Rates of turnover are a little higher in the newer portions of the Los Angeles stock that are not covered by the RSO than in RSO units.*
- *From 2000 to 2006, rents increased most in the areas that had the lowest rents in 2000.*
- *Increases in rents since 2000 are mainly attributable to the increases obtained upon vacancies.*

## THE IMPACTS OF THE ANNUAL RENT INCREASE CEILINGS

Under the RSO, the principle rent adjustment mechanism apart from vacancy increases, is the annual rent increase allowance. In the past five years, capital improvement increases have been authorized for buildings with 4 percent of all units.

In this section we look at the impacts of RSO ceilings on rent increases for continuing

tenants and the incomes of apartment owners and compare the ceiling with other measures of rent increases.

Table 4-6
Comparison of Increases in U.S. CPI Rent Index and CPI-All Items Index

| Time Period | % Change in U.S. CPI Rent Index | % Change in U.S. CPI All-Items Index | Increase in Rent Index as % of Increase in All-Items Index |
|---|---|---|---|
| 1913*-1920 | 31% | 102% | 30% |
| 1920-1930 | 14% | -17% | inverse relationship |
| 1930-1940 | -24% | 16% | inverse relationship |
| 1940-1950 | 25% | 72% | 35% |
| 1950-1960 | 30% | 23% | 132% |
| 1960-1970 | 20% | 31% | 65% |
| 1970-1980 | 74% | 112% | 66% |
| 1980-1990 | 71% | 59% | 121% |
| 1990-2000 | 33% | 32% | 104% |
| 2000-2007 | 28% | 20% | 136% |

*Source: Author's tabulations based on BLS Consumer Price Index*
** 1913 - First year CPI index compiled*

## Annual Allowable Rent Increases under the RSO Compared to Increases in the Consumer Price Index (CPI)

Traditionally the benchmark for assessing the reasonableness of regulated rent increase has been increases in the CPI. The concept has been that rents should keep up with inflation. Long-term commercial leases have commonly provided for annual adjustments tied to the CPI. Rent control ordinances commonly tie annual increases to all or a portion of the percentage increase in the CPI.

The Rent Index portion of the Consumer Price Index has been published by the Bureau of Labor Statistics since 1913. That data indicates that from 1913 through 1980, on average, U.S. rents increased by approximately two-thirds of the rate of increase for all items in the CPI (the CPI all-items index). During four decades between 1940 and 1980, rents increased at less than two-thirds the rate of increase in the CPI. At other times, rents increased at a much greater rate than the CPI. In some periods, rents increased while the CPI decreased and vice versa. Since 1980, in the U.S. and Los Angeles, the rate of increase in rents has exceeded the rate of increase in the CPI.

While the concept has been that rents should keep pace with inflation, this is not a law of nature in the market. In fact, during substantial portions of our history, the rate of rent increases has been below the rate of increase in the CPI, while during other periods rent increases have substantially exceeded the rate of increase in the CPI, as shown in Table 4-6.

**Allowable Annual Rent Increases under the RSO Compared with Increases in:**

- *Average Rents in the U.S.*
- *Average Rents in the Los Angeles region*
- *Average Rents in the City of Los Angeles*

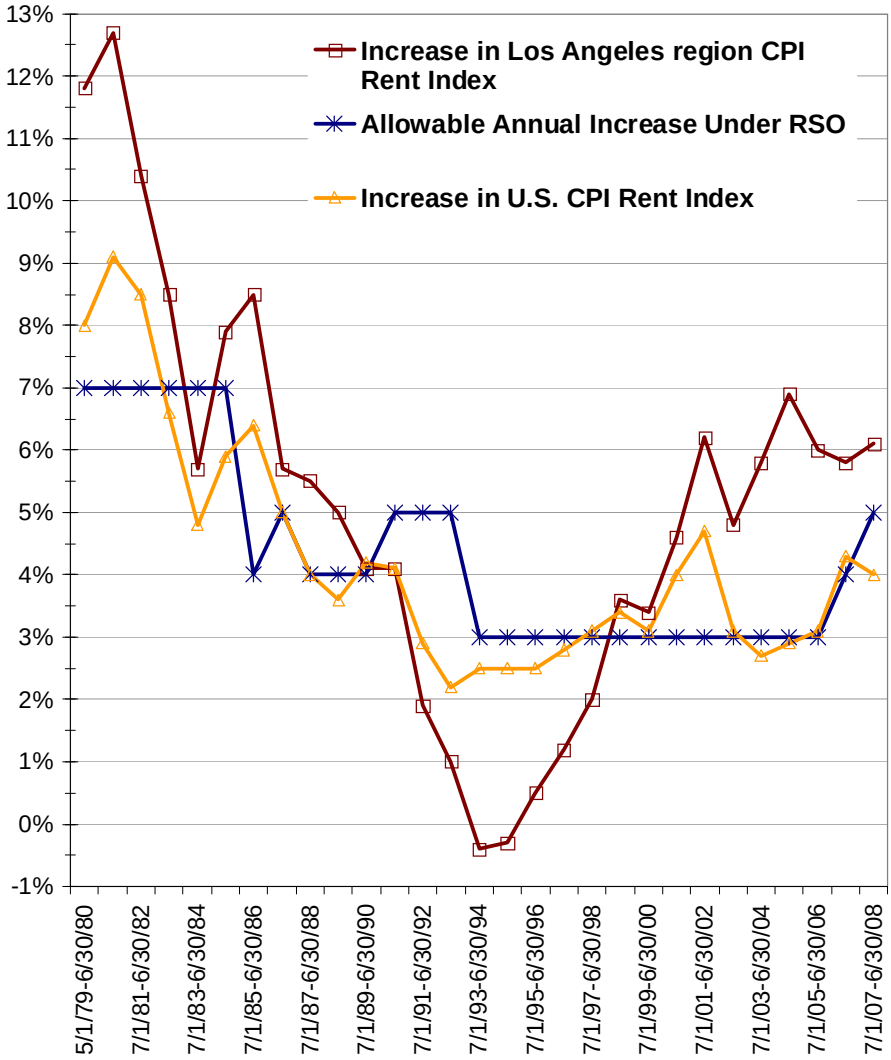
**In each year in the 1980's and since 1999 (but not from 1990 through 1998), the RSO ceilings on annual rent increases have limited rent increases for sitting tenants to levels below the overall rate of rent increases realized in the unregulated market in the Los Angeles region.**

In the 1990's, the annual increases ceilings authorized under the RSO were far greater than the increases that could be realized in the Los Angeles market. From 1990 to 2000, the Los

Angeles area rent index increased by 18.2 percent compared to 39.7 percent in rent increases authorized pursuant to the annual increase provisions under the RSO. From 1991 through 1998, annual allowable increases under the RSO actually exceeded the overall increases in Los Angeles area rents. In contrast, from 2000 to 2007, Los Angeles area rents increased by 49.1 percent compared to rent increases of 26.7 percent authorized under the annual increase provisions of the RSO.

While the **annual** increases authorized **under the RSO** have been below the annual increases in the Los Angeles market, they have been generous **when compared with trends in U.S. rent**s, as shown in Figure 4-5 (data is shown in the accompanying endnote).[13]

Figure 4-5
Comparison of Annual Increases under the RSO with Increases in Los Angeles Region and U.S. CPI Rent Indexes




*Sources: U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price Index - All Urban Consumers, Los Angeles region; and City of Los Angeles Housing Department*

The annual allowable RSO rent increases:

- Exceeded or were within a half percentage of the average rent increases in the U.S. rental housing market (as measured by the CPI rent index) in 23 of the 29 years since the RSO was adopted.
- Exceeded the percentage increases in the U.S. rent index for 14 of those years and equaled or were within one-half a percent of the percentage increases in the U.S. rent in 9 of those years.
- Were more than one-half percent below the percentage increases in the national rent index in 6 out of the past 29 years.

To understand the foregoing trends and comparisons, it should be noted that the CPI rent indexes include both regular rent increases and increases associated with vacancies. Figure 4-5 compares those increases with the annual allowable rent increases authorized under the RSO, without taking into account the unlimited increases that are authorized upon vacancies under the RSO.

### Annual Allowable Increases under the RSO Compared with Rent Increases in Other Metropolitan Areas

A comparison between the annual rent increases authorized under RSO from 2000 to 2008, and the rate of increase in the CPI Rent Index for the 23 metropolitan areas for which the Bureau of Labor Statistics compiles this index shows that **annual rent increases under the RSO exceeded market-driven rent increases in 15 of the 23 metropolitan areas over the past eight years**, as shown in Table 4-7.

Table 4-7

Annual Increases Allowed under RSO Compared with CPI Rent Index Increases in Standard Metropolitan Statistical Areas

| | 1980-2000 | 2000-2008 | 1980-2008 |
|---|---|---|---|
| Annual Increases authorized under the RSO | 145.30% | 26.60% | 210.50% |
| **Area** | **Increase in SMSA Rent Index** | | |
| U.S. | 127.3% | 27.6% | 190.1% |
| Los Angeles Area | 130.8% | 49.2% | 244.4% |
| S.F. - Oakland | 202.8% | 21.3% | 267.3% |
| Anchorage | 84.5% | 23.6% | 128.1% |
| Atlanta | 142.4% | 11.5% | 170.2% |
| Boston | 169.3% | 31.0% | 252.8% |
| Chicago | 149.8% | 25.6% | 213.7% |
| Cincinnati | 105.7% | 17.7% | 142.2% |
| Cleveland | 108.6% | 16.1% | 142.2% |
| Dallas | 108.3% | 8.6% | 126.3% |
| Denver | 132.3% | 10.5% | 156.8% |
| Detroit | 96.8% | 18.6% | 133.4% |
| Honolulu | 122.3% | 37.2% | 205.1% |
| Houston | 86.0% | 18.6% | 120.6% |
| Kansas City | 117.2% | 18.4% | 157.2% |
| Miami | 93.1% | 46.2% | 182.3% |
| Milwaukee | 115.1% | 17.7% | 153.3% |
| Minneapolis | 116.3% | 15.0% | 148.9% |
| New York City | 150.2% | 37.1% | 243.1% |
| Philadelphia | 141.3% | 29.6% | 212.9% |
| Pittsburgh | 93.2% | 21.7% | 135.0% |
| Portland | 112.4% | 14.7% | 143.6% |
| St. Louis | 91.6% | 20.1% | 130.1% |
| San Diego | 143.0% | 46.7% | 256.4% |
| Seattle | 112.7% | 21.2% | 157.8% |

*Source: Author's calculations based on Bureau of Labor Statistics, CPI*

### Impact of RSO Ceilings on Rent Increases for Continuing Tenants

The foregoing data demonstrates that in the 1980's and since 2000 vacancy decontrolled rent levels have increased by more than the amounts authorized for continuing tenants in units covered by the RSO. If, in the absence of the RSO, apartment owners had raised the rents for continuing tenants at the same rate as rents were increased for decontrolled units, this difference could be a measure of the rent savings realized by tenants and the rent losses incurred by apartment owners because of the RSO.

However, longer term experience and the results of the surveys conducted in conjunction with this study support the conclusions that: 1) in unregulated markets, apartment owners do not

impose the same rent increases on continuing tenants as are implemented for units when they become vacant and 2) a significant portion of the apartment owners covered by the RSO do not impose all of the annual rent increases that are permitted under the RSO on continuing tenants.

The authors of an earlier Rand Institute study noted that in the 1970's, prior to the adoption of the RSO, rents for continuing tenants increased at about 80 percent of the rate of increase in the CPI rent index: [14]

> *... there is a pronounced tendency in most U.S. cities for continuing tenants to receive smaller rent increases than new tenants. For example, in Los Angeles between 1974 and 1977, continuing tenants in multifamily housing saw their rents rise at about 80 percent of the rate of increase in the rental housing component of the CPI...*
>
> *The importance of tenure discounts for analyzing rent control in Los Angeles is that continuing tenants, who are protected by the L.A. law, would in the absence of rent control receive below-average rent increases, while new tenants who are unprotected, would receive above average-rent increases. Failure to account for these differences would lead one to markedly overstate the efficacy of controls in reducing rents.*

The tenant and landlord surveys that were conducted in conjunction with this study indicate that in a significant portion of units, apartment owners have not imposed the annual increases authorized under the RSO. This has occurred even though: 1) market rents have increased by more than the annual allowable increases under the RSO since 2000, 2) the allowable increases were significant, 4 percent in 2006 and 5 percent in 2007, and 3) apartment owners cannot “bank” annual increases that are not implemented within 12 months of their authorization. Nevertheless, 20 percent of the respondents in the survey of apartment owners indicated that they do not usually implement the annual rent increases allowed under the ordinance, and 22 percent indicated that whether or not rents are increased depends on the tenant.

In the survey of tenants, 25 percent of the respondents who had moved into their apartments in 2004 or 2005 indicated that they had not been subject to any increases since they moved in. The survey results indicate that owners of small buildings are much more likely than owners of larger properties to forego annual allowable rent increases. In buildings with between two and ten units, 40 percent of the respondents who had moved into their apartments in 2004 or 2005 indicated that they had not been subject to any increases since they moved in, compared to 14 percent of the respondents in buildings with eleven or more units.

**Summary**

Information about the impacts of RSO ceilings on rent increases presented in this section shows that:

- *In the 1980's and since 1999 (but not from 1990 through 1998), the RSO ceilings on annual rent increases have limited rent increases for sitting tenants to levels below market-rate increases in the LA region.*
- *The annual percentage rent increase allowed under the RSO exceeded or roughly equaled the percentage increase in national rents during 23 of the past 29 years.*
- *Over the past eight year period, annual rent increases under the RSO exceeded market rent increases in 15 of 23 metropolitan areas in the U.S.*

## AVERAGE APARTMENT OPERATING COSTS AND INCREASES IN OPERATING COSTS

This section discusses trends in apartment operating costs and the relationship of these cost increases to rent increases. Operating costs include the various types of expenses associated with operating apartment buildings, including property taxes, management, maintenance, and insurance, but do not include mortgage interest. (Mortgage interest is considered an investment expense rather than an operating expense.) Typically, in the U.S., apartment operating expense to gross income ratios range from 35 to 60 percent. In California, ratios are typically in the 30 to 40 percent range.

The comparison in this section focuses on increases in operating expenses from 1999 to 2006. These years are used because 1999 is the end of a period during which operating cost levels remained fairly flat and 2006 is the latest period for which operating cost data is reported from most of the available sources. Where cost data or is available for 2007 or 2008 and/or rate increases have occurred in these years, this information is also reported.

Seven sources of real estate industry data on the operating costs of apartments in the Los Angeles area used in this analysis to estimate average apartment operating costs. A detailed description of these data sources is provided in the Methods Appendix. In addition to these seven data sources, publicly available databases and other public reports are used to estimate the amounts of other specific types of expenses. The seven data sources are:

1. Institute of Real Estate Management (IREM) - *Income/Expense Analysis Apartments*
2. Urban Land Institute (ULI) Studies
3. National Apartment Association
4. Apartment Building Appraisers and Analysts (Long Beach), *Apartment Building Operating Expense Guidelines*
5. Apartments for sale listings
6. Property tax records
7. Utility cost studies by the Santa Monica Rent Board

### Average Operating Costs and Variations in Operating Expenses

The average expense levels reported by these data sources are shown in Table 4-8. **In Los Angeles, apartment operating costs are typically in the range of 25 to 35 percent of rental income**. Data sources based on smaller buildings reported monthly operating costs averaging less than $300 per apartment per month. The reports on larger buildings showed average expense levels ranging from $350 to $434 and showed higher than average rents. Some of the difference between the ratios for the smaller and larger buildings may be attributed to the fact that **smaller buildings are more likely to be owner managed and, therefore, involve a type of "labor expenditure" by the owner that is not recorded as an expense**. Another source of the differences may be that the data for smaller properties was provided in conjunction with real estate listings or appraisals in which owners had incentives to provide conservative estimates of their expenses.

Table 4-8

Average Overall Apartment Operating Costs per Apartment Unit per Month - Los Angeles Area

| Source | Type of Sample (year) | Sample Characteristics | | | **Average Rent** | **Monthly Oper. Cost/ Unit** | Median Ratio |
|---|---|---|---|---|---|---|---|
| | | Bldgs | Units | Avg. No. Units | | | |
| **Expense Surveys - Average Building Size Under 20 units** | | | | | | | |
| Real Estate Listings | (2007) | 235 | 4,299 | 18 | **$825** | **$283/avg.** | 34.3% |
| Apt. Bldg.Appraisers & Analysts | 6-32units (2006) | 43 | 463 | 11 | **$980** | **$255/avg.** | 26% |
| **Expense Survey - Average Building Size - 56 units** | | | | | | | |
| Urban Land Institute | Under 100 units (2004) | 120 | 6,749 | 56 | **$990** | **$350** | 35.0% |
| **Expense Surveys - Average Building Size - over 100 units** | | | | | | | |
| Inst. Real Estate Mgmt. | Garden Apts. (2004) | 46 | 8,056 | 175 | **$1,034** | **$364** | 35.2% |
| Inst. Real Estate Mgmt. | Garden Apts. (2005) | 42 | 9,484 | 225 | **$1,284** | **$418** | 32.5% |
| Inst. Real Estate Mgmt. | Garden Apts. (2006) | 59 | 14,368 | 243 | **$1,345** | **$454** | 33.8% |
| Urban Land Institute | 100-299 units (2004) | 157 | 27,776 | 176 | **$1,102** | **$392** | 35.0% |
| National Apt. Ass'n | (2005) | 40 | 9,752 | 244 | **$1,368** | **$413** | 30.2% |
| National Apt. Ass'n | (2006) | 47 | 11,599 | 247 | **$1,427** | **$436** | 30.1% |

*Sources: Tabulations of author based on Real Estate Listings available on Loopnet.com Nov. 2007; Apartment Building Appraisers & Analysts, "Apartment Building Operating Expense Guideline 2006; Urban Land Institute, "Dollars and Cents of Multifamily Housing:2006", Institute of Real Estate Management, "Income/Expense Analysis Conventional Apartments." (2005, 2006, and 2007 editions); National Apartment Association, 2006 & 2007 "Survey of Operating Income & Expenses in Rental Apartment Properties".*

## Increases in Overall Apartment Operating Costs

As of 1992, the average of overall operating cost per apartment per month, as reported in California Franchise Tax Board (FTB) data was $176.[15] The average operating cost for the IREM sample, which included buildings with higher than average rents, was $238 in 1992.

Since 1992, detailed operating cost data has been limited to industry sources. These sources indicate that trends in operating expenses have paralleled trends in rents, which increased by only 18.2 percent from 1990 to 2000 and have increased by 39.7 percent since 2000. The one source on operating expenses from 1992 to 1999, the Institute of Real Estate Management (IREM), indicates that operating costs remained virtually unchanged from 1992 to 1999. Average monthly operating expenses per apartment per month for garden apartments were: $238 in 1992, $226 in 1996, and $252 in 1999.

In contrast, substantial operating cost increases are reported from 1999 to 2006. The IREM reports indicate that median operating costs per apartment per month increased from $252 to $454, or $202 above their level in 1999. The rate of increase during this period was $28.85 per year.

The Urban Land Institute data on a large sample of buildings with less than 100 units, with an average size of about 50 units, indicates that average expenses increased from $274 per apartment per month in 1999 to $350 in 2004, an increase of $15 per year.

In contrast to the foregoing expense reports, the Apartment Building Appraisers & Analysts reports, which are based on a sample of buildings that are typical in size for Los Angeles, indicate that average operating expenses per apartment per month only increased from around $230 in 1996 to $255 in 2006.[16] Also, in contrast to the IREM and ULI reports, the real estate listings reported an average of $283 in monthly operating expenses per apartment.

Experience indicates that trends in apartment operating costs are not determined simply by changes in the costs of providing the same levels of maintenance and services.[17] They are also influenced by the sensitivity of rent and vacancy levels to changes in expenditures on maintenance and services. Trends in some types of apartment operating expenses - water, sewer, refuse collection, common area gas and electricity, and insurance - may be largely beyond the control of apartment owners. However, the total of these expenses is small relative to rental income (less than 10 percent of rental income). The annual increase in one major expense, property taxes, is limited to 2 percent per year except when a property is sold. Two of the **major operating expenses - management and maintenance - are subject to substantial discretion and control by owners**.

The dynamics of the market at a particular time may provide incentives to either reduce, just maintain at current levels, or increase maintenance and/or service expenditures. Owners have incentives to reduce maintenance and services expenditures if these strategies either will not result in reductions in rental income or will reduce rental income by less than the corresponding cost reductions. Alternatively, market dynamics may induce increases in maintenance and services that will garner rent increases exceeding increases in expenditures. These factors may explain why operating expenses barely increased in the 1990's and why they have increased substantially since the 1990's. **The differences in average operating expenses reported for larger buildings compared to smaller buildings may reflect differences in operating strategies among owners of smaller and larger buildings, with owners of larger properties preferring to maximize rents, while owners of smaller properties may prefer to minimize the costs associated with turnover**.

### Operating Expenses by Type of Expense - Ratios of Operating Expenses to Rental Income

As indicated, overall operating expenses total about 25 to 35 percent of rental income, on average. Management, maintenance, and property taxes make up the bulk of operating expenses**.** Insurance and utilities (common area gas, common area electricity, water and sewer, refuse collection) each average less than 2 percent of rental income. Therefore, even substantial increases among the latter group of costs would have a relatively small impact on overall operating expenses and net operating income.

The following tables, starting with Table 4-9, contain operating expense ratio data by category of expense from Institute of Real Estate Management and Urban Land Institute reports. As noted, the buildings in these samples are larger than the average building in Los Angeles. However, this data provides information on typical ratios of each of the types of apartment operating expenses to rental income. The sources of data on operating costs for smaller buildings do not contain systematic breakdowns of expenses by category. Table 4-9 shows that **net operating income for larger properties is in the 61 to 66 percent range**.

## Increases in Apartment Operating Expenses by Type of Expense

*Property Taxes*

Property taxes are set at 1.1 percent of assessed value. In addition, property owners are subject to a variety of assessments. In the absence of a sale, annual increases in assessed value are limited to 2 percent per year. Properties are reassessed at market value when a building is sold.[18] As a result, in a market where real estate values have been increasing, the level of property tax expense is largely a function of the length of ownership of a property.

The average per-unit assessed value of RSO buildings with five or more units is broken out for the years 1999 through 2007 in Figure 4-6.[19] The surge in property values, and increase property

Table 4-9
Operating Expense/Income Ratios - Los Angeles Apartments

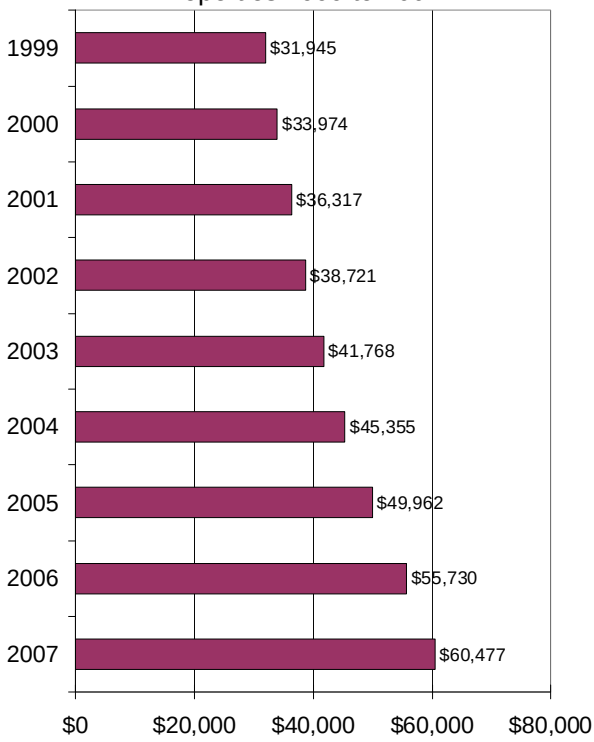
| **Institute of Real Estate Management Survey** 2006 Operating Expenses | | **Urban Land Institute Survey** Apartment Bldg. less than 100 units 2004 Operating Expenses | |
|---|---|---|---|
| Total no of Properties | 59 | Total no of Properties | 120 |
| Total no of Units | 14,368 | Total no of Units | 6,749 |
| Median Sq. Ft. per Unit | 882 | | |
| **Average No. Units per Bldg.** | **243** | **Average No. Units per Bldg.** | **56** |
| Rent-Apartments | 95.7% | Gross Potential Rent | 100.0% |
| Rents-Garage/Parking | | Gross Potential Resident Rent | 100.0% |
| Vacancies/Rent Loss | 5.6% | Interest Income | 0.1% |
| Total Rents Collected | 90.0% | Other Income | 2.4% |
| Other Income | 4.1% | Loss to Vacancies | 2.4% |
| Gross Possible Income | 100.0% | **Total Net Revenue** | **101.5%** |
| Total Collections | 94.4% | | |
| **Expenses (% of Gross Possible Income)** | | **Expenses (% of Gross Potential Income)** | |
| Management Fee | 3.4% | Property Management Fee | 5.0% |
| Other Administrative | 3.9% | Total Administration | 2.3% |
| Subtotal Administrative | 7.0% | Marketing | |
| Supplies | 0.3% | Payroll/Benefits | 6.4% |
| Heating Fuel (C. Area only) | 1.2% | Maintenance | 8.8% |
| Electricity (Com. Area only) | 1.2% | Total Utilities | 5.2% |
| Water Sewer (C. Area only) | 1.2% | Water/Sewer | 1.8% |
| (Common Area & Apts) | 1.6% | Electricity | 1.5% |
| Gas(Common Area only) | 0.6% | Gas | 2.3% |
| Building Services (Includes Refuse) | 4.1% | Insurance | 2.0% |
| Other Operating | 1.0% | Taxes | 6.1% |
| Subtotal Operating | 5.5% | **Total Operating Expenses** | **35.3%** |
| Security (28 of 59 bldgs.) | 0.4% | | |
| Grounds Maintenance | 1.3% | **Net Operating Income** | **66.4%** |
| Maintenance Repairs | 1.9% | | |
| Painting/Decorating | 1.6% | | |
| Subtotal Maintenance | 5.2% | | |
| Real Estate Taxes | 7.2% | | |
| Other Tax/Fee/Permit (23 of 59 bldgs.) | 0.3% | | |
| Insurance | 1.4% | | |
| Subtotal Tax/Insurance | 9.5% | | |
| Recreation/Amenities (44 of 59 bldgs.) | 0.2% | | |
| Other Payroll | 3.9% | | |
| **Total All Expenses** | 31.7% | | |
| | | | |
| **Net Operating Income** | **61.8%** | | |

values is demonstrated by the fact that the average assessed value per unit has almost doubled during this period, increasing from $31,945 to $60,477.

The assessed values shown in Figure 4-6 are *average* values. However, the pattern of property tax increases is "bifurcated," rather than grouped around the average. For one portion of apartments, those that have been sold within the past four years, average assessed values are in the range of $100,000 or more. For the other segment of apartments that have been in the same ownership for more years, increases in assessments are much lower because property tax increases have been limited to 2 percent per year over the original purchase price.

A sample of property tax bills including buildings with several hundred thousand units, but not including apartments in the San Fernando Valley,[20] indicates that the average property tax bill for buildings of five units or more, which were built before 1979, was $67 per apartment per month in the current property tax year. The property tax bills include assessments as well as property taxes.

Figure 4-6
Average per Unit Assessed Value of RSO Properties 1999 to 2007




*Source: Author's tabulation of LA County Assessor's assessed values of apartment buildings with 5 or more units, built 1979 or earlier*

The largest increase in operating expenses is associated with increases in the assessed values of apartments triggered by sales. The average property tax bill for RSO properties purchased in 2004 or later was $114 per apartment per month, compared to the overall average of $67. This difference, in the range of $45 per apartment per month would typically account for about a 15 percent difference in overall apartment operating costs (4 to 5 percent of rental income).

*Water and Sewer Service Costs*

Water and sewer rates are discussed together because they are both based on water consumption and are commonly grouped together in apartment income and expense reports. Average water usage for apartments for the past three fiscal years has been 7.4 per hundred cubic feet (HCF) per month (one HCF = 748 gallons).[21] Water and/or sewer costs are sub-metered or separately metered in only a small proportion of rental units, other than single-family dwellings.

*Water rates*

In 1999, water rates for apartment buildings were in the range of $1.70 per HCF for tier I usage (Tier I is baseline usage) and ranged from $2.33 to $2.98 for tier II usage. Currently,

water rates for apartment buildings are $2.792 per HCF for tier I usage and $3.381 per HCF for tier II usage. Water rates will increase by 3.1 percent in July 2008 and by another 3.1 percent in July 2009. Since 1999, water rates for Tier I usage have increased by approximately $1.10 per HCF or 65 percent.

Table 4-10
Average Water and Sewer Costs per Apt. Unit per Month

| Source | Type of Sample | Sample Characteristics | | | Water & Sewer Costs/Apt./Month |
|---|---|---|---|---|---|
| | | Bldgs | Units | Avg. Size | |
| Apt. Bldg. Appraisers & Analysts | 6-32 units (2006) | 43 | 463 | 11 | $32.75 |
| Urban Land Institute | Buildings under 100 units (2004) | 120 | 6749 | 56 | $18.41 |
| IREM | Garden Apts. (2005) | 21 | | 225 | $24.75 |
| IREM | Garden Apts. (2006) | 26 | | 234 | $23.00 |

*Sewer rates*

From the time of the adoption of the RSO in 1980 to fiscal year 1992-1993, sewer rates rose steadily from virtually zero ($0.07 per HCF) to $2.03 per HCF (.9 x $2.26).[22] After 1992, rates remained unchanged for nine years (FY 1992-1993 to FY 2001-2002). Since FY 2001-2002, sewer rates have increased by 50 percent, from $2.03 per HCF (.9 x$2.26) to $2.74 per HCF (.9 x $3.05).[23] Sewer rates will increase by another 7 percent in July 2008.

*Reported expense levels*

The operating expense reports reported average sewer and water expenses ranging from $23 to $33 per apartment per month in 2006. The Urban Land Institute report indicates that the average was $18.41 in 2004; however, rates have increased substantially since that time, as shown in Table 4-10.

*Estimate of expense increase*

For an apartment with average consumption levels (7.4 HCF per month), the overall cost increase for water and sewer from 1999 to 2007 would be in the range of $13 to $14 per month.[24]

*Refuse Collection*

Private refuse collection services are used for most buildings with more than four units.[25] Operating expense reports indicate that trash collection costs for apartment buildings are typically in the range of $5 to $12 per apartment unit per month. The Apartment Building Appraisers and Analysts report indicates that the average cost for refuse collection in 1999 and 2006 was approximately the same, approximately $10 per apartment per month. In addition, the

expense data from the sample of for sale listings indicated that the average monthly expenditure for 65 buildings with 915 units was approximately $10.

In contrast, City refuse collection services are used for most buildings with four units or less. The City rate for refuse collection is $26 per dwelling unit per month for single-family dwellings and duplexes. The rate for buildings with three or more units is $17.16 per dwelling unit per month. City rates have increased by $10 per apartment unit per month since 2006, and will increase by another $1.32 per apartment unit per month in 2009.

*Gas Utility Cost for Common Areas*

Most apartment owners incur expenses for gas water heating. Other common area gas expenses commonly include provision for gas dryers and/or pool heating.

On average, in the past five years, these expenses have not accounted for more than about one percent of rental income. In 2002, Southern California Edison provided aggregate gas cost data for 252 buildings that indicated that the average common area gas expense averaged $9.62 per apartment per month.[26] In the IREM sample for 2005 and 2006, gas expenses for common areas averaged $12 and $8 per apartment per month. The Apartment Building Appraisers and Analysts report for 2005 estimated that average expenses were $150 per apartment per year or $12.50 per month.

From 1998 through 2007, gas rates fluctuated by as much as 100 percent (from $0.60 per therm[27] to $1.15 per therm), but have usually been below $0.80 per therm. Recently, rates have increased to $1.30 per therm, compared to average rates of about $0.95 per therm in 2006 and 2007. In terms of costs to apartment owners, if this rate increase remains in effect, it will lead to an average cost increase of about $4.00 per apartment per month.

*Electric Utility Cost for Common Areas*

Common area electricity expenses include lighting, washer and dryer motors, elevators, security gates, and/or pool equipment.

On average, these expenses have accounted for one to two percent of rental income. In the IREM sample for 2005 and 2006, common area electricity expenses averaged $13.50 per apartment per month. The Apartment Building Appraisers and Analysts report for 2005 estimated that average expenses were $130 per apartment per year or $11.50 per month. Electricity rates have not changed since 1999.

*Master Metered Gas and Electricity Costs*

Under the RSO, apartment owners who supply gas and electricity for apartment units are permitted additional annual increases of one percent per year for each of these services. These increases have been more than adequate to cover the increases in the costs of these services. Chapter 5 contains a discussion of these cost increases.

*Costs of Complying with the Systematic Code Enforcement Program (SCEP)*

Details on the operation of the SCEP program, which was adopted in 1998, are included in Chapters 1 and 3 of this report. Under this program, all residential rental properties with two or more units are inspected once every four years. The City's annual administrative fee for the SCEP program is $35.52 per rental unit per year (or $2.96 per rental unit per month). This fee may be passed through to tenants.

There is no systematic source of data collection on the costs to apartment owners of complying with this program. In 2004, the Code Enforcement Division reported that 1.8 million violations have been reported for 589,762 units. Therefore, a substantial majority of all units under the RSO have been required to undertake some kind of correction.

In 2004, the SCEP Division made projections of estimated costs of SCEP compliance based on the frequency of each type of required compliance work and an estimate of the cost of performing each type of work.[28] Overall, the Division estimated that the average cost was $658 per violation or $2,063 per apartment. Assuming that these costs were incurred once every four years, the cost for cited units would be $515 per year or $43 per month.

However, one would expect that the cost of complying with SCEP during the current and future rounds of inspections would be lower because apartment owners have made repairs pursuant to the first cycle of inspections. While there is insufficient data to confirm or reject this view, division staff indicated that, in fact, this trend is occurring.

*Insurance*

Table 4-11

Average Insurance Costs per Apartment per Month

| Source | Type of Sample | Sample Characteristics | | | Average Insurance Cost per Apt. per Mo. |
|---|---|---|---|---|---|
| | | Bldgs | Total Units | Avg. No. Units | |
| Real Estate Listings (with insurance cost data) | (Posted on Loopnet Webpage, 2007) | 108 | 1,754 | 16 | $24.25 |
| Apartment Building Appraisers and Analysts | 6-32 units (2005) | 43 | 463 | 11 | $30.67 |
| National Apartment Association | Large Buildings (2006) | 47 | 11,599 | 247 | $23.41 |
| Urban Land Institute | Buildings under 100 units (2004) | 120 | 6,745 | 56 | $23.83 |
| IREM | Garden Apts (2005) | 42 | 9,484 | 225 | $16.25 |
| IREM | Garden Apts (2006) | 57 | ~14,000 | 243 | $19.91 |

In the past two decades, there has been much discussion and news about exceptional increases in insurance costs. With few exceptions, apartment owners obtain fire and liability insurance. Fire insurance is required by mortgagors.

The data sources used for the estimates in this report, which are shown in Table 4-11, indicate average insurance expenses ranging from $16 to $30 per apartment per month. While some of the data sources report expenses from a few years ago, brokers and appraisers indicated that insurance expenses have not increased in the past few years.

The Urban Land Institute report based on its sample of buildings with 100 units or less indicated that from 1999 to 2002, insurance costs fluctuated between $14 and $17 per apartment unit per month as opposed to an average of $23.83 in 2004. The IREM reports indicated that from 1999 to 2002 insurance costs fluctuated between $9 and $13 per apartment unit per month, as opposed to the current level of $19.91. The Apartment Building Appraisers & Analysts report indicates that average insurance costs per apartment per month increased from $15 in 2000 to $30 in 2006. Insurance costs have increased substantially since 1999. The dollar amount of the increases has been in the range of $10 to 15 per apartment unit per month.

*Management, Maintenance, and Services*

For the purpose of analysis, the costs for management, maintenance, and services are combined. It is difficult to segregate these expenses because the configuration of performance of these functions varies among buildings (e.g. in some building management performs maintenance functions) and different sources of expense reports allocate or combine these expenditures in differing ways (e.g. combining payroll expenses attributable to management and maintenance).

Off-site management fees typically range from 5 to 6 percent. In addition, under state law, on-site managers are required for buildings with more than 15 units (about half of the rental stock subject to the RSO). Buildings with on-site management typically have lower off-site management expenses.

Alternate sources of expense data report greatly differing average expense levels and rates of increase in management and maintenance expenses. Data from three sources is shown in Table 4-12.

Table 4-12

Management and Maintenance Expenses per Apartment per Month

| *Urban Land Institute (ULI) Income and Expense Reports* | | |
|---|---|---|
| | 1999 | 2004 |
| Number of Buildings | 183 | 120 |
| Average Building Size | 17 | 56 |
| Property Management | $40 | $51 |
| Total Administration | $18 | $25 |
| Payroll and Benefits | $44 | $71 |
| Maintenance | $85 | $86 |
| Total | $186 | $233 |
| Rate of Increase 1999-2004 | | $10 (5%) per yr. |
| *Institute of Real Estate Management (IREM) Income and Expense Reports* | | |
| | 1999 | 2006 |
| Number of Buildings | 33 | 59 |
| Subtotal Administration | $48 | $105 |
| Supplies | $3 | $3 |
| Subtotal Maintenance | $54 | $78 |
| Other Payroll | $38 | $50 |
| Total | $143 | $236 |
| Rate of Increase 1999-2006 | | $13 (7.4%) per yr. |
| *Apartment Building Appraisers and Analysts Expense Reports* | | |
| | 1999 | 2005 |
| Total Management | $42 | $76 |
| Pest Control | $3 | $4 |
| Repairs and Maintenance | $49 | $58 |
| Total | $94 | $138 |
| Rate of Increase 1999-2005 | | $7 (6.6%) per yr. |

*Sources: Urban Land Institute, "Dollars and Cents of Multifamily Housing" (2006 edition), Institute of Real Estate Management, "Income/Expense Analysis Conventional Apartments." (2000 & 2007 editions), and Apartment Building Appraisers and Analysts Expense Reports. Author's tabulations of annual rate of increase.*

The largest source of data on maintenance expenses is the Urban Land Institute (ULI) 1999 to 2004 annual samples of one hundred to two hundred apartment buildings with an average size of about 50 units. Maintenance expenses averaged about $85 per unit per month, with virtually no change in the average during this period, although rental income increased by 25 percent. However, overall maintenance and management expenses (including property management, total

administration, payroll benefits, and maintenance) increased by $47 during the five year period, from $186 per apartment per month to $233 per apartment per month.

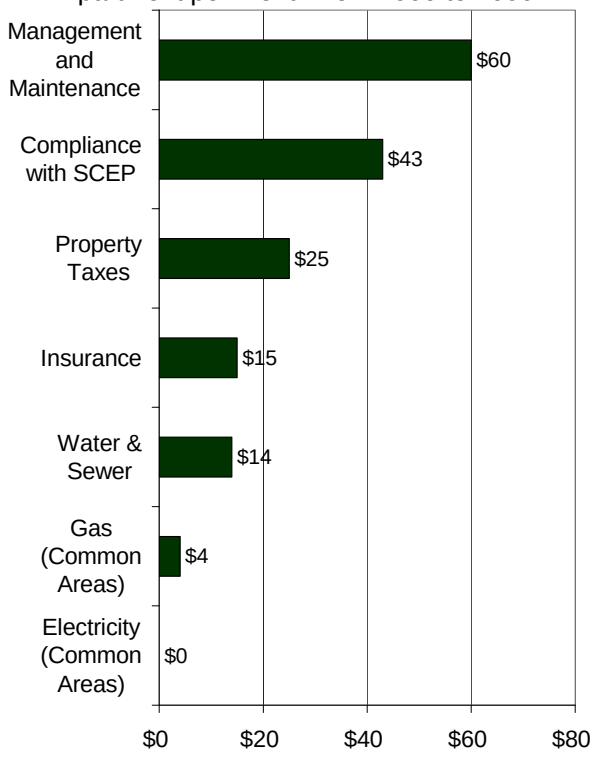
The IREM reports from 1999 to 2006 are based on samples of 33 to 59 garden apartment buildings with an average size of over 100 units. These reports indicate that average maintenance expenses increased from about $50 per unit per month in 1999, to an average of $85 per unit per month in 2006. In the preceding nine years - 1990 to 1999 - the average of these expenses remained virtually unchanged. Overall maintenance and management expenses (including property management, total administration, payroll per benefits, and maintenance) increased by $93 during the *seven* year period (1999-2006), from $143 per apartment per month to $236 per apartment per month.

The Apartment Building Appraisers and Analysts Reports for buildings with substantially lower rents than the ULI and IREM samples and an average building size in the range of 11 units projected that average costs for management and repairs and maintenance per apartment per month increased from an average of about $94 per apartment per month in 1999 to about $138 in 2005.

When allowable annual rent increases under the Berkeley and Santa Monica rent control ordinances have been based on apartment operating cost studies, it has usually been presumed that maintenance expenses increase at the same rate as one of the Consumer Price Indexes. If this presumption is used and 1999 management and maintenance expenses averaged $150 per apartment per month, it would be estimated that from 1999 to 2006 management and maintenance expenses increased by about 26.6 percent or $40 per apartment per month.

For the purposes of estimating an overall increase in operating expenses (in the following section of this analysis), it is estimated that management and maintenance expenses increased by $60 per apartment per month from 1999-2006. This amount is an approximate average of the substantially differing increases reported in the IREM, ULI, and Apartment Appraisers and Analysts data samples.

Figure 4-7
Estimated Increase in Operating Costs per Apartment per Month from 1999 to 2006




## Estimate of Overall Increases in Operating Expenses from 1999 to 2006 Based on Estimates of Increases in Each Type of Expense

If an estimate of overall operating cost increases is based on consideration of each type of cost increase, **the overall operating cost increase per apartment per month from 1999 to 2006 is in the range of $161** (an average annual increase of $23 in monthly

operating costs per apartment unit), as shown in Figure 4-7.[29]

This average is less than the increase of $202 for this period reported for buildings in the IREM sample and is higher than the $116 increase reported in the Urban Land Institute report for a shorter of five years - 1999 to 2004.

Each of the data sources reported that operating expenses averaged about $250 per apartment per month in 1999. A $161 increase in operating expenses from 1999 to 2006 is a 64 percent increase compared to the 26.6 percent increase in the CPI during this period.

In considering this estimate of average overall operating cost increases, it is essential to understand that a substantial portion of this estimate is attributable to increases in expenses that can only be roughly estimated (maintenance, compliance with SCEP requirements) and/or is attributable to increases in property taxes which vary greatly among properties, depending on whether or not they have been purchased recently

**Summary**

Information about operating costs trends in this section shows that:

- *In Los Angeles, apartment operating costs are typically in the range of 25 to 35 percent of rental income.*
- *Smaller buildings are more likely to be owner managed and, therefore, involve a type of "labor expenditure" by the owner that is not recorded as an expense.*
- *From 1999 to 2006, the overall operating cost increases per apartment per month, were in the range of $116 to $200 ($16 to $28 per year).*

## TRENDS IN NET OPERATING INCOME

**Background**

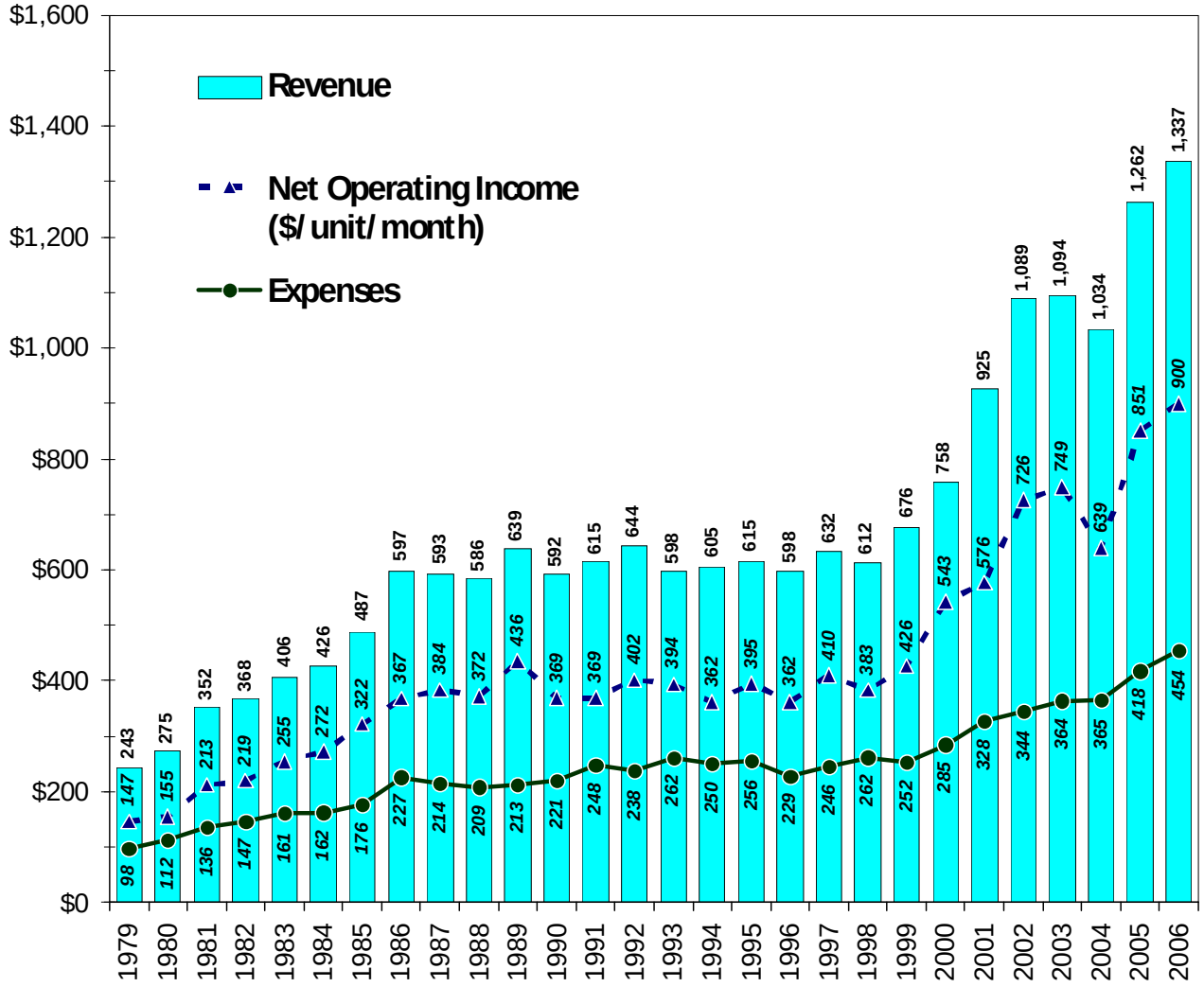
A comparison of the rate of increase in net operating income of rent-stabilized apartments with the rate of increase in the CPI has been a standard yardstick for measuring the reasonableness of rent restrictions. This type of analysis was a centerpiece of the 1988 and 1994 studies that were commissioned by the City on the impact of the RSO.[30]

Also, a comparison between increases in net operating income and increases in CPI has been a standard yardstick in considering fair return (just and reasonable return) claims of mobile home park owners covered by mobile home park space rent control ordinances in California. Park owners have generally taken the position that restricting growth in net operating income to less than 100 percent of the percentage increase in the CPI is unreasonable. However, the courts have held that ordinances that limit growth in net operating income to less than 100 percent of the percentage increase in the CPI are constitutional.[31]

In the 1994 RSO study, the authors commented that authorizing annual increases in rents tied to the percentage increase in the CPI would enable "apartment owners ... [to] maintain on an inflation adjusted basis, the net operating income (NOI) generated by their rental properties" and would provide apartment owners with adequate incentives to maintain their properties.

*... indexing rent increases to the CPI-U also ensured, for typical rent stabilized properties, that apartment owners could maintain on an inflation adjusted basis, the NOI generated by their rental properties. This financial result is based on the historical tendency for apartment operating costs to track the general rate of inflation and the vacancy decontrol provision in the RSO that allows rent levels for vacated units to be set at market levels. Maintenance of real NOI for stabilized properties protects the City of Los Angeles from potential lawsuits based on government "takings" claims and should provide stabilized apartment owners with sufficient financial incentives to adequately maintain their apartment holdings.*[32]

Figure 4-8
Income, Expense and Net Operating Income Trends
Institute of Real Estate Management, Income/Expense Reports
*Los Angeles Area Apartment Buildings 1979-2006*

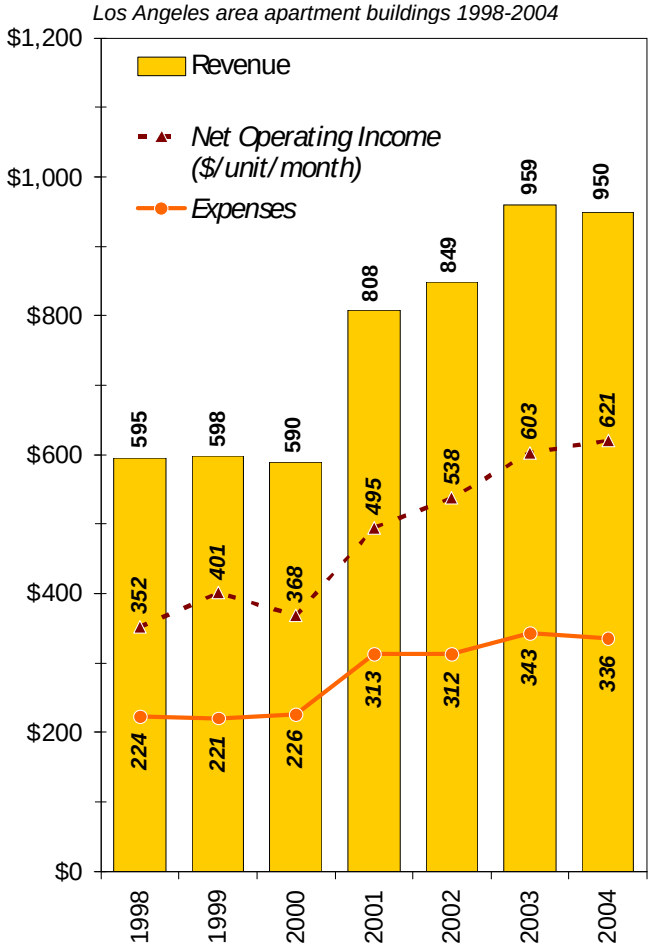



*Source: Author's summation of data from annual issues of Institute of Real Estate Management, "Income/Expense Analysis Conventional Apartments." (1980-2007 editions)*

Findings in the 1988 study on the impact of the RSO, which were based on IREM data, indicated that from 1978 to 1986, net operating income increased by 116 percent,[33] compared to a 71 percent increase in the CPI.[34]

The findings of the 1994 study indicated that NOI increased substantially relative to the CPI from 1984 to 1988, an increase of 34.2 percent, compared to a 17.9 percent increase in the CPI. However, from 1988 to 1992, NOI declined relative to the CPI. During this period, the increase in NOI was only 1 percent compared to a 20 percent increase in the CPI.[35] Overall, from 1984 to 1992, NOI increased by 34.6 percent, compared to a 41.4 percent increase in the CPI. The one available source of data on NOI trends from 1992 to 1999, IREM reports, indicate that from 1992 to 1999, NOI per apartment per month increased from $402 to $426, an increase of only 6 percent, compared to an increase in the CPI of 13 percent.

Figure 4-9
Income, Expense, and Net Operating Income Trends
Urban Land Institute, Income/Expense Reports
*Los Angeles area apartment buildings 1998-2004*




*Source: Author's summation of data from Urban Land Institute, "Dollars and Cents of Multifamily Housing" (1998-2006 editions).*

## Trends in Net Operating Income 1999-2006

**Data sources on trends in net operating income of apartment buildings in the Los Angeles area all point to a trend in which growth in net operating income has exceeded the rate of increase in the CPI since 1999**.

The IREM data on garden buildings covers buildings with average rents of $1,345 in 2006, considerably above the city average. The IREM reports indicate that from 1999 to 2006, NOI per apartment per month increased by $474, from $426 to $900, an increase of 111 percent, compared to an increase in the CPI of 26.6 percent, as shown in Figure 4-8.

The ULI data on 100 or more buildings per year with an average of about 50 units each and with average rents of $1,140 in 2004, also above the City average at that time, indicate that from 1999 to 2004, NOI per apartment per month increased by $270, from $350 to $620, an increase of 77 percent, compared to the increase in the CPI of 26.6 percent, as shown in Figure 4-9.

Data from the Apartment Building Appraiser's reports, shown in Table 4-13, indicates that from 2000 to 2005 the average net operating income per apartment per month increased by

Table 4-13

Income and Expense Trends "Apartment Building Appraisers & Analysts Report"

*Los Angeles Area Apartment Buildings*

| Year | Number of Buildings | Number of Units | Avg. Monthly Rent | Avg. Operating Expense per Apt. per Month | Avg. Net Operating Income per Apt. per Month* |
|---|---|---|---|---|---|
| 2000 | 34 | 727 | $772 | $227 | $545 |
| 2001 | 39 | 803 | $723 | $223 | $500 |
| 2002 | 56 | 822 | $802 | $241 | $561 |
| 2003 | 32 | 445 | $936 | $275 | $661 |
| 2004 | very small sample | | | | |
| 2005 | 43 | 463 | $981 | $256 | $725 |

*Author's calculation based on data in Apartment Appraiser's publication. *Net operating income = rent - operating expenses*

$180, from $545 per apartment per month to $725, or 33 percent, compared to an increase in the CPI of 17.6 percent during the same period. However, it paints a substantially different picture than the IREM and ULI reports in the sense that operating expenses remained almost level during this period.

An alternate method for estimating increases in net operating income during this period is to consider apartment sales price data in conjunction with the estimated capitalization rates (net operating income/sales price ratios) that were made by brokers and appraisers when reporting these sales. CoStar annual trend reports based on hundreds of apartment sales in each year within the City of Los Angeles set forth average sale prices and average capitalization rates. Based on these reports, trends in net operating income can be estimated by applying the average capitalization rate to the average sale price, as shown in Table 4-14. This data indicates that

Table 4-14

Estimate of Trends in Net Operating Income Based on Reports of Average Sale Prices and Capitalization Rates by CoStar

*Buildings in City of Los Angeles with 5 or more units Constructed before 1979*

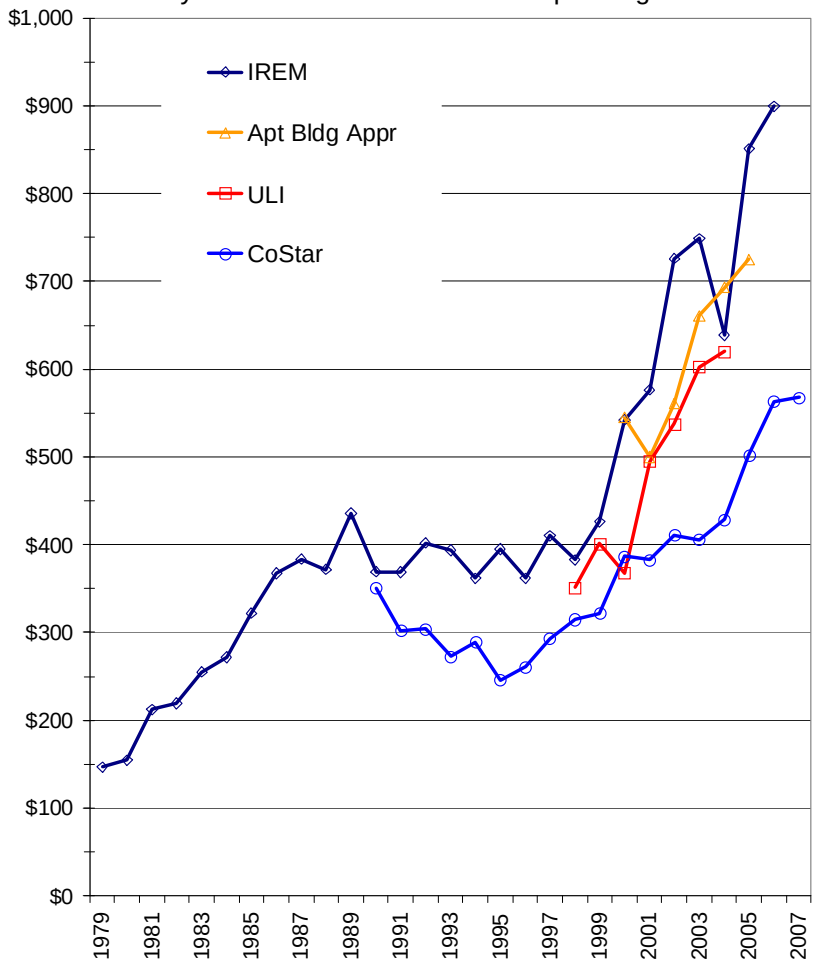
| **Year** | **Average Price per Apartment Unit*** | **Average Cap Rate*** ***net oper.inc./price*** | **Average Net Operating Income per Apartment per Month** *(avg. price x avg. cap. rate)/12 mos.* |
|---|---|---|---|
| 1990 | $55,366 | 7.60% | $351 |
| 1991 | $46,995 | 7.70% | $302 |
| 1992 | $42,985 | 8.50% | $304 |
| 1993 | $32,129 | 10.20% | $273 |
| 1994 | $30,979 | 11.20% | $289 |
| 1995 | $26,332 | 11.20% | $246 |
| 1996 | $27,206 | 11.50% | $261 |
| 1997 | $32,292 | 10.90% | $293 |
| 1998 | $38,961 | 9.70% | $315 |
| 1999 | $40,701 | 9.50% | $322 |
| 2000 | $51,017 | 9.10% | $387 |
| 2001 | $52,187 | 8.80% | $383 |
| 2002 | $63,195 | 7.80% | $411 |
| 2003 | $75,018 | 6.50% | $406 |
| 2004 | $90,357 | 5.70% | $429 |
| 2005 | $120,447 | 5.00% | $502 |
| 2006 | $127,484 | 5.30% | $563 |
| 2007 | $121,613 | 5.60% | $568 |

** Average Price and Capitalization Data published in CoStar Price Trend Report. Average Net Operating Income calculated by author, based on average price and capitalization rate data.*

average net operating income per apartment per month increased from $322 in 1999 to $568 in 2007. This $246 amounts to a 76 percent increase, compared to the increase of only 26.6 percent in the CPI.

The increases in net operating income during this period provided for substantial returns for apartment owners in terms of appreciation. The four different estimates of net operating income presented in this section are summarized in Figure 4-10, which shows a spread of over $300 a month between the highest and lowest estimates in 2006. All of the sources reported substantial growth in net operating income since 1999. **If we estimate that average net operating income per apartment per month increased by $150 to $200 from 1999 to 2007 (a conservative estimate relative to the projections in the IREM, ULI, and Apartment Appraiser's reports), the average increase in apartment values attributable to growth in net operating income per apartment is $30,000 to $40,000.** The $30,000 and $40,000 estimates are based on the market value of an annual increase in net operating income of $2,400. (A 6 percent capitalization rate is used to estimate the value of the additional $2,400 in income)[36] In actuality, as explained in a subsequent section of this chapter, the increase in apartment values has been much greater due to the sharp decline in capitalization rates since 1999.

Figure 4-10
Summary of All Four Estimates of Net Operating Income




*Estimates of Net Operating Income (NOI) are from Figures 8 and 9, and Tables 13 and 14.*

## Adequacy of Rent Adjustments for Owners without Vacancies

Rent increases on units that did not have tenant turnover from 2000 to 2007 were limited to 30.4 percent by the Rent Stabilization Ordinance. In the case of a building with median rents of $656 in 2000, the total increase in monthly rents would be $199 (30.4 percent of $656) for the seven-year period, an average of $28 per year. This increase compares with a projected increase

in operating expenses of $161 for the period from 1999 to 2006.[37]

In scenarios involving buildings without vacancies and lower than average rents, annual rent adjustments in the range of $25 per year for a moderate rent apartment might only cover average increases in operating costs, without permitting growth in net operating income. In cases in which owners have incurred substantial cost increases, the annual rent increases would not have been adequate. This could occur through above average costs incurred in complying with SCEP citations, exceptional increases in maintenance expenses, and/or substantial property tax increases associated with the sale of a property.

However, cases in which apartment owners have not had any vacancies or have had very few vacancies are most likely to be exceptions to the general situation. In addition, it is likely that a building without turnover or an exceptionally low rate of turnover would have lower than average increases in operating expenses and would not be experiencing substantial costs associated with turnover. Tenants in such buildings may have lower expectations in regards to maintenance and services because of paying lower than average rents. Nevertheless, under an ordinance that governs 127,070 properties, it is inevitable that in some cases allowable rent increases have not been adequate to cover operating cost increases.

*Policy Recommendations*

In this author's view, if a new regulation is adopted for the purpose of providing special relief for apartment owners who have not been permitted adequate rent adjustments to cover the operating cost increases or have exceptionally low rents, it should include the following elements:

1) The policy should be specifically targeted to address these types of cases, rather than resulting in additional rent increases for all properties.

2) Any regulation to implement the policy should be based on objective standards so that the outcomes of applying for relief under the regulation are predictable, are not burdensome and lengthy, and cannot be manipulated. For example, basing allowable increases on the rate of rent increases in a building since 2000 would be relatively objective; review of the actual operating cost increases of each applicant would be complex and would require consideration of whether the cost increases were the outcome of one-time special circumstances or increases in ongoing expense levels. For example, if the average dollar increase per unit in a building since 2000 was below a certain level (due to low 2000 rents and a lack of vacancies) a minimum average dollar increase per unit over 2000 levels could be provided.

3) Consideration of alternatives should include an examination of the experiences of other jurisdictions that have authorized rent adjustments for units with historically low rents.

**Summary**

Highlights about increases in net operating income (NOI) presented in this section include:

- *Multiple data sources on trends in net operating income of apartment buildings in the Los Angeles area all point to a trend in which growth in net operating income has exceeded the rate of increase in the CPI since 1999.*
- *The differences in average operating expenses reported for larger buildings compared to smaller buildings may reflect differences in operating strategies among owners of smaller and larger buildings, with owners of larger properties preferring to maximize rents, while owners of smaller properties may prefer to minimize the costs associated with turnover.*
- *If we estimate that average net operating income per apartment per month increased by $150 to $200 from 1999 to 2007 (a conservative estimate relative to the projections in the IREM, ULI, and Apartment Appraiser's reports), the average increase in apartment values attributable to growth in net operating income per apartment is $30,000 to $40,000.*

## THE PERFORMANCE OF INVESTMENTS IN MULTIFAMILY HOUSING

**Length of Ownership**

Approximately 79 percent of the units under rent stabilization have been purchased since the rent stabilization was adopted in 1979. (For a discussion of length of ownership see Chapters 1 and 3.) **About 25 percent of all units in buildings with five or more units have been purchased in 2005 or later**.[38] **This is very significant because the recent purchasers operate under much larger debt service loads than longer-term owners.**

**Comment on Vacancy Rates**

Chapter 1 of this report discusses trends in vacancy rates. As it notes, vacancy rates have gone through substantial fluctuations during the past decades. These fluctuations have been driven by cycles in housing demand that mirrored overall economic trends and by the rate of new construction.

The common views have been that: 1) adequate vacancy rates are a necessary precondition for adequate tenant mobility and are an indicator of the balance between supply and effective demand, and 2) low vacancy rates will result in rents that increase faster than the rate of inflation and provide an incentive for increased construction of new rental housing, while high vacancy rates will result in declining real rents and discourage new construction.

However, in order to consider the role of vacancy rates and trends in these rates, some alternative perspectives should be noted.

A review of official and academic literature on housing markets indicates that historically

a five percent vacancy in the rental market has been considered a reasonable vacancy rate that allows an appropriate level of tenant mobility and serves as evidence of the adequacy of the supply of rental housing. Vacancy rates below that level have been considered evidence of a tight housing market, which reduces tenant mobility and often serves as the definition of a rental housing shortage.

While a five percent vacancy rate is typically proposed as the measure of a healthy rental market, and was considered as the healthy rate in the previous Los Angeles rental housing studies,[39] housing economists' conclusions about the "appropriate" vacancy rates are mixed. While housing economists and experts usually support the five percent estimate, others have concluded that a vacancy rate of 9 percent or 10 percent is necessary.[40] One housing economist argues that the equilibrium or "natural" vacancy rate varies from one local market to the next, as well as vary by size of building, since small landlords tend to "minimize vacancies," while larger landlords tend to "maximize rents." The U.S. Census Housing Vacancy Survey has reported national average vacancy rates in the 8 to 11 percent range in every year since 1985,[41] even as the rate of increases in rents in the past decades has commonly exceeded the rate of increase in the overall CPI. This result provides evidence that the "normal" vacancy rate is generally higher than 5 percent. Some commentators have concluded that rents do not stabilize until vacancy rates reach 6 percent to 9 percent and do not decline until vacancy rates exceed 9 percent.[42]

In addition, questions have been raised about the view that vacancy rates above a certain level are a sign of the adequacy of the rental housing supply (at whatever level is defined as adequate). While vacancy rates play an important role in a well-functioning local housing market, they are affected by cyclical short-term economic changes. Vacancy rates go up and down with the state of the overall economy, and they go up and down with the amount of development of new housing in relation to population growth. Vacancy rates can go up due to a recession, which reduces effective demand for housing, but this does not necessarily signify that the need for housing has decreased, or that the utility of housing to consumers has decreased. Rather, an increase in the vacancy rate may reflect the fact that consumers have less money with which to purchase housing and apartment owners have not reduced rents in step with reduced consumer demand. Only when the recession leads to a decline in population does the actual need for housing decline.

California has a long-term, underlying housing shortage, caused by the widely recognized shortfall of new housing development in relation to population growth. It is perfectly normal to also have short-term increases in the vacancy rate that result from a recession or economic slow-down. Cycles of higher vacancy rates may have impacts on investment returns beyond the rent losses from vacancies. They also may compel higher investments in maintaining and upgrading apartments as competition for new tenants increases.

It is also critical to note that the conventional concept that a particular vacancy rate reflects a balance in supply and demand overlooks the role that income maximization strategies have in determining vacancy rates. In some housing markets, higher vacancy rates may be associated with profit maximization strategies, as well as increases in supply and/or declines in demand. This phenomenon has been recognized in the academic literature on housing economics.[43] In a particular housing market, a rent level that results in a 10 percent vacancy rate may yield a higher rental income than a rent level that results in a 5 percent vacancy rate. For example, the overall rental income of a one hundred-unit apartment building with a 10 percent

vacancy rate might be 90 x $1,450 or $130,500, while the income from the same building with a 5 percent vacancy rate may be 95 x $1,300 or $125,300.

Under other circumstances, even as vacancies increase, apartment owners can be reluctant to lower rents for new tenants, since they may then be pressured to reduce rents for tenants who moved in at higher levels. Within limits, the gain from maintaining rent levels for current tenants may more than compensate for the loss of revenue from vacant units.[44]

As well as varying over time, vacancy rates have varied significantly among different size properties. Higher rent properties and larger properties have tended to have higher vacancy rates. (See discussion in Chapter 1.) In interviews, knowledgeable appraisers indicated that a difference between small and large owners was that they commonly pursued different types of profit maximization strategies, with smaller owners preferring to avoid vacancy risks, rather than maximizing rents.

## Trends in Apartment Values

Appreciation (or depreciation) in value is a central determinant of the returns from apartment investments. CoStar data provides information on citywide trends in apartment values from 1990 to 2007.[45]

### *Citywide Trends in Apartment Values in Buildings with Five or More Units Constructed before 1979*

This subsection describes trends in the value of apartment buildings with five or more units in the City of Los Angeles that were constructed before 1979 and, therefore, are subject to the RSO.[46] Two-thirds of the units that are covered by the RSO are in buildings with five or more units.[47] These trends are shown in Figure 4-11.

From *1990 to 1996*, average apartment unit sales prices in the City declined by $28,030, from an average of $55,366 to $27,206. From *1996 to 1999*, apartment values increased by $13,495, from an average of $27,206 to $40,701.

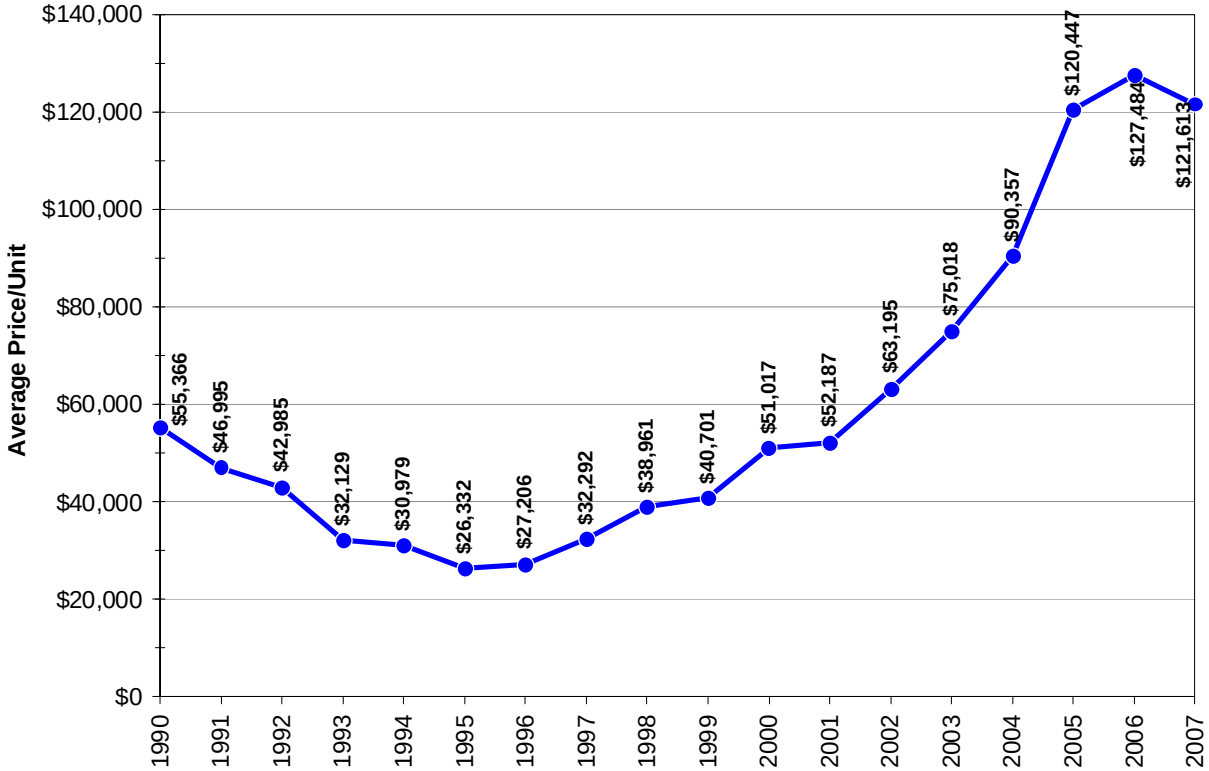
**From 1999 through 2006, apartment sales prices tripled, from an average of $40,701 to $127,484. This increase of 213 percent greatly exceeded the 26.6 percent increase in the CPI during this period**.[48] From 2004 to 2005 alone, apartment unit values increased from an average $90,357 to $120,447. **In 2007, apartment values decreased by 4 percent.**

**The average annual compounded rate of appreciation (compounded annual growth rate or CAGR) from 1999 to 2006 was 15.4 percent. However, over the longer period from 1990 to 2007, the CAGR was 4.7 percent.**

The 213 percent increase in average apartment values from 1999 to 2006 compares with estimates of the increase in net operating income during the same period that are half of this amount or less. This appreciation in the market values of apartment units, which was about double the rate of increase in net operating income, was driven by the combination of a sharp decline in capitalization rates[49] and the increases in net operating income.

The decline in mortgage interest rates has been the primary driver of a national decline in capitalization rates for apartment purchases and a corresponding increase in apartment values throughout the nation. In Los Angeles, from 2000 to the middle of the decade, the capitalization

Figure 4-11
Trends in Apartment Values in the City of Los Angeles 1990-2007
*Buildings with 5 or more units constructed before 1979*




*Source of capitalization rate data: CoStar COMPS Trend Reports*

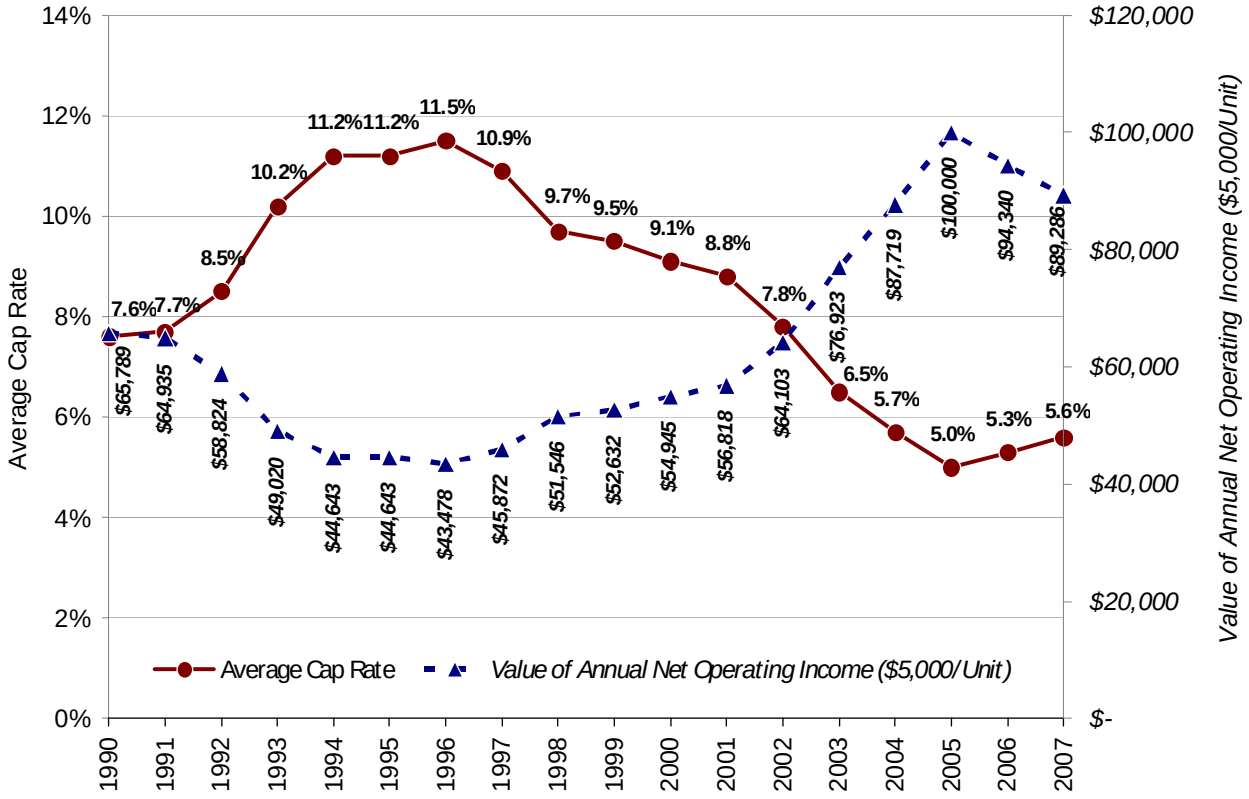
rate for purchasing Los Angeles apartments decreased from about 9 percent to a range of 5 percent to 6 percent. In contrast, from 1990 to 1997, capitalization rates had increased from 7.5 to 11.5 percent.

**From 2000 to 2005, even an apartment with a fixed net operating income stream increased substantially in value because the market value of each dollar of annual income increased.** For example, in the year 2000, when the capitalization rate was 9.1 percent, a typical annual net operating income stream of $5,000 per apartment was worth about $55,000 ($5,000/.091). In 2005, when the capitalization rate was 5 percent, the same net operating income stream of $5,000 was worth $100,000 ($5,000/.05). (This phenomenon is comparable to the effects of fluctuations in interest rates on home values.)

In 2000, the annual interest payments on a 30-year mortgage of $38,500 (70 percent of a $55,000 apartment purchase price) at the current prevailing interest rate for apartment loans of about 10 percent, were $338. In 2005, the same size mortgage payments, at the current prevailing rate for apartment loans of about 7 percent, would cover a mortgage of $51,000.

Trends in Los Angeles capitalization rates since 1990 and projects of how changes in these rates would impact the value of an apartment with a fixed net operating income are shown in Figure 4-12. This chart illustrates the major role that fluctuations in capitalization rates have played in determining trends in apartment values independent of trends in rents and net operating income.

Figure 4-12
The Impacts of Trends in Capitalization Rates on Apartment Values




*Source of capitalization rate data: CoStar Comps.*

*Impact of Location, Size and Age Factors on Appreciation of Apartment Prices and Rates of Appreciation*

This subsection compares trends in the values of apartments subject to the RSO by location, age, and building size factors. Also comparisons are made with trends in the values of apartments that are not covered by the RSO, including apartment buildings in the County outside of the City and buildings within the City that were built after 1978. When considering and comparing trends in sales prices and rates of appreciation according to building age, size, or location, the presence or absence of rent regulation or other factors, it is essential to also consider that differences that correlate with these trends may be the outcome of more than one factor. For example, a difference in average sale prices for different age buildings may reflect the impact of this factor or may be the outcome of differences in the location of different age buildings.

The data focuses on the period from 1999 to 2006 in order to provide a comparison with the trends in rents and operating expenses that were analyzed for this period. The Assessor's database was the data source for this analysis.[50]

*Trends in apartment values by APC*

In comparing value and appreciation trends based on location factors using APCs (Area Planning Commissions) as the geographical categorization, this analysis combines the *North Valley* and *South Valley* APC's and combines the *East LA*, *South LA*, and *Harbor* APC's, because the annual number of sales within the latter three APC's was not sufficient to provide statistically reliable annual averages. However, it can be noted that the limited amount of data on trends within each of the APC's indicates that the averages generated by these combinations of APC's did not vary substantially from the averages for the individual APC's.

There were substantial differences in apartment values among the different areas of the City, divided by APC. However, the rates of appreciation were comparable among the APC's, ranging from 12 to 15 percent, as shown in the top section of Table 4-15.

In the *East LA*, *South LA*, and *Harbor* APC's, apartment values increased from an average of $34,347 per unit in 1999 to $90,411 in 2006. In *Central LA*, which contains one-third of the RSO units in the City, average apartment values increased from $36,779 to $123,120, during this period. In the *Valley*, average apartment values increased from $52,601 to $133,573. In each of these areas, the increase in value was approximately 200 percent. In *West LA*, during this period, average values increased by a greater amount in terms of dollars, from $90,538 to $219,276, but by a smaller amount in percentage terms, 142 percent.

*Trends in value by age of building*

Average values varied substantially by the age of a building, as shown in the second section of Table 4-15. The average value of units constructed before 1940 (about one-third of the rental stock subject to the RSO) is about two-thirds the average value of units constructed after that time. However, the buildings in the three age categories (before 1940, 1940-59, and 1960-1978) appreciated at approximately the same rate.

In order to test whether location was actually the determinant of value differences correlated with age, the same measures of age and value were limited to the *Central LA* APC. The Central APC was used because it has the largest sample in order to test the general theory. Within that APC, there was a similar difference between the average values of pre and post 1940 buildings, as shown in the third section of Table 4-15.

The table demonstrates that although **there are significant differences in the prices of apartments based on location, size and age, but that the rates of appreciation in apartment values from 1999 to 2006 have been similar among different age groups and different areas of the City.**

*Trends in value by size of building*

The rate of appreciation was virtually the same for all size buildings, as shown in the fourth section of Table 4-15. However, the average price per unit of five to nine unit buildings has been 20 to 25 percent higher than the average for units with ten or more units. As in the case of the building age factor, the differences in value based on the building size factor followed the same trend in the *Central LA* APC as citywide, although the differences in value based on

Table 4-15
Average Sales Price for Apartments - City of Los Angeles - 1999-2006
*Buildings with 5 or more units Constructed before 1979*

| Area | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | CAGR * |
|---|---|---|---|---|---|---|---|---|---|
| *Average Apartment Sales Price by **Area*** | | | | | | | | | |
| South & North Valley | $52,601 | $49,823 | $56,298 | $66,679 | $88,926 | $107,375 | $122,457 | $133,573 | 12.2% |
| Central LA | $36,779 | $41,401 | $53,656 | $60,693 | $78,612 | $86,849 | $104,818 | $123,120 | 18.2% |
| West LA | $90,538 | $95,264 | $115,050 | $134,936 | $144,255 | $163,494 | $196,355 | $219,276 | 13.5% |
| East LA, South LA & Harbor | $34,347 | $35,121 | $39,643 | $46,359 | $62,842 | $74,135 | $86,979 | $90,411 | 13.4% |
| LA CITY | $47,803 | $48,017 | $56,894 | $65,772 | $82,765 | $96,018 | $115,336 | $132,924 | 15.4% |
| *Average Apartment Sales Price by **Age of Building*** | | | | | | | | | |
| Before 1940 | $31,039 | $34,206 | $40,730 | $42,729 | $61,403 | $74,012 | $84,669 | $92,846 | 16.9% |
| 1940-1959 | $51,979 | $55,773 | $60,879 | $72,746 | $89,148 | $99,016 | $130,501 | $145,522 | 15.8% |
| 1960-1978 | $50,550 | $51,431 | $60,927 | $72,565 | $89,448 | $104,691 | $125,749 | $143,425 | 18.9% |
| LA CITY | $47,803 | $48,017 | $56,894 | $65,772 | $82,765 | $96,018 | $115,336 | $132,924 | 15.7% |
| ***Central LA** Average Apartment Sales Prices by **Age of Building*** | | | | | | | | | |
| Before 1940 | $24,112 | $34,135 | $38,832 | $44,177 | $65,063 | $76,013 | $87,159 | $95,018 | 21.6% |
| 1940-1959 | $41,487 | $49,863 | $57,081 | $68,974 | $87,193 | $94,340 | $124,768 | $137,476 | 18.7% |
| 1960-1978 | $46,425 | $46,285 | $63,859 | $69,723 | $87,560 | $96,264 | $122,556 | $155,578 | 18.9% |
| Central LA | $36,779 | $41,401 | $53,656 | $60,693 | $78,612 | $86,849 | $104,818 | $123,120 | 18.8% |
| *Average Apartment Sales Price by **Size of Building*** | | | | | | | | | |
| 4-9 units | $64,816 | $61,575 | $74,851 | $81,296 | $96,559 | $116,813 | $152,031 | $166,401 | 14.4% |
| 10-19 units | $47,431 | $52,050 | $56,448 | $63,715 | $85,135 | $94,293 | $114,148 | $125,627 | 14.9% |
| 20+ units | $43,788 | $40,062 | $50,321 | $59,769 | $74,869 | $87,198 | $99,601 | $125,003 | 16.1% |
| LA CITY | $47,803 | $48,017 | $56,894 | $65,772 | $82,765 | $96,018 | $115,336 | $132,924 | 15.7% |
| ***Central LA** Average Apartment Sales Prices by **Size of Building*** | | | | | | | | | |
| 4-9 units | $55,035 | $57,825 | $67,299 | $76,687 | $94,069 | $116,736 | $142,751 | $178,061 | 18.3% |
| 10-19 units | $39,326 | $47,777 | $49,279 | $62,114 | $84,751 | $94,302 | $114,624 | $121,507 | 17.5% |
| 20+ units | $29,394 | $36,025 | $51,291 | $55,843 | $71,856 | $74,334 | $87,208 | $108,037 | 20.4% |
| Central LA | $36,779 | $41,401 | $53,656 | $60,693 | $78,612 | $86,849 | $104,818 | $123,120 | 18.8% |

*Source: Author's tabulations based on data in assessor's records. *CAGR = Compounded Annual Growth Rate*

building size were more pronounced in the *Central LA* APC. The pronounced differences attributable to building size are demonstrated in the bottom section of Table 4-15.

*Comparison of Trends in Apartment Values and Appreciation in the City of Los Angeles with Trends in the County, and Other Jurisdictions*

One measure of the impact of the RSO is a comparison of trends in appreciation of the rental stock subject to the RSO with similar types rental stock in neighboring communities. However, this comparison is subject to the qualification that differences between the rental

housing stock in the City and the balance of the County, other than the presence or absence of rent stabilization, could affect the rate of appreciation of apartments. These factors include differences in average building sizes and building ages, population trends, and/or locational values.[51] In comparing the physical characteristics of apartment buildings in the City and the County the following differences emerge among buildings constructed before 1980: in the City, 40 percent of the units are in buildings with twenty or more units, compared to 26 percent in the County. In the City, 20 percent of the units are in buildings constructed before 1930, compared to 7 percent in the County.

Average apartment values are higher in the County than in the City; however, from 1999 to 2006 the rate of appreciation of apartment units in the City did not differ substantially from the rate in the County. While apartment values in the County are higher than in the City, they are lower than in *West LA*.

Data on the limited number of apartment sales in the two other rent controlled cities in Los Angeles County - Santa Monica and West Hollywood - indicates that apartment values and the dollar amount of appreciation, but not the rate of appreciation, in those cities exceeded the levels in the County and City of Los Angeles (see Table 4-16). In Santa Monica, the average apartment value increased by $146,323, from $104,084 in 1999 to $250,407 in 2006. In West Hollywood, during the same period the average apartment value increased by $113,668, from $83,902 to $197,570. In contrast, the average value of Los Angeles apartments increased by $85,121, from $47,803 to $132,924. These differences are attributable to the fact that markets rents in Santa Monica and West Hollywood are well above the average in Los Angeles.

Table 4-16

City of Los Angeles, County of Los Angeles, and Other Rent Controlled Cities

*Average Value per Apartment Value - 1999-2006*

| Year | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | CAGR * |
|---|---|---|---|---|---|---|---|---|---|
| *Buildings Constructed **before 1979*** | | | | | | | | | |
| LA City | $47,803 | $48,017 | $56,894 | $65,772 | $82,765 | $96,018 | $115,336 | $132,924 | 15.7% |
| LA County (except LA City) | $61,769 | $67,771 | $73,139 | $82,305 | $104,349 | $120,809 | $140,761 | $159,041 | 14.5% |
| Santa Monica | $104,084 | $128,110 | $143,372 | $153,016 | $172,534 | $171,225 | $223,956 | $250,407 | 13.4% |
| West Hollywood | $83,902 | $87,843 | $90,486 | $109,225 | $120,128 | $181,279 | $162,428 | $197,570 | 13.0% |
| *Buildings Constructed **1979 or later*** | | | | | | | | | |
| LA City | $71,273 | $72,067 | $84,063 | $123,923 | $115,830 | $161,929 | $186,546 | $206,359 | 16.4% |
| LA County (except LA City) | $71,309 | $75,624 | $83,075 | $100,288 | $122,340 | $125,510 | $144,736 | $185,913 | 14.7% |

*Source: Author's tabulations based on data in assessor's records. *CAGR = Compounded Annual Growth Rate*

*Impact of the RSO on trends in apartment values*

Overall, **it does not appear that the RSO has had a significant impact on the average rate of appreciation of apartment buildings. The rates of appreciation and increases in values are similar among buildings that are covered by the RSO and buildings not covered by the RSO, and higher in the City than in other comparison communities.**

*Comparison of Values and Appreciation in the City with National Trends*

From a national perspective, apartment appreciation under the RSO exceeded the average, as shown in Table 4-17. One widely circulated real estate industry report, provides data on average apartment values in 40 metropolitan statistical areas, from 2001 to 2006.[52] The data indicates that there were huge differences in the rate of appreciation in apartment values among metropolitan areas. **Based on Assessor's data, RSO properties in the City of Los Angeles had the second highest rate of appreciation out of 40 metropolitan regions. Based on CoStar data, the greater Los Angeles area had a rate of appreciation that was exceeded by only 8 of the 40 metropolitan regions in the U.S.**

**2008 and After**

In the current year, apartment values have held their own, amidst the current mortgage foreclosure crisis and decline in home values. Real estate industry publications report multifamily investments have held their ground because apartment demand has increased as an increasing share of potential homeowners have remained in the rental market.

However, **the dependence of apartment values on capitalization rates cannot be forgotten**. In the past twenty years, capitalization rates have fluctuated in a manner that might have been unimaginable twenty years ago. However, even more moderate fluctuations in capitalization rates could have a major impact. **If capitalization rates increase by a few percent, a substantial portion of apartment owners could be left with sharply reduced or even negative equities in their buildings that could not be solved by City policies or the market.**

With the foregoing said, anyone who considers predictions about future trends should consider the past. If ten years ago someone had predicted that apartment values would triple within ten years and that capitalization rates would decline by 50 percent, these predictions would have been dismissed as out of mind

**Rates of Return on Apartment Investments**

Evaluations of the reasonableness of rent regulations (including the prior studies of the RSO that were commissioned by the City of Los Angeles Housing Department) generally consider whether allowable rent increases are adequate to cover operating cost increases and

Table 4-17

U.S. Market Areas - Average Apartment Values - 1999-2006

| Area | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | Percent Increase 2001-06 |
|---|---|---|---|---|---|---|---|
| | **Based on analysis of data from Assessor's Office** | | | | | | |
| **City of LA RSO Apts.** | **$56,894** | **$65,772** | **$82,765** | **$96,018** | **$115,336** | **$132,924** | **134%** |
| | **Reported in National Apartment Report** | | | | | | |
| Riverside-San | $46,000 | $51,579 | $64,810 | $87,500 | $101,300 | $114,100 | 148% |
| West Palm Beach | $53,167 | $56,666 | $60,383 | $75,000 | $104,100 | $119,400 | 125% |
| Orange County | $81,458 | $94,750 | $110,620 | $146,900 | $158,900 | $180,900 | 122% |
| New Haven | $37,772 | $38,150 | $45,652 | $78,000 | $81,500 | $82,300 | 118% |
| Las Vegas | $42,812 | $40,625 | $46,093 | $56,800 | $73,700 | $92,900 | 117% |
| Washington, D.C. | $47,956 | $42,622 | $79,687 | $80,900 | $91,700 | $103,100 | 115% |
| Miami | $48,529 | $48,055 | $59,630 | $73,800 | $94,000 | $100,000 | 106% |
| San Diego | $69,736 | $87,417 | $106,909 | $125,000 | $150,000 | $138,700 | 99% |
| **Los Angeles Area** | **$71,875** | **$81,500** | **$95,260** | **$110,000** | **$133,300** | **$142,900** | **99%** |
| Northern New Jersey | $40,555 | $44,775 | $53,846 | $68,300 | $81,000 | $80,600 | 99% |
| Tucson | $28,260 | $31,300 | $33,125 | $39,000 | $50,900 | $54,700 | 94% |
| Orlando | $38,461 | $40,588 | $43,756 | $56,700 | $75,000 | $73,000 | 90% |
| Fort Lauderdale | $54,495 | $63,001 | $69,241 | $80,000 | $107,100 | $102,500 | 88% |
| Philadelphia | $36,960 | $41,863 | $54,166 | $52,300 | $66,700 | $69,400 | 88% |
| Sacramento | $50,000 | $61,515 | $73,181 | $82,000 | $93,500 | $90,900 | 82% |
| Tampa | $40,000 | $45,833 | $44,922 | $55,000 | $65,300 | $67,800 | 70% |
| Phoenix | $40,000 | $39,520 | $42,169 | $49,100 | $57,100 | $66,500 | 66% |
| Charlotte | $37,602 | $38,500 | $39,250 | $77,400 | $55,040 | $59,000 | 57% |
| New York City | $98,333 | $100,000 | $119,098 | $152,780 | $166,880 | $146,700 | 49% |
| San Francisco | $156,167 | $162,500 | $175,000 | $182,600 | $208,300 | $230,000 | 47% |
| Oakland | $95,969 | $103,776 | $112,500 | $122,500 | $133,200 | $137,500 | 43% |
| Milwaukee | $40,320 | $40,580 | $41,110 | $42,700 | $44,000 | $57,500 | 43% |
| Minneapolis-St. Paul | $45,000 | $44,595 | $45,500 | $48,400 | $53,700 | $63,700 | 42% |
| Seattle | $72,916 | $74,590 | $72,483 | $85,000 | $91,700 | $102,600 | 41% |
| Boston | $87,500 | $94,400 | $107,000 | $112,500 | $125,000 | $121,500 | 39% |
| Portland | $48,281 | $49,370 | $52,720 | $55,000 | $60,000 | $66,500 | 38% |
| Chicago | $57,850 | $59,170 | $67,500 | $70,000 | $83,400 | $78,300 | 35% |
| Salt Lake City | $46,000 | $44,942 | $44,000 | $45,000 | $48,000 | $61,000 | 33% |
| Jacksonville | $41,871 | $31,334 | $53,781 | $44,900 | $46,990 | $55,000 | 31% |
| Austin | $42,802 | $43,750 | $44,500 | $48,750 | $56,000 | $54,700 | 28% |
| Columbus | $38,620 | $38,330 | $48,421 | $47,300 | $44,700 | $47,900 | 24% |
| Houston | $30,937 | $33,009 | $44,922 | $32,500 | $35,900 | $38,000 | 23% |
| Cleveland | $31,950 | $31,190 | $31,250 | $30,500 | $32,800 | $38,500 | 21% |
| San Jose | $140,588 | $138,869 | $130,000 | $133,500 | $145,800 | $164,000 | 17% |
| Denver | $59,170 | $62,500 | $61,793 | $65,900 | $65,700 | $67,200 | 14% |
| Cincinnati | $30,000 | $30,280 | $33,279 | $33,300 | $37,900 | $33,700 | 12% |
| Atlanta | $50,280 | $47,870 | $47,284 | $47,900 | $53,200 | $55,200 | 10% |
| Indianapolis | $30,940 | $31,130 | $32,000 | $33,000 | $34,000 | $32,000 | 3% |
| Detroit | $40,000 | $40,440 | $39,700 | $45,500 | $43,500 | $38,250 | -4% |
| Dallas/Fort Worth | $35,760 | $40,500 | $32,604 | $31,600 | $33,100 | $33,000 | -8% |

*Source of "Market Area" data: Annual "National Apartment Report" (2004-2008 annual issues) published by Marcus & Millichap, Real Estate Investment Brokerage Company. Data supplied to Marcus & Millichap by CoStar Comps.*

provide growth in net operating income that is comparable to the rate of increase in the CPI. In contrast, investors generally measure their returns by comparing net income (cash flow after mortgage payments) and appreciation with their cash down payment. Cash flow and expectations about appreciation are central determinants of whether apartment owners will invest more or less in operating and maintaining their apartments.

While the RSO regulates annual rent increases for in-place tenants, apartment owners set purchase prices and establish their financing arrangements that in turn determine initial cash flow. Depending on when an apartment building was purchased and on what financing terms, all, part, or none of net operating income may provide net income (cash flow) or alternatively be consumed by mortgage payments.

As a result of the exceptional trends in interest rates and apartment values since 2000, some striking scenarios have been created. **One portion of apartment owners, who purchased prior to about 2003, paid prices for their apartments that are low relative to the market value of their units in early 2008, when sales data was analyzed, and are likely to be low relative to current net operating income levels. Furthermore, a portion of these owners has had the opportunity to refinance their mortgages at more favorable interest rates. These owners have substantial cash flows, unless they have obtained larger mortgages and, thereby, reduced their cash investment.** These results were generated by the combination of substantial increases in rents since 2000 and the opportunity to reduce financing costs. The extent of refinancing has not been documented; however, industry sources indicated that a substantial portion of owners refinanced their mortgages when interest rates dropped.

In addition, the owners who purchased more than four or five years ago now have equity in their property that is a large multiple of their original cash investment. For example, an owner who borrowed $35,000 and invested $15,000 cash per apartment unit in order to purchase an apartment building that cost $50,000 per apartment unit would now probably have equity of $65,000 per apartment unit ($100,000 value minus an original loan of $35,000).

On the other hand, **recent purchasers, who own a substantial portion of the rental stock, are in a radically different position. A substantial portion of these owners have incurred purchase prices and mortgage obligations that leave little space for cash flow or increases in investments in maintaining and renewing their properties and result in their vulnerability to minor fluctuations in expenses and/or rental income.**

While rents have increased by an average of 40 percent since 1999, mortgage debt for new owners is commonly about double or triple the debt of the 1990's purchasers. From the perspective of providing additional funds for the operation and maintenance of rental housing, the outcome of the appreciation in rents and values may be a “zero sum” process for one quarter of the rental housing stock that has changed ownership since 2005. While rents and net operating income have substantially increased, these gains have been offset by increased mortgage obligations.

The cash flow scenario shown in Table 4-18 illustrates the differences between the financial positions of longer term owners and recent purchasers. It compares the cash flows of apartment owners who paid in the range of $45,000 per apartment unit with the cash flow of owners who paid in the range of $110,000 per apartment unit for their units. In the hypothetical, the monthly mortgage obligations of recent purchasers are $168 to $232 per apartment per month higher than those of the prior owners and monthly property taxes per apartment per month are

$65 higher. The particulars of the assumptions in this hypothetical may be debated and, of course, it is a generalization. However, the general scale of this phenomena is realistic.

The foregoing type of development in which increases in rents and net operating income are offset by increases in mortgage obligations is not a new phenomena. The 1984 study for the RSO noted that:

Table 4-18
Cash Flow Projections Pre-2000 Purchaser and Recent Purchaser
*Hypothetical Scenario*

| | **1999 purchaser** | | | **2004-06 purchaser** |
|---|---|---|---|---|
| | 1999 | 2006 | | 2006 |
| | | w/o refinance | with refinance | |
| Purchase Price per Apt Unit | $45,000 | $45,000 | $45,000 | $110,000 |
| Down payment | $13,500 | $13,500 | $13,500 | $40,000 |
| Mortgage (70% of price) | $31,500 | $31,500 | $31,500 | $70,000 |
| (interest rate) | 10% | 10% | 7% | 6.50% |
| | | | | |
| Monthly Rent | $657 | $922 | $922 | $922 |
| | | | | |
| Operating Expenses | $230 | $295 | $295 | $295 |
| (excluding property taxes) | | | | |
| Property Taxes + Assessments | $55 | $65 | $65 | $125 |
| | | | | |
| Net Operating Inc | $372 | $562 | $562 | $502 |
| (capitalization rate) | 9.90% | | | 5.50% |
| | | | | |
| Mortgage Payment | $276 | $276 | $210 | $442 |
| | | | | |
| Cash Flow | $96 | $286 | $352 | $60 |
| | | | | |
| Rate of Return on Cash Investment | 8.5% | 25.4% | 31.3% | 1.8% |

> *The most noticeable differences among buildings were associated with the time of purchase. ... Recent purchasers reported a net pre-tax cash flow loss of $119 per unit, compared to a net pre-tax gain of $1,106 for longer-term owners, principally because the average financing costs of recent purchasers were more than two and one half times as high as the financing costs of landlords who bought properties before early 1980.*[53]

**Summary**

Information about the performance of investments in multifamily housing presented in this section shows that:

- *About a quarter of all units in buildings with five or more units have been purchased in 2005 or later. This is very significant because the recent purchasers operate under much larger debt service loads than longer-term owners.*
- *From 1999 through 2006, apartment sales prices tripled, from an average of $40,701 to $127,484.*
- *In 2007, apartment values decreased by 4 percent.*
- *The average annual compounded rate of appreciation (compounded annual growth rate or CAGR) from 1999 to 2006 was 15.4 percent. However, over the longer period from 1990 to 2007, the CAGR was 4.7 percent.*

- *From 2000 to 2005, even an apartment with a fixed net operating income stream increased substantially in value because the market value of an income stream increased because of the decline in capitalization rates for apartment purchases.*
- *There are significant differences in the price of apartments based on location, size and age, but that the rate of appreciation from 1999 to 2006 has been similar for all apartments regardless if these distinctions.*
- *It does not appear that the RSO has had a significant impact on the average rate of appreciation of apartment buildings. The rates of appreciation and increases in values are similar among buildings that are covered by the RSO and buildings not covered by the RSO, and higher in the City than in other comparison communities.*
- *Based on Assessor's data, RSO properties in the City of Los Angeles had the second highest rate of appreciation out of 40 metropolitan regions. Based on CoStar data, the greater Los Angeles area had a rate of appreciation that was exceeded by only 8 of the 40 metropolitan regions in the U.S.*
- *Apartment values are highly dependent on capitalization rates. If capitalization rates increase by a few percent, a substantial portion of apartment owners could be left with sharply reduced or even negative equities in their buildings that could not be solved by City policies or the market.*
- *The rate of return on apartment investments is linked to when the investment was made. Owners who purchased prior to about 2003, paid prices for their apartments that are low relative to the market value of their units in early 2008, when sales data was analyzed, and are likely to be low relative to net operating income levels. These owners have substantial cash flows, unless they have obtained larger mortgages and, thereby, reduced their cash investment. On the other hand, recent purchasers are in a radically different position. A substantial portion of these owners have incurred mortgage obligations that leave little space for cash flow or increases in investments in maintaining and renewing their properties, making them vulnerability to minor fluctuations in expenses or income.*

## OVERVIEW OF THE IMPACTS OF THE RSO ON OUTCOMES OF APARTMENT INVESTMENTS

The impact of the RSO is substantially limited by the fact that, on the average, within a five-year period, an apartment owner may obtain unlimited vacancy increases for half of the units in a building because of tenant turnover. This outcome still holds even though turnover rates have declined since 2000, as rents increases have accelerated.

In the 1990's, the RSO had a limited impact because the allowable annual rent increases exceeded increases in market rents. From 2000 to 2006, because of the combination of the annual allowable RSO rent increases and vacancy decontrol, average rent levels have increased at a much greater rate than the Los Angeles area Consumer Price Index (CPI). During this period, the average rent of units covered by the RSO increased from $735 to $1,016, a 38 percent compared to a 23 percent increase in the Los Angeles area CPI-All Items.

In most years since 1982, without taking into account increases to market rates after tenants vacate units, the annual allowable rent increases under the RSO have been at least

comparable to the rent increases that have been obtained in the unregulated rental markets in the balance of the U.S. Annual rent increases under the RSO exceeded market-driven rent increases in 15 of 23 U.S. metropolitan areas over the past eight years.

On average, apartment operating expenses are in the range of $250 to $450 per apartment per month and are equal to about 24-35 percent of rental income.

On average, increases in rents from 2000 to 2007, exceeded increases in apartment operating costs from 1999 to 2006. It is estimated that operating costs per apartment per month have increased by about $160, compared to an increase in average RSO rents of about $300.

The RSO ceiling on annual rent increases has limited the rate of rent increases for sitting tenants to slightly less than the rates by which market rents have increased since 2000, and, therefore, slightly below the amounts that apartment owners could have imposed in the absence of rent stabilization.

On average, the rate of growth in net operating income from apartments exceeded the rate of increase in the CPI. From 1999 to 2007, the average increase in RSO apartment values attributable to growth in net operating income per apartment is $30,000 to $40,000.

Since 2000, RSO apartment values have tripled. This appreciation has been the outcome of the sharp reduction in capitalization rates, largely fueled by substantial reductions on mortgage interest rates and increases in net operating income. Since 2001, the rate of appreciation in Los Angeles apartment values has substantially exceeded the national average.

About a quarter of all units in buildings with five or more units have been purchased in 2005 or later. This is very significant because recent purchasers operate under much larger debt service loads than longer-term owners. Owners who purchased prior to about 2003, paid prices for their apartments that are low relative to the market value of their units in early 2008, when sales data was analyzed, and are likely to be low relative to net operating income levels. These owners have substantial cash flows, unless they have obtained larger mortgages and, thereby, reduced their cash investment. On the other hand, recent purchasers are in a radically different position. A substantial portion of these owners have incurred mortgage obligations that leave little space for cash flow or increases in investments in maintaining and renewing their properties, making them vulnerability to minor fluctuations in expenses or rental income.

Apartment values are highly dependent on capitalization rates. If capitalization rates increase by a few percent, a substantial portion of apartment owners could be left with sharply reduced or even negative equities in their buildings that could not be solved by City policies or the market.

Data from the owner survey and owner focus groups presented in Chapter 3 suggests that in some buildings with moderate rents and with very limited in tenants over a substantial time period, the allowable annual increases in monthly rents under the RSO are probably in the range of $20 to $25. This may not be adequate to cover increases in apartment operating expenses, which have been in the same range.

On average, in terms of rent increases and appreciation, the performance of investments in apartment buildings covered by the RSO has been superior to the average performance of investments in apartment buildings in the U.S., which as a rule are unregulated. In addition, it has been comparable to the performance of investments in apartments in the Los Angeles region that are not covered by the RSO.

## CONCLUSIONS AND RECOMMENDATIONS

### Reasonableness of the Annual Rent Increase Allowed Under the RSO Program

In the authors' view, the CPI annual increase standard fairly balances the interest of renters and owners. It protects sitting tenants from excessive rent increases, while at the same time providing apartment owners with annual increases that are considered reasonable and are tied to a commonly used measure in our economy of what price increases are reasonable. The actual data on increases in apartment operating costs does not indicate there is a need to use some other measure in order to determine annual allowable rent increases nor does it indicate that some other rent adjustments are needed because the increases in operating costs are exceptional relative to rents and allowable increases.

### Accuracy of the Methodology Used to Calculate the Annual Rent Adjustment Percentage in Reflecting Actual Changes in Operating Costs

The Consumer Price Index (CPI) is the best available economic benchmark for setting rent increases, although it has weaknesses as well as strengths. Most of rental income, typically about 65 percent, provides net operating income. The CPI is the only available measure for determining what growth should be permitted in this portion of income. Furthermore, as indicated, maintenance and management expenses constitute a substantial portion of operating expenses. There are no systematic sources of data on these types of expenses, except for the industry reports for very large professionally managed buildings. Therefore, the CPI is the best available measure of an allowance for increases in these costs. Operating cost studies may provide more precise measures of increases in some specific types of costs, however these are costs that do not account for a large share of rental expenses. Furthermore, due to the complexity of apartment operating cost studies, their outcomes may be perceived as arbitrary or political, thus undermining the credibility of the system.

### Recommended Change to the RSO Based on Available Evidence about Financial Outcomes

The annual utility allowance of one percent per year for gas and electricity in master-metered buildings (a total of two percent if both services are provided) should be replaced by periodic analyses of actual changes in costs. Currently, this allowance has no connection with the actual increases resulting from increases in the cost of providing gas and electricity in master-metered units. It is recommended that utility passthrough increases be calculated as follows:

1. Authorize utility increases when significant gas and/or electricity cost increases occur, rather than an unchanging fixed percentage annual increase, and
2. Condition the right to gas and electricity passthroughs on an owner submitting one year of gas and electricity bills for the apartment building one time only (or once every five years). This requirement will not impose a substantial burden on an apartment owner and will provide the City with data that can be used to determine average consumption levels.

Using the average consumption data, the City can make reasonable estimates of what percentage utility adjustments would be reasonable in the future by measuring the impacts of cost increases on buildings with average consumption levels. Currently, while rate increases are known because they are publicly set, the complementary information on average consumption levels and on the ratio of these expenses to gross income is unavailable.

Chapter 5

# Rent Increase Standards

*Los Angeles Rent Stabilization Ordinance (RSO) and Comparison with Ordinances in Other California Cities*

Ken Baar

This chapter evaluates and comments on:

1. The method used to calculate the Annual Rent Adjustment with a comparison of the methodology of other rent controlled jurisdictions
2. Whether the use of alternative methods of determining the Annual Rent Adjustment would more closely reflect increases in operating costs
3. The utility passthroughs under the ordinance, including discussion of practices in other jurisdictions
4. [The] efficacy of lowering the annual allowable increase for persons on a fixed income who are seniors or disabled
5. Rent Stabilization Ordinance (RSO) fees, including a comparison with practices in other jurisdictions[1]

Ten California cities have apartment rent stabilization ordinances - Berkeley, Beverly Hills, East Palo Alto, Hayward, Los Angeles, Oakland, San Francisco, San Jose, Santa Monica, and West Hollywood.[2] The laws enacted by other cities to regulate rent increases provide a frame of reference for evaluating Los Angele's rent stabilization ordinance. While the various municipal rent control ordinances in California differ in particulars, they all provide for vacancy decontrols and annual rent increases. As a practical matter, the vacancy decontrols permit owners to reset the rents of a majority of rental units at market levels within a five-year period. In the case of Los Angeles, the Census Bureau's 2006 American Community Survey indicated that approximately 20 percent of all tenants in buildings that are subject to the RSO moved into their units within the past year and that 51 percent moved in within the past five years.[3]

Under the RSO, the annual allowable increase is equal to the percentage increase in the Consumer Price Index (CPI) with a minimum allowable increase of 3 percent and a maximum of 8 percent. An additional annual rent increase of one percent is allowed for the provision of master-metered gas and electricity. (An additional two percent is permitted if both services are master-metered.) In addition, owners may petition for rent increases to cover the cost of capital improvements or to obtain a "just and reasonable" return (defined as base period net operating income adjusted by the percentage increase in the Consumer Price Index since the base year).

## Brief Historical Perspective on Rent Regulations in the U.S. and Los Angeles

"Rent control" is often spoken about without any clarification or definition, as if all rent control ordinances were the same. In order to place any discussion of any rent control ordinance

in perspective, it is critical to note that rent control laws have varied enormously in terms of the types of restrictions they have placed on rent increases. Therefore, experiences under a particular law may or may not have much relevance in projecting the impacts of other laws.

In order to provide some perspective on the Los Angeles Rent Stabilization Ordinance (RSO), this section briefly describes the characteristics of rent control in the U.S., and the evolution of rent controls in California, the Los Angeles policy of authorizing annual rent increases and vacancy decontrols throughout the life of its ordinance may be contrasted with other forms of rent control.

**Rent controls were first adopted after the World War I as a temporary measure in response to conditions arising out of the wartime emergency.** In that era, public regulations of private contractual arrangements (such a minimum wage and maximum hours laws) were considered to be an unconstitutional interference with freedom of contract. Consistent with doctrines of the era, the courts held that rent controls were only constitutional if they were temporary emergency measures. By 1924, all controls had been terminated.

During World War II, the federal government instituted rent controls that virtually froze rent levels. Rent increases were authorized for specified defense areas based on apartment operating cost studies. However, the federal Office of Price Administration nevertheless found that the returns from apartment rentals increased due to the drastic reduction of vacancy losses from a prewar level of 9.9 percent and reductions in maintenance expenditures associated with the removal of competitive pressures to obtain tenants.

By 1953, federal rent controls were terminated and all rent controls, federal or local were terminated in all areas except New York City. Under the New York controls, no annual rent increases were permitted (with the exception of an across-the-board increase of 15 percent in 1953) and 15 percent increases were permitted upon vacancies. The law exempted buildings that were constructed after 1947.

In 1969, New York adopted a rent stabilization law that applies to buildings constructed after 1947. This law provides for annual rent adjustments. In 1970, the rent control law, which applied to buildings constructed in 1947 or earlier, was amended to authorize annual rent increases for rent-controlled apartments. Under the current New York City regulations, apartment owners are permitted 20 percent increases upon vacancies plus an additional amount if the prior tenant occupied the unit for more than eight years. Allowable annual increases are based on guidelines that set forth the increased amount necessary to cover operating cost increases and to bring the rent up to a maximum base rent (MBR) that is set forth for each unit. In addition to New York City, an additional 50 municipalities in New York State now have some form of rent control.

**Peacetime rent controls were adopted outside of New York in the early 1970's, by Boston and a few neighboring cities, approximately 100 cities in New Jersey, and Washington, D.C.** They are still in effect in over 100 New Jersey cities and D.C. The New Jersey controls generally provide for annual rent increases tied to the CPI. About two-thirds of the New Jersey ordinances include a vacancy decontrol provision. Some ordinances allow limited increases upon vacancy. Under some ordinances, when a unit becomes vacant, it becomes exempt from all future rent controls.

In California, rent controls became widespread after the passage of Proposition 13 in 1978. This measure led to a substantial reduction in property taxes and overall apartment

operating costs, which in turn led to tenant expectations that rents would be reduced. However, in the following years rents increased in accordance with tightening market conditions and exceptionally high inflation rates.

Shortly after the passage of Proposition 13, rent regulations were adopted in Los Angeles, San Francisco, San Jose, Oakland, Hayward, Berkeley, Santa Monica, and Beverly Hills. All of the ordinances, except the ordinances of Berkeley and Santa Monica, contained vacancy decontrol provisions and allowed fixed percentage annual increases. The amounts of the allowable annual rent increases were substantial - Oakland - 10 percent, San Jose - 8 percent, Los Angeles and San Francisco -7 percent. However, the 7 percent ceilings in Los Angeles and San Francisco were substantially below the rate of inflation at that time. From 1978 to 1982, the annual rate of increase in the Los Angeles area CPI ranged from eight to 15.8 percent.[4] In 1980 and 1981 respectively, the annual increases in the San Francisco area CPI were 12.9 percent and 15.2 percent.

From 1982 through 1985, the annual percentage increases in the Los Angeles area CPI, ranging from 1.8 percent to 4.7 percent, were below the annual percentage rent increases of 7 percent authorized under the ordinance. In 1985, the RSO was amended to tie the allowable annual rent increase to the annual increase to the percentage increase in the CPI, with a minimum allowable annual increase of 3 percent and a maximum of 8 percent.

In Berkeley and Santa Monica, allowable annual rent increases were determined by the Rent Board based on a study of increases in apartment operating costs and the increase in the CPI. After West Hollywood was incorporated in 1984, it adopted an ordinance that authorized annual increases equal to 75 percent of the percentage increase in the CPI and limited increases upon vacancies to 10 percent, with a limit of one vacancy increase within a five-year period.

**The Costa-Hawkins Rental Housing Act[5] - State Law Requires Vacancy Decontrol**

**In July 1995, the state legislature adopted a statute (the Costa-Hawkins Rental Housing Act),** which instituted vacancy decontrol and exempted condominiums and single-family dwellings from rent controls, starting in 1999.[6] The principal impact of this statute was to terminate the vacancy control provisions of the rent control ordinances of Berkeley, East Palo Alto, Santa Monica, and West Hollywood and prevent any other cities from adopting vacancy controls in the future.

**Tightening of Eviction Controls and Increasing Required Mitigation for Tenant Displacement**

At various times during the past decades, the market has provided enormous incentives for obtaining vacancies. These incentives for obtaining vacancies include:

- Increases in market rents that have substantially exceeded allowable annual rent increases
- Alternate uses such as condominium conversion or owner occupancy have been far more profitable than continuing in the rental business
- Rents of some or all units in a building have not been increased by the amounts authorized under the RSO.

In the past decade, rent stabilized jurisdictions have focused on tightening their eviction controls and increasing relocation protections and benefits for tenants who are displaced pursuant to Ellis removals and other types of use conversions. Local measures have limited the frequency of owner occupation evictions and adopted other requirements designed to insure that such evictions are bona fide, such as minimum length of occupancy requirements.

## COMPARISON OF ANNUAL RENT INCREASE STANDARDS

**Currently, most of the municipal rent control ordinances in California tie allowable annual rent increases to the percentage increase in the Consumer Price Index.** The ordinances of Los Angeles and Oakland allow increases equal to 100 percent of the percentage increase in the CPI, while San Francisco, Berkeley, and West Hollywood respectively limit increases to 60 percent, 65 percent, and 75 percent of the percentage increase in the CPI. Hayward and San Jose still authorize the fixed percentage increases that were contained in their original ordinances. Under the Santa Monica ordinance, allowable annual increases are set by the Rent Board based on a study of increases in apartment operating costs (Table 5-1).

Table 5-1
Annual Rent Increase Standards under Rent Control Ordinances

| I. Ordinances with annual increase based on CPI: | | |
|---|---|---|
| **Jurisdiction** | **Annual Increase Standard** | **Utility Adjustments for Master-Metered Units** |
| Los Angeles | 100% of CPI<br>Minimum 3%, Maximum 8% | 1%/year gas<br>1%/year electricity |
| Berkeley | 65% of CPI (until 2006,<br>annual increase based on operating cost study) | None |
| Oakland | 100% of CPI | None |
| San Francisco | 60% of CPI | gas and elec. - passthrough of costs<br>increases for a bldg based on application |
| West Hollywood | 75% of CPI | None |

| II. Ordinances with fixed percentage annual increase: | | |
|---|---|---|
| **Jurisdiction** | **Annual Increase Standard** | **Utility Adjustments for Master-Metered Units** |
| Beverly Hills | 10%/year* | None |
| Hayward | 5% / year | None |
| San Jose | 8% / year | None |

| III. Annual Increase Based on Operating Cost Study: | | |
|---|---|---|
| **Jurisdiction** | **Annual Increase Standard** | **Utility Adjustments for Master-Metered Units** |
| Santa Monica | Annual increase determined by Board based on apartment operating cost study | Gas or electricity adjustments in 4 of 30 years based on operating cost studies |

Source: Based on author's review of rent ordinances. * Beverly Hills also has an ordinance that applies to a few percent of the rental units in the City, units in which the original rent for the current tenant was under $600. Under this ordinance, annual increases are limited to the percentage increase in the CPI.

The annual rent increases that have been authorized by each rent-controlled jurisdiction since the adoption of rent controls are compared in Table 5-2. It is hard to generalize in comparing the increases under the rent ordinances, except to note that since the adoption of

statewide vacancy decontrols, the increases authorized by Los Angeles have been equal to or have exceeded those of the other jurisdictions that tie annual rent increases to the percentage increase in the CPI (Oakland, San Francisco, and West Hollywood) and in most years have exceeded allowable rent increases authorized in Berkeley and Santa Monica based on apartment operating cost studies. However, the annual rent increases in cities that authorize a fixed percentage annual increase (San Jose, Hayward, and Beverly Hills) have exceeded the allowable annual increases under the RSO.

Table 5-2
Annual Rent Increases Since the Adoption of Rent Controls
*Excluding Utility Increases and Surcharges Based on Specific Cost Increases*

| Year | Los Angeles | Berkeley | Beverly Hills | Hayward | Oakland | San Francisco | San Jose | Santa Monica | West Hollywood |
|---|---|---|---|---|---|---|---|---|---|
| 1979 | 7% | | | | | | | 7% | No Rent Control |
| 1980 | 7% | | | 7% | 10% | | | 6.50% | |
| 1981 | 7% | 4.75% | | 7% | 10% | | | 5.50% | |
| 1982 | 7% | 9% | | 7% | 10% | 7% | 8% | 5.50% | |
| 1983 | 7% | 4.75% | | 7% | 10% | 7% | 8% | 4.50% | |
| 1984 | 7% | 0% | | 7% | 8% | 4% | 8% | 4% | |
| 1985 | 4% | 2% | 7% | 8% | 4% | 8% | 3.00% | 3.00% | |
| 1986 | 5% | 3%+$2.50 | 10% | 7% | 8% | 4% | 8% | 2.50% | 2.50% |
| 1987 | 4% | 3.50% | 5% | 6% | 4% | 8% | 4% | 3.50% | |
| 1988 | 4% | $25.00 | 10% | 5% | 6% | 4% | 8% | 3% | 3.25% |
| 1989 | 4% | 3% | 10% | 5% | 6% | 4% | 8% | 3% | 3.75% |
| 1990 | 5% | $16.00 | 10% | 5% | 6% | 4% | 8% | 6% | 3.75% |
| 1991 | 5% | 4% or $17 + 45% of 1980 rent | 10% | 5% | 6% | 4% | 8% | 3.50% | 3.50% |
| 1992 | 5% | $26.00 | 10% | 5% | 6% | 4% | 8% | 3% | 2.75% |
| 1993 | 3% | $20.00 | 10% | 5% | 6% | 1.90% | 8% | 3 | 2.00% |
| 1994 | 3% | $18.00 | 10% | 5% | 6% | 1.30% | 8% | 2% | 0.75% |
| 1995 | 3% | 1.50% | 10% | 5% | 3% | 1.10% | 8% | 1.50% | 1.75% |
| 1996 | 3% | 1% | 10% | 5% | 3% | 1.00% | 8% | 1.60% | 1.25% |
| 1997 | 3% | 1.15% | 10% | 5% | 3% | 1.80% | 8% | 2% | 1.00% |
| 1998 | 3% | 0.80% | 10% | 5% | 3% | 2.20% | 8% | 1% | 1.25% |
| 1999 | 3% | 1% up to $8 | 10% | 5% | 3% | 1.70% | 8% | 1% | 1.75% |
| 2000 | 3% | $6 | 10% | 5% | 3% | 2.90% | 8% | 3% | 2.25% |
| 2001 | 3% | $10 | 10% | 5% | 3% | 2.80% | 8% | 4.20% | 2.75% |
| 2002 | 3% | 3.5% / $30 limit | 10% | 5% | 3% | 2.70% | 8% | 1.75% | 2.25% |
| 2003 | 3% | 0% | 10% | 5% | 3.60% | 0.80% | 8% | 3% | 1.50% |
| 2004 | 3% | 1.50% | 10% | 5% | 0.70% | 0.60% | 8% | 1.30% | 2.75% |
| 2005 | 3% | 0.90% | 10% | 5% | 1.90% | 1.20% | 8% | 3% | 3.25% |
| 2006 | 4% | 0.70% | 10% | 5% | 3.30% | 1.70% | 8% | 4% | 4.00% |
| 2007 | 5% | 2.60% | 10% | 5% | 3.30% | 1.50% | 8% | 2.30% | 2.25% |
| 2008 | 3% | 2.20% | 10% | 5% | | 2.00% | 8% | 2.7% | |

Source: Based on author's review of rent ordinances and annual increases reported by cities with rent control ordinances.

## ALTERNATIVE METHODOLOGIES AND STANDARDS FOR SETTING ALLOWABLE ANNUAL RENT INCREASES

Numerous alternatives are available for setting allowable annual rent adjustments. This section comments on these alternatives.

### An Alternate CPI Index

Currently, the *CPI for All Urban Consumers: All Items* is used to determine the allowable annual rent increase under most of the ordinances that use a CPI standard.

Often in rent-controlled jurisdictions, there have been proposals for the use of an alternate index. In fact, there a number of CPI indexes that could be considered – including, but not limited to, the *CPI for Urban Wage Earners and Clerical Workers: All Items* and the *CPI for All Items Less Shelte*r. Under most ordinances that use a CPI standard, the *CPI for All Urban Consumers: All Items* is used. In the Oakland ordinance, the allowable increase is tied to the average of the percentage increases in the *All Items* and the *All Items Less Shelter* indexes.[7]

At various times, tenant and landlord representatives have proposed the use of alternate CPI indexes on the basis that they would be more reasonable. Each proposal is steeped in scientific justification and coincidentally in the particular years that the proposal is introduced is more favorable than the currently used index to the group (landlords or tenants) that is advocating the change.[8]

#### *The All Urban Consumers: All Items Index versus the Urban Wage Earners and Clerical Workers: All Items Index*

The rationale for using of the *CPI for Urban Wage Earners and Clerical Workers: All Items* index, rather than the *CPI for All Urban Consumers* index, is that the former more accurately reflects the changes in the cost of living for renters because renters are more likely to be wage earners and clerical workers. In fact, the differences between the increases in the two indexes have been small. Since 1978, the *All Urban Consumers* index has increased by 232.7 percent (4.23 percent per year compounded), compared to an increase of 222.1 percent (4.12 percent per year compounded) in the *Urban Wage Earners and Clerical Workers* index.[9]

#### *The All Items Index versus the All Items Less Shelter Index*

The difference between the increases in the *All Items* and *All Items Less Shelter Indexes* have been much greater than the differences between the increases in the all urban consumers and the urban wage earners and clerical workers indexes.

The *CPI All Items Index* is based on the costs of a market basket of household costs including housing costs. However, in this index, rent levels, rather than the costs of homeownership, are used as a proxy to measure housing costs for homeowners.[10] The use of an index that includes rents in order to determine allowable rent increases is subject to the shortcoming that its use is "circular" to the extent that exceptional increases in rents become a factor in determining what rent increases should be permitted.[11]

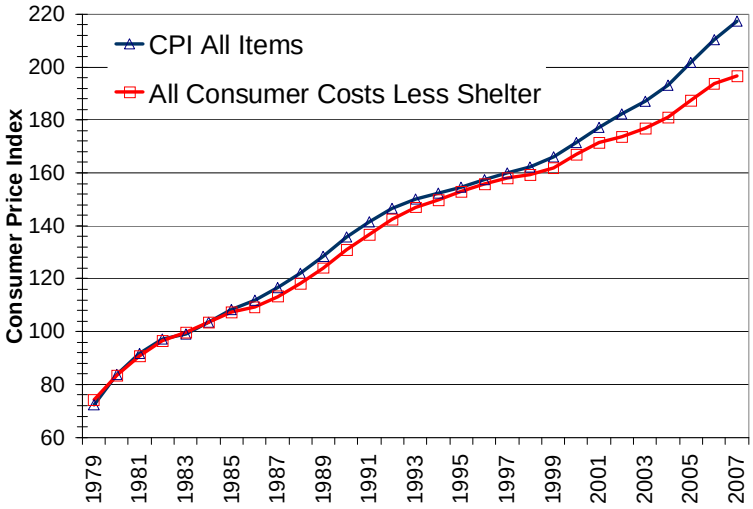
In the Los Angeles area CPI, the combination of "Rent of primary residence" and "Owners' equivalent rent of primary residence" constitute 35.5 percent of the market basket in the *All Items* index for the Los Angeles area.[12] Since the RSO was adopted, the annual increase in the *CPI All Items* index for the Los Angeles area has exceeded the increase in the *CPI All Items Less Shelter* index for the area by 0.4 percent on the average. On a cumulative basis from 1978 to 2007, the *All Items* index increased by 233 percent compared to a 197 percent increase in the *All Items Less Shelter* index.

During periods of exceptional increases in rents, the increases in the Los Angeles area *All Items* index have exceeded the increases in the *All Items Less Shelter* index by one percent or more. (Conversely, during periods of unchanging or declining rents, the increases in the *All Items Less Shelter* index have exceeded the increases in the *All Items* index. From 2000 to 2007, the overall percentage increase in the Los Angeles area *CPI All Items* index exceeded the percentage increases in Los Angeles area *CPI All Items Less Shelter* index by 8 percent. In contrast, in the U.S. as a whole, during this period, the rate of increase in the *All Items* index exceeded the rate of increase in the *All Items Less Shelter* index by 2 percent.

In fact, the impact of the differences in the increases in the two indexes on the annual allowable rent adjustments is a lesser or greater amount than the actual differences between the increases in these indexes for any particular year due to rounding and/or the annual minimum of 3 percent.[13] In each year from 1997 to 2004, the increase in the *All Items* index exceeded the increase in the *All Items Less Shelter* index; however, in all of these years the allowable increase would have been 3 percent regardless of what index was used. In 2006 and 2007, the annual increases would have been one percent lower if the *All Items Less Shelter* index had been used.

Since the outset of rent stabilization, there have been substantial rationale for using the *All Items Less Shelter* index rather than the *All Items* index. However, if a switch was made to the *All Items Less Shelter* index at this particular time, a "windfall" situation might (or might not) be created. If rents declined or remained flat in the coming decade, the increases in the *All Items Less Shelter* index might be higher than the increases in the *All Items* index. Under these circumstances, as a practical matter, the *All Items* index would have been used when it was most advantageous to apartment owners and would have been discarded when the *All Items* index would have worked to the advantage of tenants (when rents increased at a slower rate than the *All Items* index). Figure 5-1 shows the actual price index changes from 1979 to 2007, and Table 5-3 provides a year-by-year comparison of increases in the two indexes.[14]

Figure 5-1
Consumer Price Index - All Items and All Items Less Shelter
Los Angeles Region, 1979-2007




*Source: U.S. Dept. of Labor, Bureau of Labor Statistics. Consumer Price Index (CPI) Tables, 1979-2008. Washington, D.C.*

Table 5-3
Comparison Between Increases in
CPI All Items and CPI All Items Less Shelter Indexes

| Year | Percentage increase over prior year (Using 12-month period ending Sept.) | | Differences in Percentage Increases | | Change in Annual Increase if Less Shelter Index Used |
|---|---|---|---|---|---|
| | CPI All Items | CPI All Items Less Shelter | Increases All-Items > All-Items Less Shelter | Increases All-Items Less Shelter > All-Items | |
| 1979 | 9.4% | 9.0% | 0.4% | | None Due to 3% Minimum |
| 1980 | 15.8% | 12.4% | 3.4% | | |
| 1981 | 10.5% | 9.5% | 1.0% | | |
| 1982 | 8.0% | 7.3% | 0.7% | | |
| 1983 | 1.5% | 3.6% | | 2.1% | |
| 1984 | 4.2% | 3.6% | 0.6% | | |
| 1985 | 4.7% | 4.0% | 0.7% | | None |
| 1986 | 3.8% | 2.4% | 1.4% | | -1% |
| 1987 | 3.7% | 2.7% | 1.0% | | -1% |
| 1988 | 4.6% | 4.2% | 0.4% | | -1% |
| 1989 | 5.0% | 5.1% | | 0.1% | None |
| 1990 | 5.5% | 5.0% | 0.5% | | None |
| 1991 | 5.0% | 5.2% | | 0.2% | None |
| 1992 | 3.5% | 3.9% | | 0.4% | None |
| 1993 | 2.9% | 3.6% | | 0.7% | 1% |
| 1994 | 1.6% | 2.2% | | 0.6% | None Due to 3% Minimum |
| 1995 | 1.6% | 2.1% | | 0.5% | |
| 1996 | 1.5% | 1.6% | | 0.2% | |
| 1997 | 1.8% | 1.7% | 0.1% | | |
| 1998 | 1.5% | 0.9% | 0.6% | | |
| 1999 | 2.1% | 1.4% | 0.7% | | |
| 2000 | 2.9% | 2.6% | 0.3% | | |
| 2001 | 3.7% | 3.4% | 0.3% | | None |
| 2002 | 2.5% | 1.0% | 1.5% | | None Due to 3% Minimum |
| 2003 | 3.0% | 2.2% | 0.8% | | |
| 2004 | 2.6% | 1.5% | 1.1% | | |
| 2005 | 4.5% | 3.5% | 1.0% | | |
| 2006 | 4.8% | 4.1% | 0.7% | | -1% |
| 2007 | 3.0% | 1.0% | 2.0% | | -1% |
| 2008 | | | | | |

Source: U.S. Dept. of Labor, Bureau of Labor Statistics. Consumer Price Index (CPI) Tables, 1979-2008. Washington, D.C.

## Annual Rent Increase Based on a Dollar Ceiling Rather than a Percentage Ceiling

As an alternative to authorizing uniform percentage annual rent adjustments, an ordinance could authorize annual increases of a uniform dollar amount for all units. In some years, the Berkeley and Santa Monica Rent Boards elected to authorize fixed dollar annual rent increases based on the average rent multiplied by the percentage increase that was deemed to be

reasonable in that particular year. For example if a 4 percent rent increase was deemed reasonable and the average rent was $800, an annual increase of $32 (4 percent x $800, rather than a 4 percent increase) would be permitted for all units (Table 5-4). In some years, Santa Monica has authorized a uniform percentage rent increase, subject to a either a dollar floor or a dollar ceiling. (E.g. 4.2 percent or $40, whichever is less).

Table 5-4
Annual Rent Adjustments
Fixed Percentage Compared with Fixed Dollar Method

| Monthly Rent | 4% Increase Based on 4% Increase in CPI | Increase - 4% of average rent -$1,000 |
|---|---|---|
| $700 | $28 | $40 |
| $1,000 | $40 | $40 |
| $1,300 | $52 | $40 |

The uniform percentage increase grants the largest increases for units for which the largest percentage increases have already been authorized by virtue of the vacancy decontrol, rather than granting the largest increases for the units that have not obtained the benefits of the vacancy decontrol. The rationale for the uniform dollar approach is that operating cost increases for apartments tend to be more uniform in dollar amounts than in terms of a percentage of the rents; therefore, allowable rent increases should be uniform, rather than the same percentage of current rents.

There are other rationale for and against each approach. The percentage methodology favors apartment owners with the highest rents, while the fixed dollar methodology favors apartment owners with the lowest rents. On the one hand, differences in apartment operating costs are a function of rent levels to the extent these levels are determined by the size of apartments and the level and quality of services provided. However, due to differences in location and the date of the last vacancy increase, apartments that have the same size and provide same level and quality of services may have vastly differing rents.

The foregoing factors may be "balanced" by permitting fixed percentage rent increases in some years and fixed dollar increases in other years. However, such a step would increase the complexity of the annual rent increase mechanism.[15]

## The Impact of the Floor and Ceiling on Allowable Rent Increases

As indicated, the minimum allowable annual rent increase is 3 percent and the maximum is 8 percent. None of the other cities that use the CPI in order to determine allowable annual rent increases have a ceiling or a floor on allowable annual rent increases.

In 1979, 1980, and 1981, prior to the adoption of the 8 percent ceiling, the annual increase in the CPI substantially exceeded 8 percent. Since the ceiling was adopted, it has not had any impact because the annual increase in the CPI has never exceeded 6 percent.

Table 5-5
Impact of 3% Minimum on
Allowable Annual Rent Increases

| Year | Allowable Annual Increase in Absence of 3% Minimum |
|---|---|
| 1995 | 2% |
| 1996 | 2% |
| 1997 | 1% |
| 1998 | 2% |
| 1999 | 1% |
| 2000 | 2% |

Source: Author's calculations based on Table 5-3.

On the other hand, the 3 percent annual minimum had an impact on the allowable annual rent increase in each year from 1995 to 2000 (Table 5-5).

As indicated, the 3 percent minimum has not had any impact since 2000. However, it would have had a substantial impact if the *CPI All Items Less Shelter* index had been used to determine allowable annual increases.

**Allowable Annual Increases Based on Apartment Operating Cost Study Using a Weighted Cost Index**

**The use of the CPI to determine annual increases has been criticized on the basis that the CPI takes into account the market basket of goods purchased by an average household, which differ substantially from basket of expenses associated with the operating of an apartment building.** On this basis, some jurisdictions have used of a "weighted" operating cost index based on the types of expenses incurred by apartment owners in order to permit annual rent increases that more closely track trends in apartment operating costs than the *CPI All-Items* index.

When this methodology is used, estimates are made of the ratio of each type of operating expense and net operating income (NOI) to gross income and of the rate of increase in each type of operating cost. On this basis, an estimate is made of the amount of rent increase required to cover each type of cost increase. (For example, if water costs equal 2 percent of gross income and they have increased by 10 percent, then a 0.2 percent (2 percent x 10 percent) rent increase is required to cover this cost increase.) In addition, a CPI related adjustment of NOI, which typically averages about 60 percent of gross income, is included. (For example if NOI averages 60 percent of gross income and the CPI has increased by 5 percent, a 3 percent rent adjustment (60 percent x 5 percent) would be required to cover this factor. The overall rent adjustment is set at a level that would cover the sum of these factors.

Table 5-6 provides an example of the use of a weighted operating cost index. It is based on the 2006 annual general adjustment study of the Santa Monica Rent Control Board, with the exception that it adjusts all of net operating income by the increase in the *CPI All-Items* index. (In contrast, Santa Monica adjusts approximately two-thirds of the net operating income – the cash flow portion but not the debt service portion – by the CPI.)

The 1984 study for the RSO included a detailed description of how a weighted operating cost index could be developed for the purpose of setting annual rent increases. The report sets forth a list of indexes that would be used to determine the percentage increase in each type of cost.[16]

From a practical point of view, there are serious limitations to the weighted index approach. By necessity, estimates of annual increases for a substantial majority of apartment costs are based on increases in the CPI, because information on actual increases in a large portion of apartment costs - maintenance, management, and insurance - is not publicly available and is not determined by rates that are set by public agencies. In contrast, only a small part of the weighted cost index - the portion consisting of costs that are publicly regulated - e.g. water, sewer, property taxes, common area utilities - is based on a significant amount of information that can be used to measure the ratios of these costs to gross income and precise measures of the increases in these costs. Furthermore, more than half of apartment owners' rental income

Table 5-6
Example of Weighted Operating Cost Study
Rent Increases Required to Cover Operating Cost Increases and Adjust Net Operating Income

| Type of Cost | Ratio to Gross Rent (a) | Percent Increase (b) | Percent Rent Increase Required (b x a) | Average Cost in Dollars (d) | Dollar Rent Increase Required (d x a) |
|---|---|---|---|---|---|
| Property Taxes | .0855 | 2.0% | 0.17% | $62.27 | $1.22 |
| Refuse | .0202 | 10.0% | 0.20% | $15.84 | $1.44 |
| Water & Sewer | .0288 | 5.5% | 0.16% | $21.66 | $1.13 |
| Gas (common areas) | .0299 | 17.54% | 0.52% | $25.07 | $3.74 |
| Electricity (common areas) | .0147 | 0.0% | 0.00% | $10.46 | $0 |
| Maintenance | .1431 | 4.1% | 0.59% | $106.36 | $4.19 |
| Insurance | .0408 | 4.1% | 0.17% | $30.31 | $1.19 |
| Self-Labor | .0708 | 4.7% | 0.33% | $52.94 | $2.38 |
| Management | .0500 | 4.7% | 0.24% | $37.37 | $1.68 |
| Net Operating Income | .5162 | 4.7% | 2.43% | $385.85 | $18.13 |
| **Total** | | | 4.81% | | $35.10 |

Source: Santa Monica Rent Control Board, 2006 Annual General Rent Adjustment Report ("GA Report").

consists of net operating income (NOI) that covers cash flow and debt service rather than operating expenses. This portion is adjusted by a CPI factor (Table 5-7).

The following table compares the portions of rental income that are adjusted by the CPI in a weighted operating cost study with the portions that are adjusted by estimates of changes in specified costs.

Table 5-7
CPI and non-CPI Adjusted Cost Factors
in Operating Cost Study and Annual General Adjustment Determination
of Santa Monica Rent Control Board

| Type of Cost | Operating Cost Weight (Ratio to Rental Income) | Measure of Cost Increase |
|---|---|---|
| **Factors Adjusted by the CPI :** | | |
| Maintenance & Other | .14 | CPI-U All Items Less Shelter |
| Insurance | .04 | CPI-U All Items Less Shelter |
| Self-Labor | .07 | CPI-U All Items |
| Management | .05 | CPI-U All Items |
| Net Operating Income | .52 | CPI-U All Items |
| **Total weight of factors adjusted by CPI** | .82 | |
| **Factors Not Adjusted by CPI** | | |
| Gas | .03 | Southern California Gas Rates |
| Electricity | .01 | Southern California Electric Rates |
| Property Taxes | .09 | 2% per year or actual increases |
| Water & Sewer | .03 | Rates determined by City |
| Refuse | .02 | Rates determined by City |
| **Total Weight Factors** | .18 | |

Source: Santa Monica Rent Control Board, 2006 Annual General Rent Adjustment Report ("GA Report").

In totality, an operating cost study methodology is more sensitive to changes in apartment costs than the CPI standards that are commonly contained in rent control ordinances because it considers increases in water, sewer, refuse, gas, and electricity costs. However, there are substantial limits to what precision is possible.

Furthermore, from a public policy-making perspective, there are other drawbacks to basing the annual rent increase on an annual apartment operating cost study. Such analyses are particularly complex and unintelligible to the average citizen.[17] As a result, although they are performed in an objective manner, the results of such studies are perceived as an outcome of magic or political pressure designed to lean towards a particular outcome. When this methodology is used, either a City Council or a Rent Board must undertake the difficult task of determining what is reasonable based on the analysis in the operating cost study and public comments about how the analysis should be modified in order to be more accurate and reasonable. In the end, it is likely that its decision will be seen as "political".

The history of the use of the operating cost methodology in Berkeley is instructive and ironic. Because the Berkeley Rent Board was often viewed as tenant dominated, its use of an annual weighted operating cost study in order to determine allowable annual rent increases was often viewed by apartment owners with distrust. In 2006, in response to demands tied to a lawsuit by apartment owners, the Rent Board agreed to place an initiative on the ballot that replaced the Rent Board's power to set the annual rent adjustment with an annual rent increase to 65 percent of the percentage increase in the CPI. This initiative received the stamp of approval of the apartment owners and the Rent Board and was approved by the voters.

In fact, over the life of Berkeley rent stabilization program, the operating cost study methodology was more favorable to apartment owners than an annual adjustment set at 65 percent of the increase in the CPI would have been.

In order to understand the Berkeley and Santa Monica experiences with the operating cost methodology certain trends should be noted. Prior to the state mandated imposition of vacancy decontrol in those cities, the public hearings on the annual rent increases were well attended and highly contentious. Since the introduction of vacancy decontrols, the annual rent adjustment process is hardly noticed or discussed by apartment owners, clearly indicating that they are far less concerned about the amount of allowable annual rent increases when a rent control includes vacancy decontrol.

**Passthroughs of Exceptional Expense Increases**

The critical shortcoming of the CPI methodology is that it does not respond to exceptional increases in costs, which most likely may occur as a result of special property assessments. However, neither the likelihood nor the amount of rent increase necessary to cover such costs can be determined in advance. One methodology for responding to exceptional cost increases would be to modify the allowable annual increase for one year or permit some type of a special rent adjustment when an exceptional cost increase occurs. Section 151.08 of the ordinance authorizes rent adjustments by the Rent Adjustment Commission, that are "appropriate to carry out the purposes of [the RSO]."

## ALLOWABLE RENT INCREASES FOR APARTMENT OWNERS WHO PAY FOR MASTER METERED GAS AND/OR ELECTRICITY

In the renter survey, 3.6 percent of all respondents reported that they do not pay for their electricity and 14.2 percent reported than they do not pay for their gas.

**Under the Los Angeles ordinance, apartment owners who provide master-metered gas and/or electricity are permitted additional annual rent increases of 1 percent for each of these services that are master-metered.**[18] For an apartments with mid-range rents (e.g. $700 to $1,100), these provisions allow owners to institute in each year increases in monthly rent ranging from $7 to $11 (1 percent of a typical rent) for each service provided.

In order to place these increases in perspective, it should be noted that they are only cumulative for the term of tenancy, because rents may be reset by the owner when a unit becomes vacant. For an apartment with a typical length of tenure by the current tenant - one to five years - the cumulative additional rent increases would be from $7 to $11 for a tenant in occupancy for one year to $35 to 55 for a five-year tenant. In the case of a long-term tenancy - e.g. ten years - the additional rent increase could be in the range of $77 to $110 for each service provided.

The continuous authorization of the additional one percent rent increases is not based on any evidence that these amounts have been adequate or reasonable.

An operating expense report prepared by Apartment Building Appraisers and Analysts in 2007 estimates that apartment owners' expenses for master-metered gas range from $100 to $250 per year per unit (or $8 to $20 per month per unit) and that expenses for master-metered electricity typically range from $200 to $400 per year per unit (or $16 to 33 per month per unit).[19] A study of electricity costs in 2001 of 130 buildings with master-metered electricity services containing 1,045 units in Santa Monica indicated that the average annual cost per unit was approximately $310 ($25.69 per month).[20] Other industry expense reports either do not contain separate data for master-metered gas and electricity expenses or the sample of master metered buildings is extremely small.

In regards to the rate of increase in these expenses, the data that has been provided to the City of Santa Monica over the years indicates that apartment owner's electricity costs have increased by a much lower percentage than the percentage increases in the electricity rates. This is almost certainly attributable to increases in the efficiency of electric appliances.

It is certain that apartment owners who provide master-metered gas and/or electric costs incur greater cost increases than other apartment owners. However, the additional annual rent increases that are allowed for master-metered apartments (e.g. $7 to $11, which represents 1 percent of typical rent, for each master metered service) equal a substantial portion of the overall cost for providing these services and are most certainly disproportionate to the annual increases in the costs of these services. Furthermore, electricity and gas rates (unlike rates for other services such as water) have substantially fluctuated rather than steadily increased during the past decades. **In fact, there is no connection between the annual master-metered increase authorized by the Los Angeles RSO and actual cost increases.**

Other rent-controlled jurisdictions have provided apartment owners with varying types of allowances for these expenses. However, these provisions have differed substantially from the utility cost increases authorized by the Los Angeles RSO because they have linked allowable

increases to an estimate of average cost increases for the provision of gas and/or electricity or to the cost increases incurred by individual apartment owners. In fact, the costs of gas and electricity have been highly volatile in the past decades. In contrast, the Los Angeles ordinance provides for a fixed automatic annual rent increase for the provision of these services regardless of whether these costs have actually increased and without any consideration of the amount of the increase (or decrease) in these costs.

In Santa Monica, where efforts have been made to base allowances for master-metered buildings on studies of the actual increases in these costs, the adjustments have totaled only about 3 to 4 percent of the rent for each service since 1985.

Under the San Francisco ordinance, owners may implement a passthrough that is based on the actual increases in gas and electricity costs for the individual property. Originally, these increases did not have to be approved by the Board unless the tenant objected. However, starting in 2004 all passthroughs have to be approved by the Board, based on review of a detailed petition documenting gas and electric expenses.

In FY 2005-06, the San Francisco Board received 228 petitions covering 4,746 units and, in FY 2005-07, the Board received 406 covering 4,703 units. A petition must include gas and electricity bills for a base year (which varies depending on when the tenant moved into the unit) and for the current year. Board staff indicated that the petitions were generally filed by more sophisticated owners of larger buildings.

Berkeley and Santa Monica have authorized uniform across-the-board rent increases to cover the provision of master-metered electricity and/or gas in particular years based on an analysis of the cost increases in those particular years (Table 5-8).

**Policy Alternatives**

At this point, a reevaluation of the master-metered gas and electricity allowance is recommended, taking into account the foregoing information and analysis. Possible policies include:

1. The authorization of utility increases when significant gas and/or electricity cost increases occur, rather than an unchanging fixed percentage annual increase, and

2. Conditioning the right to gas and electricity passthroughs on an owner submitting one year of gas and electricity bills for the apartment building one time only (or once every five years). This requirement would not impose a substantial burden on an apartment owner and would provide the City with data that could be used in order to determine average consumption levels. Using the average consumption data, the City could make reasonable estimates of what percentage utility adjustments would be reasonable in the future by measuring the impacts of cost increases on buildings with average consumption levels. Currently, while rate increases are known because they are publicly set, the complementary information on average consumption levels and on the ratio of these expenses to gross income is unavailable.

Table 5-8
Rent Adjustments for Buildings with Master-Metered Gas and/or Electricity
under California Rent Control Ordinances

| Jurisdiction | Type of Utility Allowance | Amount of Utility Allowance |
|---|---|---|
| Los Angeles | Automatic annual increase | 1%/year for gas, 1%/year for heat |
| Berkeley | Until 2006 authorized in particular years based on annual apt. operating cost study | 1981 – 1.2% if owner, pays space heating,<br>1982 – $4 to $16 if owner pays gas & elec., depending on size of unit,<br>1983 – 0.25% if owner pays gas or elec.<br>1989 – 0.5% if owner pays gas or elec.,<br>2001 – $8 if owner pays gas<br>2002 – $9 if owner pays for heating |
| Beverly Hills | None | |
| Hayward | Individualized bldg. passthrough of cost increases; documentation must be provided to the tenant; tenant can challenge increase | Individualized by building |
| Oakland | None | |
| San Francisco | Individualized bldg. passthrough of cost increases;<br>• Allowable increase = increase in cost over base year (base year for new tenants, the year before the tenant moved-in ;<br>• Advance administrative approval required | Individualized by building |
| San Jose | None | |
| Santa Monica | • Only for units in which landlord pays all gas or pays all gas and electrical service,<br>• Only units with same tenant since Jan. 1, 1999 (units with no vacancy decontrol increases);<br>• Application and admin. authorization required,<br>• Initial submission of 1 yr. utility bills required, | 1985 – Gas - 1%, Electricity 0.5%<br>1986 – Electricity 2%<br>1991 – Electricity $7.00, G&E-$11<br>2001 – Electricity $10<br>2002 – Repeal 2001 Rent Adjust.<br>2006 – Gas or G&E -$7 |
| West Hollywood | None | None since 1994<br>Prior to 1994: elec-½%, gas-½% |

Source: Based on author's review of rent ordinances and annual increases reported by cities with rent control ordinances.

## COMMENT ON PROPOSALS FOR LOWERING THE ANNUAL ALLOWABLE INCREASE FOR SENIORS AND/OR DISABLED PERSONS ON FIXED INCOME

This author is not aware of any provision in a California rent control law that has provided for lower annual rent increases for seniors and/or disabled persons. **The protection of low-income households has been a primary justification of rent controls. However, the tool for accomplishing this objective has been to limit rent increases for all tenants to a level that is deemed to be reasonable, rather than targeting rent increase protections towards particular classes and income groups.**

In the course of debates over apartment rent controls, some critics of rent control have taken the position that the controls should only protect low-income households that need

protection, rather than all tenants. On the other hand, in fair return (just and reasonable return) hearings under mobile home park space rent regulations, park owners have continually taken the position that the income of the residents should not be considered because the purpose of the ordinances is to protect against excessive rent increases rather than to subsidize tenants because their income is low. Subsidization is seen as a state responsibility, rather than a responsibility that may be imposed on individual park owners.

**Legal Issues**

The constitutionality of provisions that provided for the consideration of tenant income in rent setting under rent control was considered in one U.S. Supreme Court case and in one case before the New Jersey Supreme Court. While the court opinions about the issue are set forth in a legal framework, they also raise policy issues.

In the New Jersey case, which was decided in 1977, the state supreme court considered the constitutionality of a local ordinance provision that froze the rents of low-income seniors. The Court, which had consistently upheld tenant protections and had an exceptionally strong record of compelling municipalities to allow a fair share of affordable housing, struck down this local provision. It stated:

> *A legislative category of economically needy senior citizens is sound, proper and sustainable as a rational classification. But compelled subsidization by landlords or by tenants who happen to live in an apartment building with senior citizens is an improper and unconstitutional method of solving the problem.*[21]

In Pennell v. City of San Jose (1985),[22] the U.S. Supreme Court considered the constitutionality of a section of the San Jose ordinance that listed "the hardship to a tenant" as one of the factors to be taken into account when considering a landlord petition for a special ("hardship") rent adjustment.[23] The ordinance did not set forth how this factor should be weighted.

The Superior Court and the Court of Appeal had ruled that the provision was unconstitutional, but the California Supreme Court upheld the provision. In each of the appellate courts there was a split vote among the justices. The case came before the courts in a less than ideal posture. It was reviewed solely as a "facial" challenge,[24] because the provision had never been enforced in a specific case. Therefore, it was not known how the provision would actually be applied.

The U.S. Supreme Court ruled that the takings claim was premature and rejected the claim facial challenges to the ordinance based on the Due Process and Equal Protection clauses. The Court concluded that:

> *In light of our conclusion above that the Ordinance's tenant hardship provisions are designed to serve the legitimate purpose of protecting tenants, we can hardly conclude that it is irrational for the Ordinance to treat certain landlords differently on the basis of whether or not they have hardship tenants. The Ordinance distinguishes between landlords because doing so furthers the purpose*

> *of ensuring that individual tenants do not suffer "unreasonable" hardship; it would be inconsistent to state that hardship is a legitimate factor to be considered but then hold that appellees could not tailor the Ordinance so that only legitimate hardship cases are redressed. Cf. Woods v. Cloyd W. Miller Co., 333 U.S. 138, 145 (1948) .... (Congress "need not control all rents or none. It can select those areas or those classes of property where the need seems the greatest"). We recognize, as appellants point out, that in general it is difficult to say that the landlord "causes" the tenant's hardship. But this is beside the point - if a landlord does have a hardship tenant, regardless of the reason why, it is rational for appellees to take that fact into consideration under 5703.28 of the Ordinance when establishing a rent that is "reasonable under the circumstances.*"[25]

If an actual application of the tenant hardship provision had been considered, the case may have raised the issue of whether an application of the provision would be constitutional if an apartment owner received less than a fair return as a result of its application.

In a dissenting opinion, Justice Scalia argued that the provision constituted an unconstitutional taking. He commented that: "Here the city is not "regulating" rents in the relevant sense of preventing rents that are excessive; rather, it is using the occasion of rent regulation (accomplished by the rest of the Ordinance) to establish a welfare program privately funded by those landlords who happen to have "hardship" tenants."[26]

## Practical and Policy Issues

Under the current RSO and many, if not most, ordinances and laws providing for mitigation for tenant displacement, additional mitigation is required for the displacement of senior and disabled tenants- e.g. ordinances and laws covering mitigation for evictions associated with Ellis removals, condominium conversions, or demolitions. However, such provisions may be distinguished from provisions that reduce allowable annual rent increases for low-income senior tenants.

Evictions associated with demolitions and conversions may impose substantial costs and hardships, especially on low-income, senior, and/or disabled tenants. In addition, such evictions occur in conjunction with the conversion of apartment buildings to more profitable uses.

Table 5-9
Annual Allowable Rent Increases Compared with
Increases in Los Angeles Area CPI Rent Index, 1992-1998

| Time Period | Allowable Annual Rent Increase - RSO | Increase (Decrease) in L.A. area CPI rent index |
|---|---|---|
| 7/1/91 - 6/30/92 | 5% | 1.9% |
| 7/1/92 - 6/30/93 | 5% | 1.0% |
| 7/1/93 - 6/30/94 | 3% | -0.4% |
| 7/1/94 - 6/30/95 | 3% | -0.3% |
| 7/1/95 - 6/30/96 | 3% | 0.5% |
| 7/1/96 - 6/30/97 | 3% | 1.2% |
| 7/1/97 - 6/30/98 | 3% | 2.0% |
| Cumulative increase | 27.8% | 6% |

Source: City of Los Angeles Housing Department. July 2007. Landlord-Tenant Handbook: For Rental Units Subject to the Rent Stabilization Ordinance.; U.S. Dept. of Labor, Bureau of Labor Statistics. Consumer Price Index (CPI) Tables, 1979-2008. Washington, D.C.

However, the provision of smaller annual rent increases to specially protected classes of tenants could pose severe practical problems and could achieve the opposite of its intended objective, apart from any legal issues that such a policy may raise.

1. Apartment owners may discriminate against the "protected" classes when seeking tenants, simply because they could be entitled to less rental income from such tenants. As a result, the "favored" treatment may be more harmful than beneficial to the tenants in the "protected" classes.

2. Administration of such a provision could require a substantial administrative effort. Income determinations for eligibility for benefits or special protections based on household income levels are often fairly complex, with detailed provisions regarding what constitutes income and rules regarding the treatment of assets.

**New York's Subsidy Offsetting Rent Increases of Low Income Senior and Disabled Tenants**

New York's Senior Citizen Rent Increase Exemption (SCRIE) exempts senior households and households of disabled persons with an income under $29,000 from annual rent increases. However, this program does not impact the rents collected by apartment owners because they can recover the rents that they lose through these exemptions by obtaining property tax rebates.

Tenants must apply to the Department of Aging for exemptions that are authorized by this program. The administration of the program has been criticized for being unduly slow and for failing to undertake adequate outreach to potential beneficiaries of the program. A 2005 study by the Public Advocate for the City of New York estimated that 45,000 households out of a potential 117,000 households had actually enrolled in the program.

## "BANKING" OF RENT INCREASES

**Under most rent stabilization ordinances, but not the Los Angeles RSO, apartment owners may "bank" allowable annual rent increases if they are not implemented in the year in which they are permitted.** The rationale for this policy is that owners should not be "penalized" for not collecting allowable rent increases as soon as they are permitted. It has been commonly noted that, in the absence of a banking provision, apartment owners are in a "use or lose it" position when, in fact, they would like to help out lower income tenants, without being bound to a lower rent level for as long as the tenant remains in occupancy.

The apartment owner and renter surveys indicate that apartment owners do not impose the annual rent increases authorized by the RSO on a significant portion of units. Twenty percent of the apartment owners responded that they usually do <u>not</u> impose the annual rent increases. Half of renters who have moved in since January 2006 and 41% of the renters who have moved in since 2005 indicated that they had not been subject to any rent increases since they moved in.

From a conceptual point of view, apartment owners may forego annual allowable rent increases for different reasons. One type of rental practice involves foregoing allowable rent increases for tenants based on individual considerations such as the financial situation of the

tenant or the desirability of the tenant. When this occurs, the rents are increased in some units in a building but not others. A second type of practice involves foregoing allowable annual rent increases because the average rents in the overall market have not increased. As Table 5-9 indicates, from 1992 to 1998, the allowable increases totaled 27.8%, while market rents only increased by 6%.

**Some jurisdictions limit the rate at which banked rent increases can be implemented so that tenants who have benefitted from banked increases are not suddenly faced with steep rent increases.**

Table 5-10
Banking Provisions in California Rent Control Ordinances

| Jurisdiction | Type of Banking Provision |
|---|---|
| Los Angeles | No banking authorized |
| Berkeley | Unlimited right to implement banked adjustments |
| Hayward | Banked adjustment plus annual adjustment cannot exceed 10% in any year |
| Oakland | Banked adjustments plus annual adjustment implemented in any year cannot exceed three times annual adjustment |
| San Francisco | Unlimited right to implement banked adjustments |
| San Jose | 21% rent increase authorized if rents have not been increased in over 24 months |
| Santa Monica | Unlimited right to implement banked adjustments |
| West Hollywood | If no vacancy decontrol since 1996, increases authorized prior to 1996 may be banked. Increases since 1996 may not be banked |

Source: Based on author's review of rent ordinances.

If banking is considered in Los Angeles, several policy issues would emerge. These include:

1. Whether an apartment owner could bank rent increases for periods preceding the adoption of the banking provision.

2. Whether to include a ceiling on the amount of rent increases authorized pursuant to the banking provision.

Apartment owners have made sale and purchase arrangements and tenants have made rental decisions in light of the current rent restrictions, including the absence of a banking clause. Under these circumstances, any authorization of banking for past periods would result in "windfalls" for investors who set their purchase prices in a market that established prices for apartment buildings based on the assumption that no banking would be permitted. Also, such a provision could undo the expectations of tenants who have relied on the current rent restrictions in order to remain in their units and/or made decisions to stay in the current units based on the expectation that rents could not be adjusted based on banking for prior years.

As Table 5-10 indicates, some jurisdictions place a ceiling on the amount of increases that may be banked. In the absence of empirical data on when apartment owners have implemented banked increases in other jurisdictions, one would surmise that it is most likely that such increases would be imposed upon changes in ownership.

## RENT STABILIZATION PROGRAMS - ADMINISTRATION FEES

Program fee and service levels vary substantially between programs, as shown in Table 5-11. The programs with higher fees formerly had vacancy controls and have continually required annual registration of the rents for each unit (Berkeley, Santa Monica, and West Hollywood). The programs with lower fees always have had vacancy decontrols and do not require annual registration of rents (Los Angeles, Oakland, San Francisco, and San Jose).

Table 5-11
Administrative Fees and Budgets for California Rent Control Programs

| Jurisdiction | Rent controlled units | Annual Admin. Fee Per Unit | Share of Fee Passed Through to Tenants | Annual Budget | Staff Size |
|---|---|---|---|---|---|
| Los Angeles | 638,000 | $18.71 | 50% | $12,567,000 | 90 |
| Berkeley | 19,000 | $170 | 100% | $3,500,000 | 19.3 |
| Beverly Hills | 1,100 | $20.80 | 0% | $198,655 | .9 |
| Hayward | 8,900 | $0.81 | 50% | $33,000 | .5 |
| Oakland | 60,000 | $30 | 50% | $1,638,185 | 11 |
| San Francisco | 180,000 | $26 | 50% | $5,234,170 | 20 |
| San Jose | 40,000 | $7.26 | 0% | $300,000 | 2 |
| Santa Monica | 28,000 | $156 | 100% | $4,459,224 | 29.4 |
| West Hollywood | 15,000 | $120 | 50% | | 18 |

Source: Based on author's review of rent ordinances.

## *SUMMARY*

Brief Perspective on Rent Regulations in California

- Currently, 10 jurisdictions in California have apartment rent stabilization ordinances - Berkeley, Beverly Hills, East Palo Alto, Hayward, Los Angeles, Oakland, San Francisco, San Jose, Santa Monica, and West Hollywood.
- The California Legislature passed the Costa-Hawkins Rental Housing Act in July 1995, which provides for vacancy decontrols on rents subject to local rent control ordinances.

Comparison of Annual Rent Increase Standards

- Currently, most of the municipal rent control ordinances in California tie allowable annual rent increases to the percentage increase in the Consumer Price Index (CPI).
- Questions have been raised about whether the CPI should be used to determine allowable annual rent increases on the basis that it is based on the market basket of goods purchased by an average household, which differs substantially from the basket of expenses associated with operating apartment buildings.
- Under some rent control ordinances, annual apartment operating cost studies have been used to determine allowable annual rent increases, instead of the CPI. However, the outcome of these studies are largely determined by the CPI, because estimates of increases in a substantial portion of apartment operating expenses are based on the CPI, because actual data is unavailable.
- Annual rent increases in cities that authorize a *fixed* percentage annual increase (San Jose, Hayward, and Beverly Hills) have exceeded allowable annual increases under the RSO.

Allowable Rent Increases For Apartment Owners Who Pay For Master Metered Gas And/Or Electricity

- Under the Los Angeles ordinances, apartment owners who provide master-metered gas and/or electricity are permitted additional annual rent increases of one percent for each of these services that are master-metered.
- In fact, there is no connection between the annual master-metered increase authorized by the Los Angeles RSO and the actual cost increases associated with the provision of master-metered gas and electricity.
- Some of the other jurisdictions with rent control provide apartment owners with additional allowances for master-metered gas and electricity, but link these additional rent increases to an estimate of the average increase in the cost of those utilities or provide for passthroughs of cost increases based on individual building applications.

Comment on Proposals for Lowering the Annual Allowable Increase for Seniors and/or Disabled Persons on Fixed Income

- There are no provisions in any California rent control law that provide for lower annual rent increases for low-income households, senior or disabled renters.

- Judicial precedent in regard to the constitutionality of rent control provisions that place greater limits on the allowable rent increases of protected classes of tenants has been mixed.
- Rent control provisions that provide for low rent increases for protected classes of tenants (low income, seniors and the disabled) may result in discrimination against these classes in the selection of tenants by apartment owners.

"Banking" of Rent Increases

- Under most rent stabilization ordinances, but not the Los Angeles RSO, apartment owners may "bank" allowable annual rent increases if they are not implemented in the year in which they are permitted.
- Some jurisdictions limit the amount of banked rent increases that can be implemented in a single year and/or place a ceiling on the total amount of increases that can be banked so that tenants who have benefitted from banked increases are not suddenly faced with steep rent increases.

Rent Stabilization Programs - Administration Fees

- Registration fees vary greatly among the different California cities with rent control laws. Higher fees are in effect in cities that once had vacancy controls (pre-Costa-Hawkins) and still require annual registration of rents and reporting of rents for new tenants.

Chapter 6

# Rental Market Analysis

*Housing Market Dynamics, Development Financing, and Growth Trends*

Raphael Bostic

Like all types of development in all places, affordable housing production is driven by basic cost and return dynamics underlying development and broad economic fundamentals. In both cases in high cost areas such as Los Angeles, the deck is stacked against the provision of housing units at prices affordable to those with the lowest incomes. This section documents the reasons behind this by describing trends and current conditions for development and the balance between demand for units and their supply.

We begin by documenting the production of market rate and affordable housing in Los Angeles. This production is assessed in the context of the demand for and supply of affordable housing in the city. We show that a significant gap has emerged since the early 1990s, and estimate that excess demand now exceeds 50,000 units. Such an excess places tremendous upward pressure on housing rents in an uncontrolled environment. Next we consider the likelihood that production of new multifamily projects can fill this gap. We first examine the basics of construction, and show that the mathematics of unsubsidized production clearly mandates high-priced housing. We then turn to current trends, which have all served to make construction more expensive, though there has been some attenuation in this trend with the recent housing and economic downturn. Next, we explore the various financing options that are available for the production of market rate and affordable housing, and show that recent developments in capital markets have put additional strain on developers. Finally, we look at various policy options that have been considered, with an eye toward particular sub-populations that appear to be especially vulnerable to rising rents.

## *Production Trends for Market-Rate and Affordable Housing Projects*

Market rate rental housing production in the Los Angeles region has been strong in recent years. In the past 5 years, about 23,000 new apartment units have been completed in Los Angeles County, an average of 4,500 apartment units completed per year. The bulk of these units have been produced in Downtown, West Los Angeles, and the San Fernando Valley.[1]

The extent of the strength of recent construction trends is also reflected in permit issuance countywide. Conservative estimates using Census data suggest that approximately 70,000 rental units needed to be produced between 2000 and 2007 to accommodate the population growth that occurred over that period. Census data on permits issued during this period show that permits were issued for over 4,300 large structures totaling over 100,000 units (Table 6-1). This suggests a possible surplus in production relative to demand growth.

This strength can also be seen by comparing the rate of permit issuance for larger projects from the 1990s with those from the 2000s. In the 1990s, permits for a total of just under 48,000 units, or about 4,800 per year, were issued. By contrast, between 2000 and 2007, more than twice this number of permits – 100,871, roughly 12,600 per year – was issued. The average

Table 6-1
Permits issued by decade in Los Angeles County

| | Structures | | Units | |
|---|---|---|---|---|
| Decade | *Sum* | *Annual Average* | *Sum* | *Annual Average* |
| 1980s | 18,073 | 1,807 | 245,421 | 24,542 |
| 1990s | 3,112 | 311 | 47,926 | 4,793 |
| 2000-2007 | 4,341 | 543 | 100,871 | 12,609 |

annual rate of permit issuance for the 2000s stands at nearly three times the average in the 1990s. Thus, by this comparative measure, production trends are quite positive.

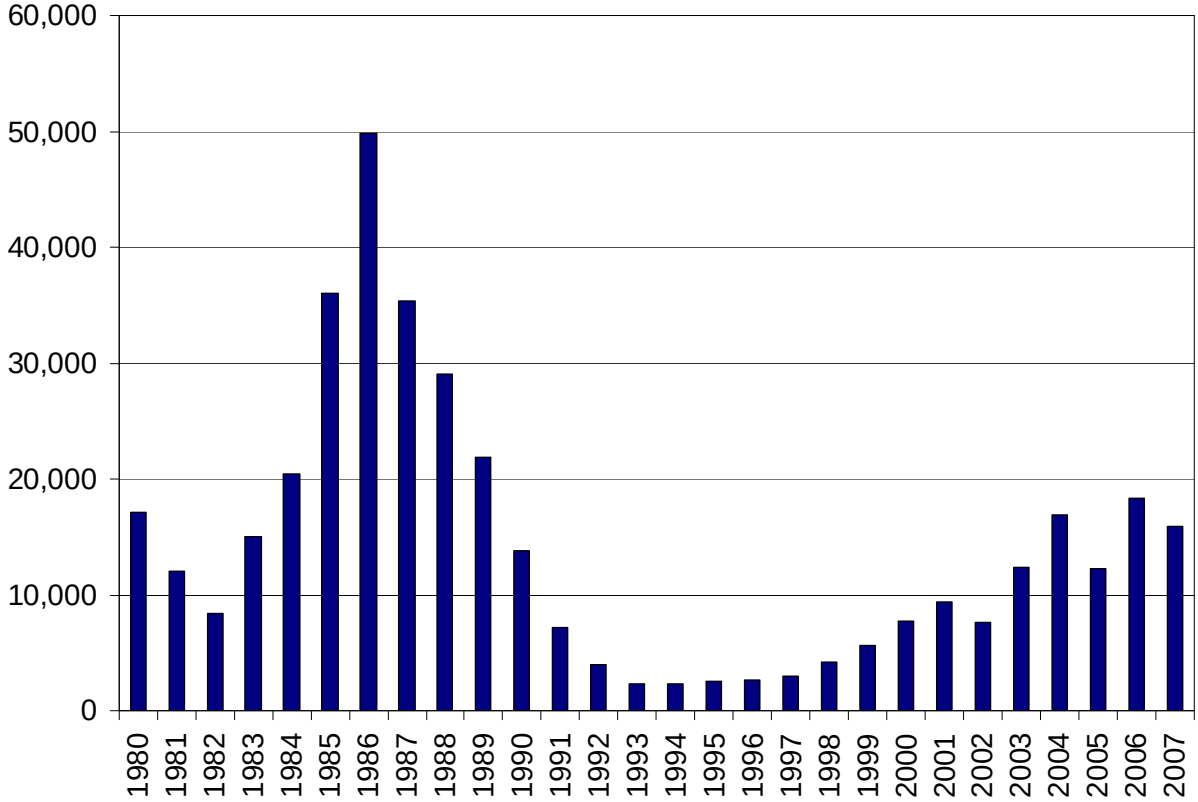
However, other measures provide a different picture. Current production trends significantly lag those that were seen in the 1980s, when permit issuance approaching or in excess of 20,000 units per year was relatively common (Figure 6-1).[2] In addition, while there might be a surplus for current population growth, population trends through the 1990s suggested that the region needed to produce approximately 127,000 new units during the decade. Actual permit issuance during the 1990s fell short by about 80,000 total units. So the surplus is only helping to offset this significant production shortcoming. On net, the region remains about 50,000 units short (assuming, optimistically, that permits translate into units).

Similarly, the record of producing affordable housing in Los Angeles is decidedly mixed. A recent study of affordable housing production in Los Angeles between 1998 and 2005 found that 20,150 units were produced under the menu of city, state, and federal subsidy programs.[3] While a significant number, a key issue is how this production has aligned with the need for housing. The Southern California Association of Governments in 2000 estimated through the regional housing needs assessment (RHNA) that Los Angeles needed to produce 60,280 new units between 1998 and 2005, with 28,406 needing to be affordable to people with low or very low incomes (i.e., incomes less than 80 percent of the metropolitan area median income). Thus, by this measure, Los Angeles housing production for low and very low-income residents lags estimated need by about 8,000 units.

In summary, the housing production record for Los Angeles is mixed. Production through the 2000s has been strong and a marked improvement over the production seen in the 1990s. However, for both market rate and affordable housing, evidence suggests that production in the city has not kept pace with the needs associated with the city and region's growing population. These significant supply shortages will continue to limit the likelihood that housing will be affordable for those with the lowest incomes.

Although this demand-supply imbalance by itself would result in high rents for units, the condition of the ownership housing market has also contributed to a rise in rents. The very strong housing market between 2002 and 2007 increased prices for ownership properties in Los Angeles such that many households are no longer able to afford them. While the housing market has cooled considerably and now stands far below its historic highs, ownership housing is still far from affordable. As of January 2008, the ownership affordability index – a measure of the percentage of households that can afford the median home – stood at 27 percent in Los Angeles County, compared to a national average of 65 percent.[4] Thus, even after a considerable period of price decline, most cannot afford to purchase the median home.

Figure 6-1
Permits for Large Structure Buildings




*NOTE: Large structures are those 5 or more units.*

This lack of affordable ownership product has placed additional upward pressure on rental properties by keeping demand for rental properties strong. According to the Casden Real Estate Economics Forecast, the already high rents in the tight Los Angeles market have increased by an average of about 5 percent per quarter since early 2005, far outpacing the rate of general price inflation.

Given these dynamics, a natural question is whether construction might be able to compensate for the tight market and perhaps create a counterbalance that might contribute to an easing of prices. The possibility of this is explored in the next section.

## *THE DYNAMICS OF PRODUCTION OF MARKET RATE AND AFFORDABLE HOUSING*

At a very basic level, the pricing of rental housing units is a simple function of development costs. Developers require a certain return above costs, known in some circles as a hurdle rate, in order for their investment to be worth pursuing. If returns exceed this hurdle rate threshold, development will occur; otherwise, it will not. The return for a project is simply the difference between development costs and project revenues, which are essentially all rents received.[5]

To demonstrate this, consider the following example. Suppose that the estimated all-in annual costs (including debt service and operations) for a proposed 100-unit market rate apartment complex totaled $1,000,000. If a developer required a 20 percent return in order to pursue the project, the project would only be attractive if total rent revenue were in excess of $1,200,000. Given this, the minimum rent that a developer would be willing to charge would be $12,000 annually or $1,000 per month. While stylized and highly simplified, this example highlights an important basic reality: rents are an economic concept driven by simple rules of business and economics.

Importantly, this minimum rent requirement is independent of the incomes of the prospective residents. If the affordable rent for a market was $2,000 per unit, then this market rate project would also satisfy the general need for affordable housing. By contrast, if the affordable rent level was $800 per unit, then this market rate project would be out of reach for lower-income families. The additional supply would have at best a limited impact on their prospect for finding affordable housing.

**Land and Development Costs**

So when considering the question of whether the building of new multifamily projects can offset the deficit in supply, particularly at lower rents, a central issue is whether the costs of construction are such that affordable rents are supportable. Unfortunately, in high cost markets like the Los Angeles metropolitan area, the answer for market rate developments in nearly all circumstances is no. The high cost of land coupled with basic costs of construction labor and materials add up to a cost structure such that market-rate rents will greatly exceed a rent level that would be affordable for many families. This explains why so many families are severely burdened as measured by rent-to-income ratios (see Chapter 1 of this report).

Moreover, in recent years, this reality has become even more stark, as the costs of building new multifamily housing have grown. Over the past decade, construction has become increasingly expensive. This is driven mainly by significant increases in the costs of land, materials, and labor, which together are the main inputs to the construction process. In these markets, the dynamics have driven prices to ever-rising levels, which has placed tremendous upward pressure on the rents required to make development projects feasible.

Regarding land, developments in capital markets and the recent housing market surge have both resulted in escalating land prices. In part to diversify their portfolios and ensure more stable cash flows, large investment institutions have increased the proportion of their funds to be devoted to real estate markets. For example, about 5 percent of CalPERS investment capital was placed in real estate in the early 1990s. As of April 1, 2008, the CalPERS real estate holdings, valued at $20.6 billion, represented 8.5 percent of the organization's total investment portfolio.[6] Moreover, the organization has a stated target real estate investment share of 10 percent, which translates into more than $3 billion new dollars looking to be placed in real estate.

This institutional pattern has been replicated across the nation, with the net result that billions and billions of additional investment fund dollars have been available for real estate purchase and development deals. The result has been increased competition for real estate deals and opportunities to develop, and a resultant reduction in capitalization rates (the ratio between the stabilized cash flow produced by a real estate asset and the value or transaction price of the

asset - "cap rates" for short), which have fallen for all property types in recent years and stand at historic lows.[7] For apartments, cap rates have fallen from more than 8.5 percent in 2001 to close to 6 percent in 2006, and have remained near this level until relatively recently. Because cap rates are an inverse measure of value, falling cap rates mean that values are rising. Many owners who have assumed mortgages for rental properties during this decade have found that the debt service associated with their property has consumed a larger share of their cash flows than was the case for properties purchased in the preceding decade. Since the housing structures and, by extension, their values do not change, this suggests that the additional value is reflected in the land. In short, those considering production of real estate developments face a landscape that includes a more expensive land cost structure.

At the same time, the housing market surge has altered landowner expectations. Because housing, especially ownership housing, generates more cash flows than some other uses, it is now not uncommon for landowners to value their land as if it were to be used for housing production. The result has been an escalation of prices for land and parcels in previously lower-cost areas that would ordinarily be most conducive for the production of affordable housing on a cost basis.

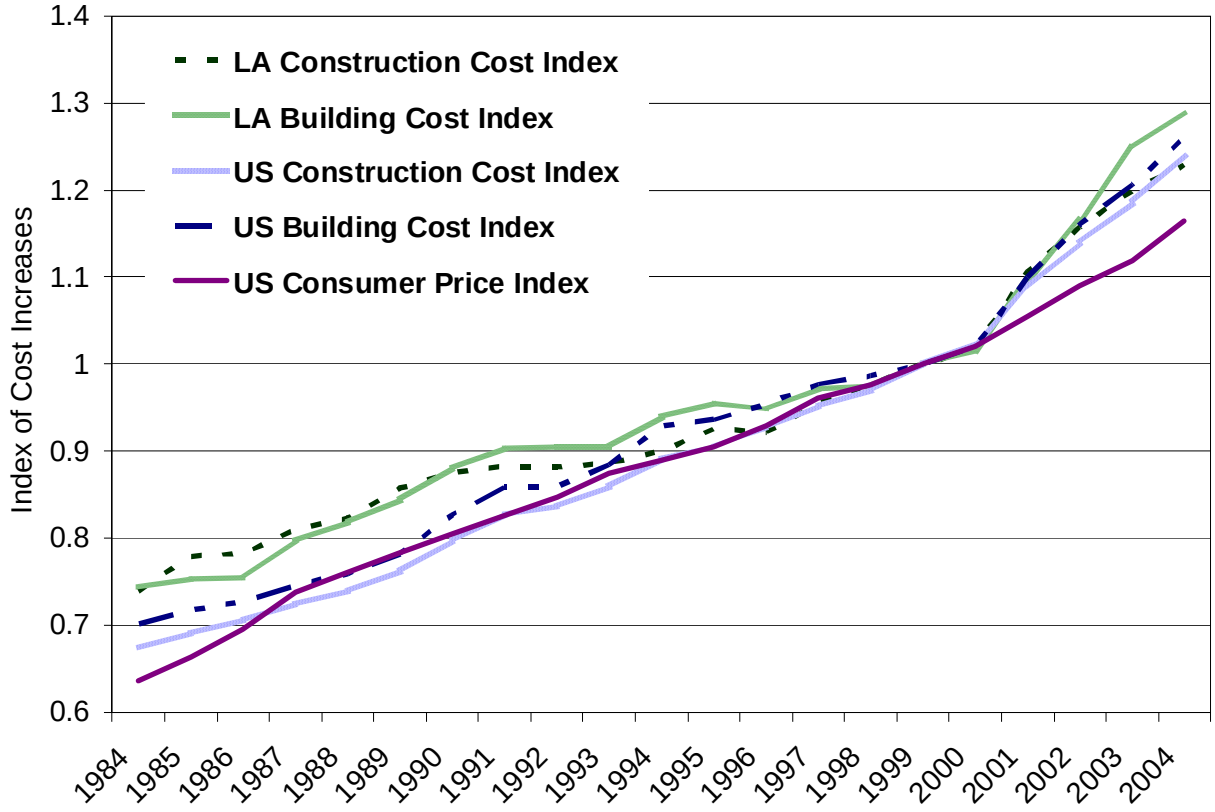
On the construction side, costs have also grown dramatically. Figure 6-2 shows the progression of construction costs in the United States and Los Angeles between 1987 and 2007.[8] While both building costs (projects requiring skilled bricklayers, carpenters and other trades) and construction costs (projects requiring mostly unskilled laborers) have doubled during this period, these costs rose by less than the average price level in the economy, represented by the consumer price index, through 2002. Since 2002, however, building and construction costs have risen by about 23 and 27 percent, respectively. This rate has far outpaced the rate of inflation in the economy during this time, which was only slightly more than 16 percent (solid line in figure). Thus, the rate of increase in building and construction prices is 50 percent more than the rate of increase in the prices of other goods; construction is now noticeably more expensive on a relative basis.

These cost-based developments have made it extremely difficult to produce new rental housing at prices that are affordable. Construction and building costs typically account for about 60 percent of the costs associated with a development project, and land typically accounts for another 30 percent. Thus, nearly all inputs to the production of rental and affordable housing have increased in costs beyond general inflation in the economy.

The implications of this are clear. Consider a hypothetical 50-unit development project that could support affordable rents in 2002 and yield a level of return such that the project was attractive to pursue, which we will assume to be 15 percent. If one were to try to build the same project given today's more expensive cost structure, the project would yield only a 5 percent return if one were restricted to charging affordable rents. With such a low return, this project would not be built. One alternative for making this project financially feasible would be to sacrifice affordability and increase the per-unit rent charged to tenants 11 percent above the affordable level.[9] A second alternative is to locate subsidies to offset these escalations. This is discussed in more detail below.

Looking forward, the prospects for changing the increased construction cost structure are not particularly rosy. Higher construction costs are the result of both local and global forces. In the United States, the booming housing market as well as a series of natural disasters such as

Figure 6-2
Construction and Building Cost Trends Compared to the Consumer Price Index




Source: McGraw Hill Construction Engineering News Record (ENR).
*NOTE: Cost or price level in 2002 = 1*

- The LA Construction Cost Index is used for buildings when costs for unskilled workers, such as laborers, are a high proportion of total costs
- The LA Building Cost Index is used for structures that require skilled labor such as bricklayers, carpenters, and structural ironworkers

Hurricane Katrina led to increased domestic demand for lumber, concrete and steel. Globally, the reconstruction of cities and infrastructure in Iraq during the same time put further strain on supplies of construction materials. Further, the rapid growth of economies overseas, most notably in China and India, stretched already relatively scarce construction inputs. These developments collectively created a scarcity which naturally translated into elevated prices for materials.

Of these factors, many are likely to persist for the foreseeable future. China and India continue to grow apace and reconstruction needs in Iraq are likely to be strong for years to come. In addition, much reconstruction in response to natural disasters remains yet to be completed. Thus the strong global demand for construction and building materials, and the high prices this demand brings, is likely to remain high.

One “bright” spot has been the weakness of the housing market, which has created considerable slack in terms of domestic demand for homebuilding materials and construction labor. Housing sales, both of new and existing homes, have been in freefall since the middle of

2005, and foreclosures in mid-2008 stand at historic highs.[10] These together have resulted in significant housing inventory on the market, an overhang which has induced homebuilders to roll back their construction activity considerably. Monthly new housing starts peaked in early 2006 and now stand at a level less than 50 percent of that high.[11] Consequently, construction has been harshly affected. The U.S. construction sector lost approximately 210,000 jobs during the first quarter of 2008, following a loss of about 160,000 jobs during the second half of 2007.[12] Taken together, sectoral employment contracted by almost 5 percent in just 10 months. This drastic decline in the construction sector should translate into some reduction in the labor costs associated with developing multifamily projects.

On the other hand, as noted above, the very strong ownership housing market pushed prices to extremely high levels such that, even with the decline, prices remain out of reach for many. As long as this condition persists, rental housing markets will remain quite tight.

**Development Financing**

A key component of the all-in costs used in the initial hypothetical example is the cost associated with obtaining financing. Because few developers can afford to build a project with cash (and even those that can typically choose not to), the market for construction finance can be an important determinant of the ultimate costs a developer faces. If prevailing financing terms result in lower financing costs, then it might be possible to achieve affordable minimum rents even in the face of rising construction costs. Indeed, more attractive financing options would reduce the cost of construction and permit an associated reduction in rents while retaining the needed profit margin.

The broad swings in housing markets have led to a rapidly and continuously evolving financial environment for multifamily construction financing. Through the early 2000s, stiff competition among lenders for participation in real estate projects led to more aggressive underwriting and a weakening of standards. Prior to the real estate run-up, the standard multifamily new construction project was financed by a commercial bank, with the financing structured such that developers and their equity partners would need to produce about 35 percent of the total development cost.

As real estate increased in attractiveness during the industry expansion, however, hedge funds, opportunity funds, and private equity funds all became important players in construction finance. These investors were willing to accept deals featuring much greater leverage (i.e., equity participation on the order of about 20 percent) and favorable interest rates relative to those offered by commercial banks. This eased the burden on prospective builders, both in terms of the required financial strength of the development team and overall financing costs.

Now, with the on-going credit crunch, these new players have largely exited the market, allowing commercial banks to once again serve as the primary and dominant construction lender for multifamily projects. With this shift, underwriting standards have returned to those prior to the run-up, so developers and their investor partners must now have a considerable equity stake in order to secure debt financing for their projects. As is typical, tighter underwriting has reduced the pool of creditworthy borrowers, meaning there are fewer developers that will be deemed sufficiently creditworthy to warrant the extension of a construction loan. Thus, this trend has put a significant brake on the pace of development.

As regards affordable housing, the challenges are perhaps even more daunting. Consistent with market rate projects, affordable housing projects faced more expensive construction and permanent debt, with prices rising about one-half of a percentage point in the second half of 2008.[13] However, a more significant recent hit to affordable housing finance involves the low-income housing tax credit program.

Financing for affordable housing has always involved a significant public sector role. Because the revenues associated with projects where rents are set at levels that are affordable for lower-income households generally can not support the necessary debt service payments, public subsidies are used to fill the gap between revenues and obligations. While subsidy sources are numerous, ranging from HOME Investment Partnership and Community Development Block Grant program funds to tax increment financing, the most powerful source of subsidy is the low-income housing tax credit program. Through this program, affordable housing developers have been able to access private sector sources of equity capital with very low return requirements. Equity acquired through the LIHTC can account for between 60 and 75 percent of total development costs and significantly reduce the financing challenge that affordable housing developers face.

The recent economic slowdown and credit crunch have had major adverse effects on the LIHTC program. Tax credits are only useful if companies are making profits that generate corporate taxes. The economic slowdown has reduced the profits for many companies, thereby removing the primary motivation for participating in the LIHTC program. Moreover, the tightening of capital markets has reduced interest in tax credit markets, resulting in even fewer tax credit investors relative to the number of projects seeking credit. In this less competitive market, tax credit pricing has declined such that a developer can expect equity investments at only 80 to 90 percent of the levels received just a year ago.[14] Thus, today one can only expect equity from the tax-credit program to cover about 50 to 65 percent of total development costs. On a $20 million project, an extra $2 million in subsidy and other sources would now be required.

In California, because the LIHTC program is heavily over-subscribed, it is probably not likely that the decline in prices for tax credits would seriously reduce the demand for them. However, because fewer credits will be generated for a given project, subsidy funds that might have been available for other projects will now have to be devoted to award winners. Thus, these other funds will ultimately be less effective in serving as leverage for the production of affordable units.

On balance, these adverse trends in finance have outweighed the decline in construction and building costs associated with the weakening housing market. Given that most affordable housing projects are difficult to pencil in the most bullish of market conditions, the rising interest rates coupled with the loss of significant low-cost equity capital is likely to seriously hinder the pace at which these projects are built.

## *Policy Options for Producing Market-Rate and Affordable Housing*

Given the difficult production cost and financing environment, production of additional market rate and affordable housing must be driven by public policies. This section reviews a set of available policy options that could potentially provide grease to the system and help provide

more housing units. Overall, the effect of policy on the provision of rental and affordable housing units remains a matter of some debate.

**Inclusionary Zoning**

The debate regarding the effectiveness of policy is perhaps most clearly demonstrated in the case of policies that require a certain percentage of the units in a market rate development project to have rents restricted such that they are affordable to people with lower-incomes, which are known as inclusionary zoning policies. Advocates have argued that IZ is essential because of the economic incentives that heavily favor the production of high-end, high-cost units. In this view, IZ ensures that there is a short-run focus on alleviating affordability problems that would otherwise not exist. Opponents, largely from the development community, argue that the disincentives inherent in IZ policies lead to less production of multifamily projects and ultimately the production of fewer affordable units than would otherwise arise with the completion of market-rate units (through trickle down).

This issue has been the subject of considerable empirical scrutiny yet there is little consensus.[15] Recent evidence from new research suggests that the answer depends importantly on context. Comparisons of outcomes in jurisdictions across the country that have IZ policies have found both increases and declines in production as well as both increases or no change in rents.[16] Key issues include the strength of the market and the cost offsets associated with the IZ requirements. If a market is quite strong and the developer has pricing power (i.e., is able to set rents well above the required minimum rent for feasibility), then the lower rents on the restricted units will not generally be sufficient to stop a project from moving forward. Moreover, IZ programs can be effectively revenue neutral for a project if the required restrictions are accompanied by cost offsets such as permit streamlining and relief on design and other requirements. If implemented in this manner, IZ programs should have negligible impacts on the construction of new multifamily product.

**Housing Choice Vouchers**

Housing choice vouchers (commonly referred to as Section 8 vouchers) have proven to be an effective policy for helping lower-income families find affordable housing.[17] Because they provide rental subsidies above and beyond the payment capacity of voucher holders, HCVs can also increase the revenues an affordable rental project generates. A number of affordable housing projects have relied on a strategy of appealing to HCV holders in order to charge higher rents, generate additional revenues, and increase profit margins. Interestingly, given the current difficulties with LIHTC pricing and general financing, projects developed using a HCV strategy are some of the few that have continued to receive steady levels of financing.

Reliance on HCVs does have some potential drawbacks. First, the program requires that units are inspected annually, which means that landlords are subject to greater regulatory burden. For newer projects, this is likely not significant on balance. A second potential concern is program operation, which could have implications for the ease of identifying voucher holders as tenants. In recent years, the Housing Authority of the City of Los Angeles has had problems managing the program and was under considerable scrutiny from federal officials, who were

considering placing the program under receivership. Currently, however, program management has improved markedly, and the degree of uncertainty regarding voucher funding has reduced.

**Density Bonus**

Because insufficient cash flows are an important barrier to the production of affordable housing, particularly in high cost areas such as Los Angeles, one strategy might be to increase the number of units allowable beyond zoning guidelines. The density bonus program is based on this principal. In this state-mandated program, projects that set aside a certain percentage of their units for lower-income families are eligible to receive permission to build at densities exceeding current zoning restrictions, Typically, a project receiving density bonuses can exceed density limits by between 10 and 35 percent, although some cities have provisions permitting 50 percent bonuses. With the bonus, cash flows will increase by the bonus amount at a minimum, and so can be quite lucrative in terms of helping improve the profitability of development projects. For this reason, density bonuses are often included as a cost offset provision in the IZ programs of many cities.

The main problem with the density bonus program is that bonuses are rarely immutable. Because of a general antipathy toward density, high density projects are routinely challenged during the entitlement process by neighborhood organizations, who are concerned about traffic, congestion, and a decline in quality of life. Consequently, most projects are approved at densities lower than initially conceived or presented for review. Thus, there is widespread skepticism within the professional development community regarding the efficacy of a density bonus program. Few believe that allowable higher densities would ever be achieved. In order for the density bonus program, and the IZ program with it, to be widely accepted and embraced, jurisdictions will need to find methods for making higher densities binding and truly realized. Only then will this approach represent a viable solution.

**Regulatory Relief**

In terms of costs, time is an important and often hidden consideration. Developers typically must secure land while seeking entitlements through the approvals process, which involves up-front outlays and financing. During the time while these approvals are being sought, carrying costs represent a significant burden.

In Los Angeles, the entitlements process is lengthy and can last anywhere from 18 months to several years, particularly for larger projects. A one acre parcel of residentially-zoned land downtown will cost approximately $7.6 million. Streamlining the approvals process such that the time required for all the necessary approvals is reduced from 24 months to 12 months would save a developer nearly $500,000. Though small relative to the overall costs, these minor differences can be important for projects that are on the margin of profitability.

**Creative use of "Non-Traditional" Land**

Few remaining large land parcels in Los Angeles are available on which significant numbers of new units could be produced. Given this essentially "built out" condition, it will be necessary to become far more creative in terms of identifying options for locating housing.

An important area for exploration is the pursuit of new options for housing that have not received sufficient consideration. For example, Los Angeles has a relatively large number of single-level surface parking lots, many of which are in close proximity to each other. The city might explore the possibility of providing incentives to promote the consolidating these properties into a more vertical parking arrangement that was neutral or even positive in terms of available parking spaces. With the now available parcels, the city could obtain new housing to meet the current units shortfall. In addition, if coordinated, the parking in the vertical structures could be counted toward the need generated by the new units.

Blighted properties represent a second point of opportunity. Because Proposition 13 essentially fixes property taxes according to value at the time of acquisition, long-time owners of blighted properties have limited incentives to rehabilitate their properties. With low tax liability, they can wait until they are offered a purchase price in line with their current needs and expectations. In the meantime, these properties can be an eyesore and contribute to the slow pace of a neighborhood's redevelopment and revival. Investment by developers into such neighborhoods is slowed as a result. Streamlining the condemnation and eminent domain processes can provide incentives for current landowners to either sell their property or clean and redevelop the property in a timely fashion. In some instances, this might produce new multifamily units (either market rate or affordable); in others, it will enhance the community's character and make it more conducive to housing and other investment.

Third, parcels located in industrial areas must be considered. Much of industrial Los Angeles was built at a time of different manufacturing and transport standards. As a consequence, there are many industrial buildings that are effectively obsolete and of limited relevance from an employment expansion perspective. For these buildings, conversion into other (possibly) more productive uses, such as housing, would be welfare enhancing. That said, there is considerable merit in the goal of preserving as much industrial land as absolutely possible. This is particularly true for industrial land having one of 2 characteristics. The first is existing industrial space that is currently fully employed. Vacancy rates for industrial properties in Los Angeles have hovered near 2 percent for many years, a level of occupancy not seen in virtually any other land use. The second is industrial space currently devoted to manufacturing uses. Manufacturing jobs feature high wages relative to the human capital required from the labor force. Thus, it is an attractive means for maintaining standards of living for many workers.

These competing views have come up against each other in recent years and led to much deliberation as to an appropriate industrial land use policy for the city. While the current policy calls for a nuanced approach, which is the right strategy, many still have questions about its details.[18] Thus, continued engagement on this issue will be important to ensure that the city advances both goals without sacrificing either.

A fourth area of consideration is in the realm of information. One way to facilitate development is to provide information regarding those parcels the city is most interested in seeing developed. Such a data inventory, either publicly available or proprietary to selected

public workers and departments, would create developer focus and help signal those communities in which the city will actively support development. City officials might also use such a list to identify those parcels eligible for regulatory relief, density bonuses, and other incentives for development. Internally, therefore, this list could facilitate increased coordination and productivity.

Finally, there are multi-dimensional threats to the existence of affordable housing in the city. Strong and tight markets place affordable housing at considerable risk. Landlords seeking to maximize rents will respond to the extent possible to capture this potential. Rent stabilization was instituted largely in recognition of this fact. In addition, many units that were initially set aside for lower-income families are nearing the end of their reservation period and are, therefore, at risk of being lost from the affordable housing stock. The City of Los Angeles Housing Department (LAHD) is currently monitoring a total of 63,562 affordable units. Of these, 14,594 units are at risk of losing affordability restrictions in the next five years.[19]

Thus, policy-makers must place a high priority on securing and preserving existing affordable units and land for the production of new affordable units. In terms of the former, public funds will be necessary in order to either purchase at-risk units or incentivize the owners of these units to continue to provide their units at affordable rent levels. As this will be an on-going concern, it would be ideal to have a dedicated source of funding for this. Some have pointed to the housing trust fund as one solution to this. However, there are multiple competing interests for these funds, and an independent freestanding source would be preferable.

Regarding the latter, the development of an affordable housing land bank is an attractive potential strategy. In this arrangement, the bank of land would be controlled by either the city or a non-profit whose mission is to provide and preserve affordable housing. This controlling interest could then make land available for developing affordable housing that would be covered by a leasing arrangement that would ensure long-term affordability. Developers might find this attractive because land costs would no longer be relevant in calculating total development costs, which should make achieving minimum affordability more feasible. The key challenge for a land bank is raising funds to acquire the land that is ultimately placed in the bank. In an expensive market such as Los Angeles, this would require many millions of dollars, and there are few institutions – for-profit, foundation, or non-profit – that have the resources required to accomplish this. The creation of a land bank would require coordination and cooperation among institutions at a very significant scale.

**Incentives for Internal Cross-Subsidy**

The amount of available public subsidy is necessarily limited and the exclusive reliance on public subsidy to promote affordability will not eliminate the affordability problem in Los Angeles. Given this, one might consider the possibility of promoting the development of projects where the subsidy originates from internal cash flows. The two most obvious candidates in this regard are mixed-income and mixed-use projects.

In mixed-income developments, the higher rents charged for the non-affordable units result in a higher project-wide average rent than one would receive from a 100 percent affordable housing development. The extent of the average rent increase depends on the income segment targeted for the non-affordable portion of the development (i.e, moderate income, market rate,

luxury, etc.). The higher cash flows increase the project's profit and increase the likelihood that the project's financial structure exceeds the necessary hurdle rate. In the case of mixed-use projects, affordable housing is coupled with uses that garner higher rents than can be charged via housing, such as office and retail uses. Again, the result is an increase in the project-wide average rent and improved profitability.

Importantly, both mixed-income and mixed-use projects come with additional risks. Lease-up for the non-affordable portion of mixed-income projects can sometimes be problematic. In today's market, for example, stringent underwriting has slowed the absorption of market rate units of mixed-income ownership projects considerably. Also, families with very high incomes might be reluctant to rent properties in mixed-income projects due to the stigma often attached to lower-income families.

Mixed-use projects will only work if the non-housing portion of the development is successful, which means that a developer must have expertise in building and operating properties featuring this other use. This can be a challenge, because retail and office uses are subject to risks and market forces that can differ from those impacting housing.[20] For these projects to be successful, developers must be extremely diligent in managing their assets to ensure that these alternative uses succeed so as to ensure broader project success.

Nonetheless, there are good reasons that policy makers should seriously consider both options. First, because Los Angeles is effectively built out, it will be necessary to consider placing new affordable units along commercial corridors that already feature non-housing uses. Indeed, the Southern California Association of Governments in 2004 advanced the notion of a "2 percent solution," whereby nearly all of the region's needed housing would be accommodated by adding floors of housing atop buildings along existing commercial corridors.[21] Much mixed-use development will be necessary if this is to occur. Second, both mixed-use and mixed-income projects will limit the extent to which lower-income families are concentrated and isolated. Such a non-integration of lower-income families contributed to the failure of the large public housing projects built in the 1950s and 1960s; it is essential that these are not repeated. Third, this lack of concentration increases the likelihood that affordable housing is placed geographically throughout the city. Because affordable housing is a city-wide problem, all portions of the city should be part of the solution. Currently, affordable housing projects are rarely located in more affluent areas of the city. Mixed-use and mixed-income solutions might be an effective means for changing this reality.

It is important to note that regulatory and programmatic rules have been significant barriers to the production of mixed-income and mixed-use projects. The recent creation in Los Angeles of a Residential and Accessory Services zone and the passage of the Adaptive Reuse Ordinance represent efforts to remove barriers to such development. But others remain. For example, it is difficult to build mixed-use projects using some of the most powerful elements of the LIHTC program as structured in California. Without such instruments at hand, developers will continue to be hamstrung in terms of delivering housing in these potentially important configurations.

## *CONCLUDING THOUGHTS*

The dynamics of construction dictate that it is unlikely that the market can by itself reverse the two decade trend of underdevelopment of housing in Los Angeles that has been an important contributing factor for the lack of affordable housing in the city and region. If solutions are to be found, policy-makers must face this challenge directly by establishing a framework that accelerates the provision of affordable housing in the city.

This chapter has documented a number of policy options that merit serious consideration. Several recommendations emerge:

- Create a separate, secure source of funding to provide subsidies and seed new initiatives, such as an affordable housing land bank and new resources for at-risk properties;
- Undertake a detailed analysis of "non-traditional land" and develop strategies, such as shortening the condemnation process, to use these parcels to provide housing without undermining existing uses;
- Establish a shorter and more certain entitlement process, so as to increase the expected profitability of affordable housing projects and induce more developers to pursue such projects;
- Reconsider the policies and rules for key existing programs, such as the LIHTC program, to provide more incentive to produce mixed-income and mixed-use developments;
- Work to ensure that affordable housing is dispersed throughout the city and not concentrated in a relatively small number of neighborhoods.

In considering the pursuit of policy to help alleviate affordable housing challenges, policy-makers will need to be particularly cognizant of those populations most in need of assistance. As discussed in Chapter 1, the data make clear that **senior households** and **people with disabilities** should receive particular attention. These families, who have seen their ranks below the poverty line increase dramatically since 2000, typically have either a fixed income or limited income prospects. They, therefore, are particularly vulnerable to large swings in rents arising from tight markets and undersupply of units.

As a matter of practice, it is generally more straightforward to build housing for seniors than for other lower-income families, as senior projects face less opposition than do other low-income projects. This is because seniors are generally viewed to have more limited neighborhood impacts, as they are less likely to drive and are perceived to live quieter lives. Disabled individuals are viewed in a similar fashion. However, projects for both seniors and disabled people require additional services that make their operation, and thus financial feasibility, much more complex. Increasing costs for health care, coupled with declining insurance coverage, often inhibits developer interest in such projects.

Although there has been marked improvement in terms of the number of households facing overcrowded living conditions, more needs to be done in this area. It is not acceptable that nearly 10 percent of the renter population lives in overcrowded conditions. It is noteworthy that overcrowding is seen among all family sizes. While the city still has fewer large bedroom units than large renter households, with shortfalls concentrated in Central, East, and South Los

Angeles as well as the Harbor planning regions (ratios of 0.81, 0.72, and 0.76, and 0.78, respectively), both the North Valley and Harbor planning regions show significant numbers of families with 3 or more people still living in 1-bedroom apartments.

Problems of overcrowding are most acute among **recent immigrants** and **those with the lowest-incomes**. This suggests the need for housing that targets these populations explicitly. Regarding the former, projects that partner with outreach organizations that focus on Latino immigrants, particularly, might be successful in identifying families living in crowded units and finding avenues by which they can obtain housing in more amenable environments. This will require concerted coordination among developers, community organizations and city officials and staff.

As for the latter population, deep subsidies will be required to produce housing that the very poor can afford. In order to achieve this, a political consensus must be reached that it is in the overall best interests of Los Angeles to provide adequate housing for all segments of the labor force that sustains the city.

Chapter 7

# Conclusions and Policy Recommendations

## THE RSO AND HOUSING DEPARTMENT POLICY

### Overview of RSO Strengths and Limitations

The majority of Los Angeles renters are rent-burdened, paying over 30 percent of their income for rent, and roughly a third are severely rent-burdened, paying half or more of their income for rent. The Rent Stabilization Ordinance (RSO) is a needed policy but only a partial answer to LA's housing problems. It is a partial answer because the RSO does not result in affordable rents for most tenants; rather it slows the rate of rent increases for tenants who remain in place during periods of rapid housing inflation. The rent of a tenant who remained in an RSO unit for any five-year interval since 2000, would have gone up only half as much as the rent of a non-RSO tenant during the same interval. All RSO tenants pay market rates when they move into their units and half move out within five years, meaning that many tenants receive little rent relief from the RSO.

Strengths of the RSO program include:

- It touches a large segment of households in Los Angeles, most of whom are at the lower end of the income distribution. It covers two-thirds of all renter households and 40 percent of total households in the City. These households reside in older rental units and typically have the lowest incomes.[1]
- It protects long-term tenants against rapid rent increases during periods of housing inflation.
- It provides tenants with protection against arbitrary eviction.

Limitations of the RSO program include:

- There is an overall scarcity of housing in Los Angeles and an acute scarcity of housing that residents can afford; the RSO cannot and does not fill this gap.
- Half of RSO renters remain in their units less than five years and, consequently, receive comparatively little rent savings from the ordinance.
- In addition to limiting rents, the RSO places administrative burdens on owners. Many small owners have limited ability to deal with this paperwork. Moreover, there are indications that the program may create financial disincentives for owners to invest in maintenance and capital improvement of their units.

The purpose of the RSO is to protect tenants from excessive rent increases, while at the same time allowing owners a reasonable return on their investments. This balance is very difficult to achieve in a rental market with both long-term decline in renter incomes and rapid inflation in housing prices. Only a third of RSO owners say they would still acquire their rent-stabilized property today, a plurality say they would not buy it again, while a quarter are uncertain. In this chapter we offer recommendations for strengthening the benefits that both renters and owners receive under the Rent Stabilization Ordinance.

## Scope of the RSO

The options for the scope of coverage of the rental market by the Rent Stabilization Ordinance are to retain the current scope, or to reduce the scope, most likely by eliminating coverage of properties with 1 to 4 units. The third conceivable option of expanding the ordinance to include rental units built after 1978 is precluded by state law, as discussed in Chapter 5.

The primary finding from this study that argues in favor of excluding small owners from RSO coverage is that small owners are the least profitable segment of RSO owners, have the weakest grasp of financial issues related to their properties, and sometimes are ill-equipped to deal with the additional paperwork required for complying with the RSO.

The primary finding that argues against excluding small owners from RSO coverage is that 24 percent (201,914) of all 638,051 RSO units are held by owners of 4 or less units. In the poorest areas of the City, the share of units held by small owners is even larger – 38 percent in the Harbor region, 42 percent in South LA, and 50 percent East LA.[2] Eliminating these units from the RSO coverage would result in rent increases and loss of secure tenure for a significant share of LA renters, most of them in households that already are rent-burdened. A second argument against eliminating RSO coverage of small owners is that four-fifths of RSO properties have been acquired since rent stabilization took effect in Los Angeles, for prices that took account of the effect of the RSO on income and profits. Eliminating RSO coverage might result in windfall profits for owners at the expense of renters.

***Recommendations for the Scope of RSO Coverage:***

1. *Retain the current scope of coverage by the Rent Stabilization Ordinance.*
2. *Streamline RSO administrative requirements for owners of 4 or less units, including:*
    a. *Increasing the capital improvement passthrough allowance, as described below.*
    b. *Providing technical assistance workshops and other training focused on small owners to provide information about the capital improvement passthrough program, applying for just and reasonable rent increases, and RSO procedures, including eviction of disruptive tenants. These workshops can be used to provide the training for first-time buyers called for in Policy 1.2.8, Rent Stabilization Training Program, of the 2006-2014 Housing Element.*

## Increased Communication with Renters and Owners

Information provided by both renters and owners shows that many of those affected most directly by the Rent Stabilization Ordinance lack basic information about requirements and opportunities that are part of the program. A third of renters have incorrect information about, or are unaware of, the RSO status of their unit. Two-thirds of low-income renters are unaware of RSO limits on their rents or of its protections from evictions without just cause. Half of owners do not know about the capital improvement passthrough program, and despite concerns about

rent ceilings, 99.9 percent of owners have not sought relief through the just and reasonable rent increase application process.

***Recommendations for Increased Communication with Renters and Owners:***

1. *Mail a succinct and plain spoken letter to all RSO units each year to inform the occupants that they are covered by the Rent Stabilization Ordinance, outline protections provided by the RSO, identify tenant responsibilities, and explain how additional information can be obtained, including information in different languages.*
2. *Augment the annual mailing to all RSO owners to provide summaries of major provisions of the RSO including rent ceilings and restrictions on evictions, and also to inform owners about the capital improvement passthrough program and the just and reasonable rent increase application process. This outreach and education initiative supports the goals of the RSO Tenant/Landlord Outreach and Education Program called for in the 2006-2014 Housing Element.*
3. *Include the toll-free hotline (866-557-RENT), and links to on-line resources.*
4. *Include information for accessing Housing Department's "Landlord-Tenant Handbook: For Rental Units Subject to the Rent Stabilization Ordinance" through the Internet or ordering a print version through the mail.*
5. *Include information in Spanish and instructions on how to request information in other languages.*
6. *Customize the annual letter to tenants to include the address and hours of the nearest Housing Department public counter.*

**Evictions and Tenant Relocation**

Are tenants adequately protected from eviction and adequately assisted if they are evicted? Most renters and landlords agree that disruptive or destructive tenants, or tenants who do not pay their rent, should be evicted. Renters and landlords both express support for making it easier to evict disruptive and destructive tenants, although comments from focus group sessions indicate that many owners do not understand that the RSO does not restrict evictions of disruptive or destructive tenants, or require that declarations of intent be filed for such evictions. What about tenants who are evicted through no fault of their own?

No-fault evictions such as Ellis Act removals of rental units, demolitions, and condo-conversions account for three-quarters of all declarations of intent that are filed with the Housing Department. The City's low vacancy rate and losses of older, rent-stabilized apartment buildings during much of this decade was accompanied by a spike in no-fault evictions. Declarations were filed to remove over 20,000 units from the RSO inventory between 2000 and 2007. Evictions to remove housing from the rental inventory are concentrated in the areas of the City where rents are highest – West LA and the San Fernando Valley. In these cases of no-fault eviction, displaced tenants receive two types of assistance:

- Monetary assistance for relocation expenses
- Relocation assistance services for finding replacement housing

The City added housing relocation search services in mid-2007. The Housing Department referred 274 displaced households to the housing relocation assistance organization, which helped less than one-in-ten households find replacement rental housing. Currently only one organization, located in Orange County, provides this service.

Twenty-six percent of owners responding to the survey reported that they evicted tenants in the past two years. It is entirely possible that some of these evictions were for reasons that are not permissible under the RSO or were not accompanied by the required relocation payment to the tenant. We know from the renter survey that half of RSO renters do not know that the ordinance limits the reasons for eviction, with lack of this information even more prevalent among renters with limited English ability. This lack of information about safeguards provided by the RSO makes tenants more vulnerable to illegal evictions.

***Recommendations for Eviction Information and Assistance:***

1. *In the annual informational letter recommended earlier, inform owners that the RSO does not restrict or monitor evictions of tenants for disruptive or destructive behavior, along with information about permissible reasons for evictions and types of evictions for which relocation payments are required.*
2. *In the annual informational letter recommended earlier, inform renters about the safeguards against eviction provided by the RSO and the circumstances in which relocation payments are required.*
3. *Evaluate the delivery of tenant relocation services by the current provider to determine whether the contracted scope of work is being properly implemented.*
4. *Evaluate the level of service provided through the relocation assistance program to determine whether the number of hours of counseling assistance provided for displaced tenants need to be increased to achieve the goal find replacement housing for these tenants.*

**Loss of Rental Housing Units Due to Condominium Conversions**

Rental vacancy rates for the past eight years have fallen below the 5 percent threshold established in Los Angeles Municipal Code for suspending condominium conversions on residential rental properties of two or more units. The high rent burden for City residents, high levels of overcrowding and low vacancy rates are evidence that affordable rental housing is in short supply. Conditions that warrant denial of approval for condominium conversions have existed in the City for the past eight years. Condominium conversions have filled a need for market-rate, owner-occupied housing in the City, but often at the cost of reducing the already inadequate supply of rent-stabilized housing. At the same time, they have provided owners with exceptional capital gains on their investments.

Recent actions by the City to increase the amount of the Rental Housing Production Fee from $500 to $1,492 for each unit affected by a conversion project, with the fees transferred to the Affordable Housing Trust Fund, partially offsets the attrition of RSO units. However, this increased fee is still insufficient to finance replacement housing.

Since 2004, the subtraction of units from the rental inventory, largely because of condominium conversions, has outpaced the construction of new rental units. By 2006, these losses had erased all the growth in the rental inventory during this decade, leaving us at the end of the recent housing boom with a net loss in the City's rental inventory.

***Recommendations on Condominium Conversions:***

1. *Suspend approval of condominium conversions throughout the City until vacancy rates rise above 5 percent.*
2. *Monitor rental vacancy rates at the Community Plan Area level using monthly data from the Department of Water and Power, and disapprove applications for condominium conversions in CPAs with vacancy rates below 5 percent.*

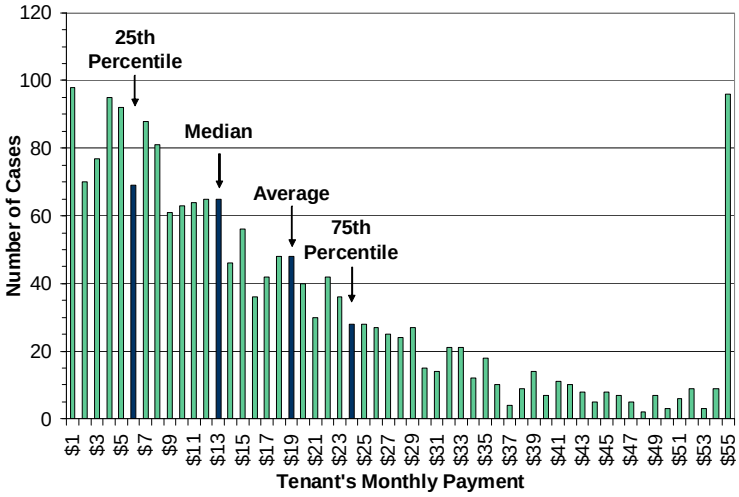
## Capital Improvement Passthrough Program

The City's aging inventory of RSO units requires continued investment in capital improvements, including periodic outlays for major rehabilitation that addresses systemic structural, plumbing, electrical or mechanical needs. The author of an earlier report on rehabilitation of RSO buildings stated, "It is generally recognized by housing policy analysts that the regulation of residential rents may create financial disincentives for owners to invest in maintenance and capital improvements of their units. The primary way to incent owners to invest in their properties is to allow rent increases associated with rehabilitation work."[3]

The City's primary program to provide additional revenue to owners for capital improvements is the Capital Improvement Passthrough Program, which allows temporary rent increases to pay for 60 percent of the cost of improvements. In the past 5 years, only 1 percent of RSO owners, representing 4 percent of units, have filed applications with this program to pass capital improvement costs through to their tenants. Some of these owners have filed multiple applications, possibly increasing the rents of some tenants by more than the ceiling amount of $55.

It should be noted that properties with 1-4 units are under-represented by a factor of three in this program.[4] Two other pieces of information from the landlord survey are also relevant to the design of this program for small owners. When compared to owners of 5 or more units, owners of 1-4 units are less than half as likely to report making a profit on their RSO units and only half as likely to increase rents by the annual amount allowed under the RSO program

Figure 7-1
Number of Approved Capital Improvement Passthrough Applications by Monthly Payment Amount




*Source: Housing Department, City of Los Angeles, Capital Improvement passthrough records*

Over half of owners say that they have never heard of the program. The most frequent comment about the program is that it does not allow enough of the cost for capital improvements to be passed on to tenants.

The Primary Renovation Program is a second, smaller, more paperwork-intensive, and less used program for major rehabilitation work that may require tenants to vacate their units.[5] This program is three years old and can allow owners to recover up to 100 percent of renovation costs, but few owners have applied. Focus group and survey comments indicate that this is because of the complicated application process.

The major bottleneck in the Primary Renovation Program is the requirement of a tenant habitability plan. Capital Improvement Passthrough applications are also reviewed to determine if tenants will be displaced and if there is a need for a tenant habitability plan. If a tenant habitability plan is required, the application is routed to the Primary Renovation program. Both housing rehabilitation programs will benefit if the tenant habitability component is simplified and streamlined. One useful step toward this end would be to develop clear-cut guidelines for determining quickly whether construction work will diminish the livability of a rental unit to the degree that a tenant habitability plan is required. A second useful step would be to hold a single review that covers all tenants affected by an application, rather than leaving open the possibility of separate appeals by multiple tenants.

Table 7-1
Recommended Duration of Tenant Rent Increases

| Program | Pass-through Share | Payback Term in Months | Improvement Amount per Unit | Pass-through Amount | Tenant's Monthly Payment |
|---|---|---|---|---|---|
| Current program | 60% | 72 | $2,880 | $1,728 | $24 |
| | 60% | 72 | $6,600 | $3,960 | $55 |
| 75% passthrough for general capital improvements | 75% | 72 | $2,304 | $1,728 | $24 |
| | 75% | 78 | $2,496 | $1,872 | $24 |
| | 75% | 84 | $2,688 | $2,016 | $24 |
| | 75% | 90 | $2,880 | $2,160 | $24 |
| | 75% | 96 | $3,072 | $2,304 | $24 |
| | 75% | 102 | $3,264 | $2,448 | $24 |
| | 75% | 108 | $3,456 | $2,592 | $24 |
| | 75% | 114 | $3,648 | $2,736 | $24 |
| | 75% | 120 | $3,840 | $2,880 | $24 |
| | 75% | 120 | $8,800 | $6,600 | $55 |
| 100% passthrough for primary improvements and owners of 1-4 units | 100% | 72 | $1,728 | $1,728 | $24 |
| | 100% | 78 | $1,872 | $1,872 | $24 |
| | 100% | 84 | $2,016 | $2,016 | $24 |
| | 100% | 90 | $2,160 | $2,160 | $24 |
| | 100% | 96 | $2,304 | $2,304 | $24 |
| | 100% | 102 | $2,448 | $2,448 | $24 |
| | 100% | 108 | $2,592 | $2,592 | $24 |
| | 100% | 114 | $2,736 | $2,736 | $24 |
| | 100% | 120 | $2,880 | $2,880 | $24 |
| | 100% | 120 | $6,600 | $6,600 | $55 |

Some housing policy analysts have argued that capital improvements and primary renovation work are inherent to owning rental property and are taken into account when properties are purchased. However, survey responses and focus group comments indicate that this is not entirely the case. Most RSO units turnover within five years and rent for the new tenants is adjusted to market levels, however the reduced rent paid by some long-term tenants appears to reduce the feasibility of financing capital improvements for those units.

Under the current structure of the Capital Improvement Passthrough program, three-quarters of tenants in units for which passthrough rent increases have been approved pay $24 a month or less to help pay for those improvements, as shown in Figure 7-1. The maximum monthly amount is $55. The rent increase is temporary and lasts for 6 years.

***Recommendations for the Capital Improvement Passthrough Program:***

1. *Continue to use the Capital Improvement Passthrough program as the principal tool for providing additional income to owners for offsetting the cost of capital improvements and primary renovations that allow tenants to occupy their units from 5:00 pm to 8:00 am and do not expose them to hazardous material.*
2. *Streamline and simplify the tenant habitability component of the Primary Renovation Program and the process for determining whether tenants will be able to remain in their unit, thereby making the application eligible for the Capital Improvement Passthrough Program.*
3. *Simplify the tenant habitability planning process by holding a single review that covers all tenants affected by an application, rather than leaving open the possibility of separate appeals by multiple tenants.*
4. *Increase the capital improvement passthrough amount as follows:*
   a. *75 percent for work that meets current criteria for the passthrough program but does not meet the criteria for primary renovation*
   b. *100 percent for work that addresses systemic structural, plumbing, electrical, or mechanical requirements of RSO properties*
   c. *100 percent for either capital improvements or primary improvements for owners of property(ies) with up to 4 multiple units*[6]
5. *Extend the term of payment for the tenant's share of costs to up to 10 years to keep rent increases below $25 per month for as many tenants as possible (Table 7-1).*
6. *Index the $55 monthly rent-increase ceiling for the share of capital improvements that are passed on to tenants to the Los Angeles region's Consumer Price Index – All Urban Consumers and adjust the ceiling annually beginning with the annual RSO rent adjustment in 2010.*
7. *Track the cumulative amount of capital improvement passthroughs approved for each property to ensure that tenants do not receive rent increases that exceed the ceiling amount, which currently is $55.*

## Banking Rent Increases

The renter survey found that RSO tenants experience more frequent rent increases than non-RSO tenants. In focus group sessions, owners stated that the current use-it-or-lose-it policy for RSO rent increases adds pressure to increase rents annually in order to avoid losing the prerogative to make an increase. Seven other jurisdictions in California with rent control allow owners to bank rent increases, that is, landlords who do not increase rents by the allowable annual amount in a given year are allowed to make this increase in a future year.

Some jurisdictions limit the amount of rent increases that can be banked so that tenants who have benefitted from deferred increases are not suddenly faced with very large increases in their rent. Rent increases are likely to be banked during years with economic downturns, and if a number of years of deferred rent increases are applied when the housing market heats up, it

undercuts the major benefit provided by rent control, which is to protect against rapid rent increases.

Oversight of rent banking requires the rent history information that would be collected under the recommended tracking system for overseeing rent increases. If the rent registry is implemented, it is recommended that rent banking be implemented in the following year.

The option to bank rent increases makes the current 3 percent floor under the annual rent adjustment unnecessary. In years when the housing market is slow and rents are most likely to be banked, the change in the Consumer Price Index typically is less than 3 percent. Banking a rent increase that exceeds the increase in the CPI and carrying it over into future years would undercut the objective of moderating rent increases during periods of rapid housing inflation.

***Recommendations for Banking Rent Increases:***

1. *Allow rent banking if the recommended rent registry is implemented.*
2. *Implement rent banking following the first year of collecting rent data, using it as a baseline for determining whether landlords use the full amount of the authorized increases in following years.*
3. *Allow owners to bank annual rent adjustments and to apply them in combination with the annual increase permitted under the RSO, with banked adjustments plus the annual adjustment not to exceed 10 percent.*
4. *Eliminate the 3 percent floor on annual rent adjustments while retaining the current 8 percent ceiling on annual rent increases.*

**Joint Code of Responsibility for Landlords and Tenants**

The most widely expressed concern of landlords about tenants, and tenants about landlords, is that the other party does not reciprocate reasonable and responsible behavior. This is not a universal problem but it is the most frequently identified problem in landlord-tenant relations. Some jurisdictions address this problem by developing model leases.[7] An alternative approach is to adopt a Joint Code of Landlord-Tenant Responsibilities as an articulated set of values about civil, reasonable behavior between landlords and tenants.

The goal of a landlord-tenant code of responsibility is to articulate clear and reasonable expectations for tenants and landlords' mutually responsible for maintaining desirable residential environments. The Joint Code of Responsibility is recommended as an articulation of shared values rather than as a regulatory tool.[8]

This idea was explored in all fourteen post-survey focus groups with owners and renters. The Joint Code of Landlord-Tenant Responsibilities shown in Table 7-2 incorporates the recommendations provided by both renters and owners.

***Recommendations for Joint Code of Responsibility for Landlords and Tenants***

1. *Adopt the Joint Code of Responsibility for Landlords and Tenants as an articulated set of values about civil, reasonable behavior between landlords and tenants and include it in the Landlord-Tenant Handbook.*
2. *Translate the Code into the major languages spoken by the City's renters.*

Table 7-2
Joint Code of Landlord-Tenant Responsibilities

| Tenant Responsibilities | Landlord Responsibilities |
|---|---|
| *Financial Responsibility* | |
| • Pay the rent promptly on the due date<br>• Know and comply with conditions of the lease.<br>• Use utilities responsibly and without waste.<br>• Assume responsibility for code violations caused by the tenant. | • Provide a written lease that is consistent with this Code, in a language understood by the tenant, and inform the tenant that the unit is regulated by the RSO.<br>• Manage security deposits in accordance with state and local ordinances. |
| *Information* | |
| • Provide the name and identifying information for the head of household, using any of the following forms of ID: driver's license, California ID card, Social Security ID card, Matrícula Consular card, passport, or birth certificate. | • Provide all tenants with the name, address and telephone number of the owner or the owner's managing agent.<br>• Obtain identifying information from all tenants and do not permit overcrowding. |
| *Maintenance* | |
| • Keep the unit and all fixtures and appliances clean and in an orderly and safe condition.<br>• Comply with health and safety regulations.<br>• Do not litter the grounds or common areas.<br>• Do not destroy, deface, damage or remove any part of the unit or common areas.<br>• Dispose of all garbage, rubbish, and other waste in a clean and safe manner and into appropriate containers.<br>• Use appliances and building equipment in a reasonable manner.<br>• Help prevent mold growth in bathrooms; open bathroom windows after showers or baths. | • Maintain the common areas and facilities in a safe condition.<br>• Arrange for collection and removal of trash and garbage.<br>• Maintain all equipment and appliances in safe and working order.<br>• Make necessary repairs with reasonable promptness.<br>• Maintain exterior lighting in good working order; provide for extermination services, as necessary.<br>• Maintain grounds and shrubs.<br>• Periodically inspect the building for any causes of mold or mildew. |
| *Communication* | |
| • Advise the landlord immediately if any household member moves out of the unit or the family proposes to move a new member into the unit.<br>• Promptly notify the landlord of any defects, breakage or damage in plumbing, fixtures, appliances, equipment, or any part of the unit.<br>• Promptly report to the landlord any unsafe or unsanitary conditions in the common areas and grounds that may lead to damage or injury.<br>• Allow the landlord to enter the unit for reasonable repairs and periodic inspections. | • Respond promptly to communications from tenants, including providing information about maintenance issues.<br>• Provide reasonable advance notice of intent to enter the unit, and, except in emergencies, enter the unit only after receiving the tenant's consent. |
| *Civil Behavior* | |
| • Occupy unit and use common areas in a manner that does not disturb any neighbor's peaceful enjoyment of the premises; avoid being or creating a nuisance. | • Treat all rental applicants and tenants equitably and respectfully. |

## Systematic Code Enforcement Program (SCEP)

The Systematic Code Enforcement Program, or SCEP, is the most frequent point of contact between the Housing Department and Los Angeles landlords. The program has been recognized for its success in improving the habitability of rental housing in Los Angeles,[9] but it evokes mixed reactions from property owners. Half of owners, particularly small owners, say that the SCEP program is either "very helpful for identifying needed maintenance," or "a useful service." Owners of older, smaller properties tend to experience SCEP as a useful source of technical assistance for maintaining their properties. On the other hand, half of owners with over 10 units say that it is an "unnecessary expense." Owners of newer, larger properties tend to experience SCEP as an unnecessary intrusion into the management of their properties.

The two concerns most frequently expressed by owners about SCEP are the need for more consistency in how inspections are conducted and the need for greater tenant accountability for code violations they cause.

In focus groups as well as the survey, owners strongly urged that there be greater tenant accountability in the SCEP program. This means holding renters accountable for code violations that they cause, including:

- Disabled smoke alarms
- Broken or missing window screens
- Lack of household maintenance
- Mold caused by failure to open windows
- Cockroaches that propagate because food is not cleaned up
- Holes in interior walls
- Broken counters and sinks

The barrier to implementing this approach is that building codes make owners responsible for code violations, with the exception of violations of health and sanitation codes. This constraint can be addressed through language in new leases that establishes tenant accountability for these problems and through adoption of the Joint Code of Landlord-Tenant Responsibilities recommended in this chapter.

The problem of substandard units occupied by doubled-up households falls within the purview of SCEP. There is a high co-occurrence of households without complete bathrooms or kitchens and households that are doubled-up in units, and of doubled-up units and overcrowding.

***Recommendations for the Systematic Code Inspection Program:***

1. *Enforce the recommended Joint Code of Landlord-Tenant Responsibilities by holding tenants accountable for code violations that they cause.*
2. *Continue training inspectors in standardized procedures for documenting code violations in order to ensure more consistent outcomes from inspections.*

## Updating Leases

The RSO prohibits unilaterally changing the leases of tenants in ways that reduce services without corresponding rent reductions. For long-term tenants this means that their

original lease can stay in force throughout their entire tenancy, even if the property changes ownership. However, as some tenancies extend, the original lease can become outdated relative to California law, and even contradict it.

Two examples are smoke detectors and smoking. The State of California now requires smoke detectors in every dwelling intended for human occupancy.[10] This was not the case prior to 1987, and leases prior to that date are unlikely to require tenants to keep working smoke detectors in their units. In the case of smoking, old leases are unlikely to have clauses that place limits on where tenants can smoke. However, state and local laws are placing increasing limits on where people can smoke.

Another example is the City's recent passage of several water conservation ordinances to deal with the current drought. The Department of Water and Power is asking residential water customers to reduce water consumption, especially during dry seasons. However, approximately eight percent of units – over 68,000 across the City – are in multiple-unit residential buildings with a single, "master" water meter measuring the water usage for the entire apartment building.[11] Enforcing City requirements for reduced water usage would entail changing the leases for those units.

***Recommendation for Updating Leases***

1. *Inform owners and renters that the RSO does not restrict evictions for nuisance or illegal activities, nor is a declaration of intent to evict required for these evictions if they are not related to illegal drug or gang activity.*

**Information Needed for Administering the RSO**

Information from the renter survey suggests that a significant minority of owners are imposing unauthorized rent increases. These increases appear to be most prevalent among low-income renters, which is the population most in need of protection by the RSO. Currently, the RSO program does not have information other than what is received through complaints to enable it to monitor rent increases. Building this capacity is important because the core purpose of the Rent Stabilization Ordinance is to protect tenants against excessive rent increases, and it appears that such increases are occurring in a portion of the units subject to the RSO.

Registration information will provide valuable information for policy analysis including but not limited to the following types of data:

- Mailing address of each unit
- Number of buildings which have not benefited or have only marginally benefited from the vacancy decontrol provision
- Proportion of units for which the allowable annual increase has not been implemented
- Correlation between rent levels and turnover rates
- Differences in rent trends in different areas of the city

***Recommendation for Obtaining Information Needed for Administering the RSO:***

1. *Expand the yearly registration renewal application to include the amount of rent for each unit and whether each unit has been vacated and decontrolled in the past year.*

2. *Provide an option for owners to submit this information electronically.*

**Fees to Pay for Implementing Recommendations**

Five recommendations that are being made will require additional funding for the Housing Department: 1) technical assistance workshops for small owners, 2) annual educational letters about the RSO to renters and owners, 3) higher level of relocation services (if borne out by an assessment of relocation services), 4) creation of a rent database for all RSO units, and 5) collection and analysis of cost data for gas and electric utilities.

***Recommendation for Funding Additional RSO Responsibilities***

1. *Increase the annual rental unit registration fee by the amount necessary to pay for these additional responsibilities.*

## CALCULATING ANNUAL RENT INCREASES

**Reasonableness of the Annual Rent Increase Allowed Under the RSO Program**

*The CPI annual increase standard fairly balances the interest of renters and owners*. It protects sitting tenants from excessive rent increases, while at the same time providing apartment owners with annual increases that are considered reasonable and are tied to a commonly used measure in our economy of what price increases are reasonable. The actual data on increases in apartment operating costs does not indicate there is a need to use some other measure in order to determine annual allowable rent increases nor does it indicate that some other rent adjustments are needed because the increases in operating costs are exceptional relative to rents and allowable increases.

**Accuracy of the Methodology Used to Calculate the Annual Rent Adjustment Percentage in Reflecting Actual Changes in Operating Costs**

The Consumer Price Index (CPI) is the best available economic benchmark for setting rent increases, although it has weaknesses as well as strengths. Most of rental income, typically about 65 percent, provides net operating income. The CPI is the only available measure for determining what growth should be permitted in this portion of income. Furthermore, as indicated, maintenance and management expenses constitute a substantial portion of operating expenses. There are no systematic sources of data on the amounts and trends in these types of expenses, except for the industry reports for very large professionally managed buildings. Therefore, *the CPI is the best available measure of an allowance for increases in operating costs*. Operating cost studies may provide more precise measures of increases in some specific types of costs; however, these costs do not account for a large share of rental housing expenses. Furthermore, due to the complexity of apartment operating cost studies, their outcomes may be perceived as arbitrary or political, thus undermining the credibility of the system.

## Recommended Change to the RSO Based on Available Evidence about Financial Outcomes

The annual utility allowance of one percent per year for gas and electricity in master-metered buildings (a total of two percent if both services are provided) should be replaced by periodic analyses of actual changes in costs. This allowance has no connection with and has substantially exceeded the actual cost increases resulting from increases in the cost of providing gas and electricity in master-metered units.

### *Recommendation for Calculating Rent Increases for Utility Costs*

1. *Authorize utility increases periodically when significant gas and/or electricity cost increases occur, rather than an unchanging fixed percentage annual increase.*
2. *Condition the right to gas and electricity passthroughs on an owner submitting one year of gas and electricity bills for the apartment building one time only (or once every five years). This requirement will not impose a substantial burden on an apartment owner and will provide the City with data that can be used to determine average consumption levels. Using the average consumption data, the City can make reasonable estimates of what percentage utility adjustments would be reasonable in the future by measuring the impacts of cost increases on buildings with average consumption levels. Currently, while rate increases are known because they are publicly set, the complementary information on average consumption levels and on the ratio of these expenses to gross income is unavailable.*

## Just and Reasonable Rent Increases

The reduced level of rent paid by long-term RSO tenants can have a significant impact on small property owners, for whom a single unit provides a quarter to half of total rent revenue. Focus group participants reported instances in which the ceiling on annual RSO rent increases combined with landlord decisions not to raise rents in some years has resulted in rents on RSO units with long-term tenants that are 50 to 70 percent below market rates. Once rents fall this low, the annual percentage increase allowed for RSO units provides meager relief.

The greatest disparity between RSO and market-rate rent levels that has occurred since the ordinance was enacted is 35 percent. This occurred in the 1989 for tenants who had been in their units since 1979. It is probable that gaps greater than 35 percent are the result of other factors in addition to the Rent Stabilization Ordinance, including years when owners did not increase rents and neighborhoods in which rents have increased more rapidly than the overall LA average. Regardless of the historical cause of rent gaps, *the size of the rent gap for RSO units should not be allowed to exceed 35 percent*.

A 35 percent floor on the rent gap for RSO units is recommended because this is the greatest gap that has been shown to result from the rent adjustment provisions of the Rent Stabilization Ordinance. Gaps that exceed this amount can reasonably be viewed as inconsistent with the RSO objective to fairly balance the financial interests of landlords and tenants.

The only policy action recommended at this time for allowing owners to raise rent on units where the rent is far below the market rate (i.e., 35 percent or more below the market) is to publicize the Just and Reasonable Rent Increase application process through the annual mailings recommended earlier.

If it is demonstrated that this program cannot provide relief for owners of units with extremely low rents, a targeted policy should be adopted that specifically targets the types of cases where these rent anomalies are found. This targeted policy should be based on objective standards so that the outcomes of applying for relief under the regulation are predictable, are not burdensome and lengthy, and cannot be manipulated. For example, it could be based on the overall change in rent in the affected building during a specified period or current rent for other comparable units in the same building.

## AFFORDABLE HOUSING

### Balancing Population, Housing and Job Growth

Demographic and economic projections underscore the challenges the City faces in providing housing that meets the needs of its diverse residents. The following sections examine population and housing growth, economic trends and projections, and the City's goal to meet the housing needs of Angelenos. How can the City meet the housing needs of a growing population when the housing market is unstable and unpredictable, and the region's labor market is marked by growing disparities between high- and low-end jobs?

*Population and Housing Growth Projections*

The California Department of Finance has produced population estimates for the City of Los Angeles through 2008 and population projections for the County through 2050.[12] The projected average yearly growth of the County's population after 2008 was utilized to produce growth projections for the City. These projections indicate that the City of Los Angeles will be home to 4,190,574 residents by 2015 (Figure 7-2). This is 144,701 (or 3.6 percent) more residents than the City's current population. This is a significant number of new residents, but the projected population growth is less rapid than the previous seven years leading up to 2008 (2001-2008). While the City's population grew by 8.0 percent between 2001 and 2007; it is expected to grow only 3.6 percent from 2008 to 2015.

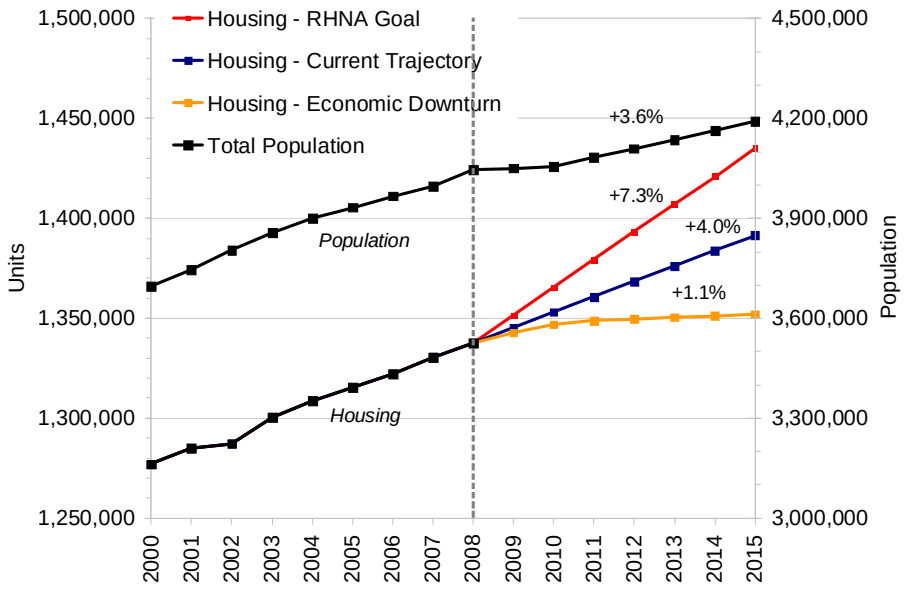
Housing growth projections, in Figure 7-2, are examined under three different scenarios: 1) growth as a continuation of the current trajectory, 2) growth that meets the Regional Housing Needs Assessment (RHNA) goal, and 3) growth similar to that during the most recent severe economic downturn in the 1990s.

Department of Water and Power (DWP) records are used as a baseline for housing projections. Overall, this data shows that the City's housing stock grew from 1,277,005 units in 2000 to 1,337,494 units in 2008, a 60,489-unit or 4.7 percent growth in an eight-year timeframe.

- Scenario 1 - If the housing stock was to continue to grow at the same rate as it did in the last eight years, it would grow to an estimated 1,391,587 housing units by 2015 ("current

trajectory" - blue line). This equates to 60,489 more units or a 4 percent increase over the current, 2008 housing stock.

Figure 7-2
Population and Housing Unit Growth - Projections through 2015



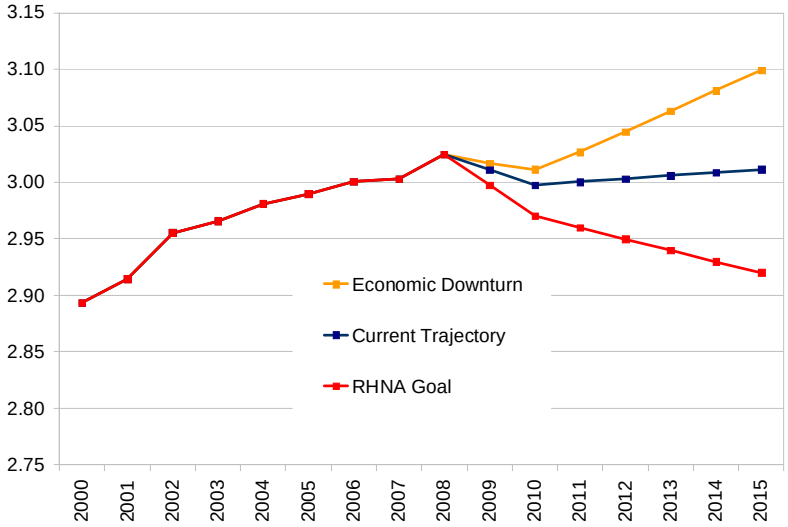

*Source: Economic Roundtable, LA DWP, Construction Industry Research Board, City of Los Angeles Housing Element 2006-2014, California Department of Finance*

- Scenario 2 - If the City meets its current RHNA goal of adding 112,876 new units to the housing stock by 2014, there will be an estimated total of 1,434,960 units by 2015 ("RHNA goal" - red line). This would be a 7.3 percent increase over the City's current stock of units and 43,373 (3.1 percent) more units than what is projected by 2015 given the City's current growth trajectory. It is important to note that this projection is a high-end estimate because it treats the 112,876 new units as a net gain to the housing stock, without factoring in demolitions or losses.
- Scenario 3 - Projections are made under a pessimistic scenario in which economic conditions are similar to the prolonged recession that impacted the City in the 1990s. These projections are based on the declining percentage of building permits issued in the City between 1988 and 1995. As shown in Figure 7-3 (gold line), growth would be severely hampered in a weakened economy. Under such conditions, there could be as little as 14,626 units added to the housing stock between 2008 and 2015; this is 1.1 percent growth over eight years. It would yield 39,467 (or 27 percent) fewer units than what the City would gain through a continuation of the growth trajectory of the past eight years, and 82,840 (or 60 percent) fewer units than what the City needs to meet its RHNA goal.

Although population growth is expected to slow, the City may well need to provide homes for over 140,000 new residents by 2015. If the number of housing units in the City continues to grow at the current rate, the 3.6 percent growth in the population will coincide with a 4 percent growth in housing units. This combination of population and housing growth will maintain the ratio of residents to units at level just slightly below the current ratio of 3.02 residents for every unit (Figure 7-3). If the City meets its current RHNA goal and has a net gain of 112,876 new units, housing growth will exceed population growth by 3.7 percentage points. This would result in a ratio of 2.92 residents for every unit, an outcome that would have the

greatest impact on mitigating overcrowding in the City. If the City is impacted by economic conditions similar to those present in the 1990s, population growth will likely outpace housing growth. This scenario would increase the ratio of residents to units above current levels, intensifying overcrowding and leaving residents inadequately housed.

Figure 7-3
Ratio of Residents to Units - Projections through 2015




*Source: Source: Economic Roundtable, LA DWP, Construction Industry Research Board, City of Los Angeles Housing Element 2006-2014*

Given these projections, scenarios 1 and 2 are most favorable, but are unlikely to materialize as these projections are based on years leading up to the peak of the housing market in 2006. The current mortgage crisis and signs of a weakening economy make it increasingly difficult to foresee development keeping pace with the rate of growth that took place in the first three-quarters of the decade. The projections made under recession-like conditions in scenario 3 may well represent what we see over the next two or three years, given the severe contraction of the housing market that has occurred and uncertain conditions in financial markets.

If there is a robust recovery from the current economic slowdown, an upturn in the housing market from 2010 to 2014 may offset the stagnation we are now seeing. Early indications of a declining housing market and a struggling economy will only add to the challenges of creating a supply of housing that meets the diverse needs of a populous City. Little can be done to control economic conditions that to some degree will curtail production of market-driven housing construction that is counted on for meeting the bulk of the City's goal of adding over a 100,000 units to the housing stock. Still, ambitious goals, aggressive policies, and an economic recovery that comes sooner rather than later may help the City maintain current levels of housing production.

*The City's Affordable Housing Goals*

Increasing the supply of housing is important, but the level of housing affordability may be even more crucial to the wellbeing of the City's residents. State housing law mandates the Regional Housing Needs Assessment (RHNA) as part of the periodic process of updating local housing elements of the General Plan. The RHNA allocation is a quantification of the City's housing needs; it identifies housing needs in terms of new units and affordability levels, which are derived from population, employment and household growth forecasts. The City's RHNA

Table 7-3
RHNA Goals - City of Los Angeles (1998 to 2005)

| Income Levels | RHNA Goals # of Units | RHNA Goals % of Total | Units Built # of Units | Units Built % of Total | Difference # Difference | Difference Units Built as Percent of RHNA Goal |
|---|---|---|---|---|---|---|
| Very low income (31%-50% AMI) | 17,990 | 29.8% | 5,922 | 9.8% | -12,068 | 32.9% |
| Low income (51%-80% AMI) | 10,416 | 17.3% | 5,416 | 9.0% | -5,000 | 52.0% |
| Moderate income (81%-120% AMI) | 11,314 | 18.8% | 606 | 1.0% | -10,708 | 5.4% |
| Above moderate income (>120% AMI) | 20,560 | 34.1% | 38,874 | 64.5% | 18,314 | 189.1% |
| Total | 60,280 | 100% | 50,818 | 84% | -9,462 | 84.3% |

*Source: City of Los Angeles Housing Element 2006-2014; Review of the 1998-2005 Housing Element*

allocation for the previous and current planning periods is shown in Tables 7-3 and 7-4, respectively.

During the previous Housing Element planning period (1998-2005), 50,818 building permits were issued for new housing units, accounting for almost 85 percent of needed new housing, as determined by the RHNA allocation. Housing production was skewed toward higher-income residents; almost two-thirds of the City's building permits were for market-rate housing and less than 20 percent were for the City's poorest residents. The City fell well short of its goal of producing housing at the deepest levels of affordability, as well as housing for moderate-income households. During this planning period, 11,338 new units were created for very low- and low-income households, accounting for 19 percent of the total units produced and 40 percent of the goal for these income categories. The 606 new units for moderate-income households comprised only 1 percent of the total new units produced, meeting only 5 percent of the goal for this income category. This outcome is consistent with comments made by renters in our survey who stated that there is a deficit in housing for middle-income families.

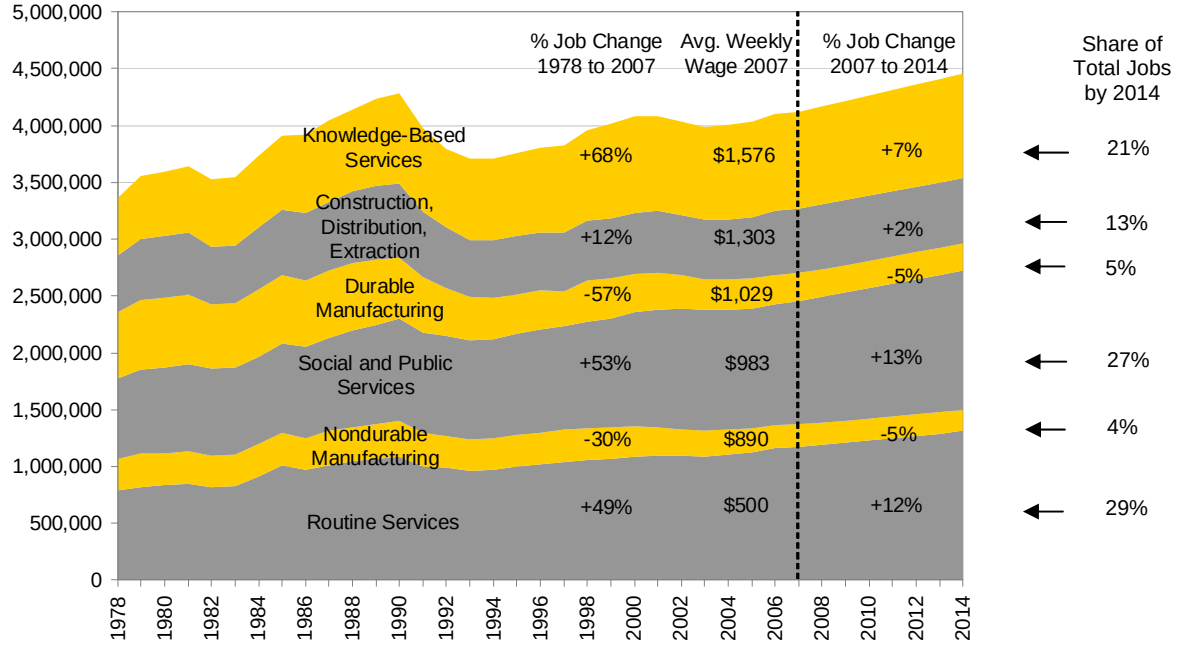
The City will set out to produce 112,876 new units to meet its RHNA goal for the current planning period (2006-2014). This is twice the number of new units that were identified in the goal for the previous planning period. Nearly a quarter (27,238) of the 112,876 units is needed for extremely low and very low-income households, as determined by the RHNA. The Housing

Table 7-4
RHNA Goals - City of Los Angeles (2006 to 2014)

| Income Levels | RHNA Goals # of Units | RHNA Goals % of Total | City's Goals # of Units | City's Goals % of Total | Difference # Difference | Difference City's Goal as a Percent of RHNA Goal |
|---|---|---|---|---|---|---|
| Extremely low income (≤ 30% AMI) | 13,619 | 12.1% | 4,344 | 3.8% | -9,275 | 31.9% |
| Very low income (31%-50% AMI) | 13,619 | 12.1% | 8,576 | 7.6% | -5,043 | 63.0% |
| Low income (51%-80% AMI) | 17,495 | 15.5% | 8,582 | 7.6% | -8,913 | 49.1% |
| Moderate income (81%-120% AMI) | 19,304 | 17.1% | 4,415 | 3.9% | -14,889 | 22.9% |
| Above moderate income (>120% AMI) | 48,839 | 43.3% | 86,961 | 77.0% | 38,122 | 178.1% |
| Total | 112,876 | 100% | 112,878 | 100% | 2 | 100.0% |

*Source: Source: City of Los Angeles Housing Element 2006-2014*

Figure 7-4
Jobs in LA County's Formal Economy 1978-2007 and Projections to 2014




*Source: Economic Roundtable Analysis of ES-202 data.*

Element, however, projects this outcome to be 12,920, which is less than half of the RHNA goal to meet the needs of households earning 50 percent or less of the area median income (AMI), which in 2006 was $51,315.[13] The difference between RHNA goals and Housing Element goals demonstrates the formidable challenges the City faces in producing housing that residents can afford, particularly at the deepest levels of affordability. Again, the Housing Element anticipates that a majority of all new units built will be produced through the construction of market-rate units; over three-quarters of these units will be most accessible to higher-income households. Given that the allocation of new construction will be skewed towards market-rate units, how well will new housing match the type of job growth taking place in the region?

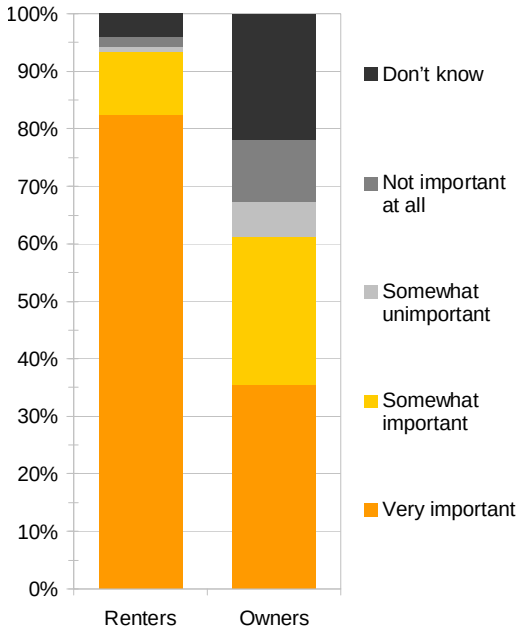
*Need for Affordable Housing amidst Growing Economic Polarization*

The urgency of affordable housing for Los Angeles is apparent from job growth trends from the last three decades and projections for the region's future labor market. Since 1978, the Los Angeles economy has become increasingly polarized between top- and bottom-tier jobs, as shown in Figure 7-4. The growth of high-skilled, well-paid jobs in knowledge-based industries is encouraging, but it coincides with growth in low-skilled, low-pay jobs in routine service industries, not to mention a burgeoning informal economy that fails to pay living-wages and compounds the growth of bottom-tier jobs in the region. From 1978 to 2007, there was a 68 percent increase in knowledge-based industry jobs that pay the average worker a weekly wage of just over $1,500 or an annual salary of over $80,000. During the same period, there was a 49 percent growth in routine services jobs that pay the average worker a weekly wage of $500 or an

annual salary of $26,000. Another notable and equally discouraging trend is the significant decline (-57 percent) in well-paid, blue-collar, middle-class jobs in durable manufacturing industries, which pay the average worker a competitive weekly wage of over $1,000 or an annual salary of over $52,000.

Job growth projections from 2007 to 2014 show a continuation of these trends across industries.[14] Routine services jobs and knowledge-based industry jobs are estimated to grow by a respective 12 percent and 7 percent, and will account for a respective 30 percent and 21 percent of the total jobs in the region by 2014. Manufacturing jobs are expected to continue declining through 2014.

Figure 7-5
Importance of Initiatives to Provide Housing that Residents can Afford




Source: *Economic Roundtable 2007-08 City of Los Angeles Renter and Owner Survey*

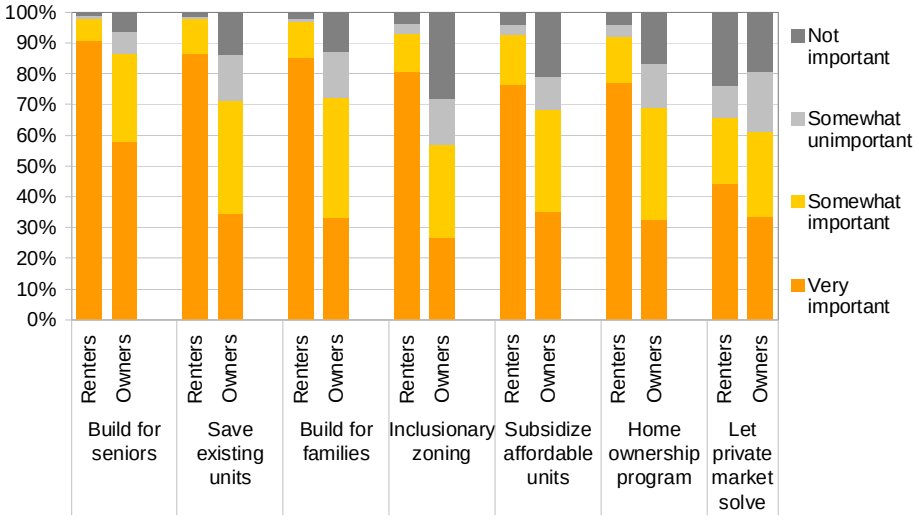
The City's distribution of new construction goals by affordability levels and job growth trends, together, paint a daunting picture for Los Angeles residents overburdened by housing costs. The balance of housing development is skewed toward high-end, market-rate development while the regional economy is becoming increasingly polarized, with some of the largest growth taking place in bottom-tier industries. Current RNHA goals indicate that 40 percent (44,733) of the 112,876 new units are needed for the City's poorest segment of residents (who earn less than 80 percent of the AMI). Unfortunately, the City estimates that it may be able to create only 21,502 new units for these residents, which is less than half of the total need for households in these income categories. It appears that the City is on track to meet the needs of well-paid residents, but will not be able to ensure adequate housing for its most vulnerable residents, most of whom are severely cost-burdened, often living in substandard, overcrowded conditions.

The most probable scenario, given current resources and needs, is that there will be insufficient production of housing units at deep levels of affordability and continued job growth in the lower-rungs of the regional economy. The most likely result is continued job-housing imbalance with only modest headway in alleviating the cost-burden and overcrowding problems that impact many Angelenos.

## Renter and Owner Support for Affordable Housing

Residents and stakeholders in the City of Los Angeles ubiquitously agree that everyone should have access to housing they can afford. A majority of renters, as well as owners, in our surveys agree that it is important for the City to adopt policies and programs to provide affordable housing (Figure 7-5). Over 90 percent of renters and over 60 percent of owners support initiatives that will help meet the need of residents for housing they can afford.

Figure 7-6
Support for Initiatives to Provide Housing that Residents can Afford




Source: *Economic Roundtable 2007-08 City of Los Angeles Renter and Owner Survey*

Renters and owners were asked to rank the importance of an array of policy initiatives to provide affordable housing. The degree of support for different types of public action varied between renters and owners; nevertheless, each of the seven initiatives in Figure 7-6 garnered the support of a majority of both renters and owners in the City. Renters and owners agree that the housing needs of seniors and families should be prioritized, acknowledging that those who live off of fixed-incomes and those with families face substantial challenges in finding adequate housing. Over 90 percent of renters and 70 percent of owners say that it is somewhat or very important to provide housing that these high-need populations can afford.

Creating new affordable housing via inclusionary zoning and saving existing affordable units are important to both renters and owner. Over 90 percent of renters state that such initiatives are somewhat or very important for providing more affordable housing in the City. Over 70 percent of owners voice support for saving existing affordable units. Although a majority of owners supports inclusionary zoning, it was favored less than a number of other initiatives.

Increasing public spending to subsidize affordable units and creating home-ownership programs is viewed favorably by both renters and owners. Over 90 percent of renters and a little less than 70 percent of owners believe that increased spending to expand access to affordable housing is important. Renters and owners are willing to consider "letting the private market solve housing problems," but this ranks below other more activist options. Interestingly, the owners' survey asked about support for a citywide tax for building housing that residents can afford and half of owners expressed support for this option. Data in the previous sections shows that the private market, alone, will not produce housing within the reach of a majority of renters. This means that the public and private sectors will have to work together to produce housing that meets the needs of residents.

## Recommendations for Affordable Housing

This study of the City's rental housing market and Rent Stabilization Ordinance is not an affordable housing study, although given that Los Angeles is a city of renters, with 60 percent of residents renting their homes, findings from this study have implications for affordable housing initiatives. Our recommendations do not constitute a comprehensive strategy for providing an adequate supply of housing that meets the needs of City's diverse population. Instead, our recommendations build on findings that emerged from this study. These recommendations encompass issues around high-need populations, rent-burden, overcrowding, jobs-housing balance, and increasing the supply of affordable housing.

### *High-Need Populations: Seniors, Persons with Disabilities, Homeless, and Families*

Signs of a weakening economy and housing market, which will compound the difficulty of adding units to an already inadequate and limited stock of affordable housing, suggest a need to prioritize allocation of affordable units for high-need populations. The examination of senior renters and renters with disabilities in chapter 1 of this study reveals that both populations are particularly vulnerable to rent increases and high rent costs. Not only are they more likely to live off fixed incomes or limited financial resources, their housing needs may well be different from the renter population at large. The study shows that senior renters and renters with disabilities are less financially secure and are devoting more of their household income to pay for rent than renters overall. Approximately 60 percent of both senior renters and renters with disabilities live at or below 150 percent of the poverty level. Additionally, over 40 percent of both populations are severely rent-burdened, devoting at least half of their household income to rent. Comparatively, 35 percent of the total renter population live at similar poverty levels and less than 30 percent devote as much of their income to rent.

As evidenced by both Census and survey data, overcrowding is predominately taking place in the City's large stock of smaller rental units (studios and 1-bedroom units) and impacts larger families who struggle to find adequately sized units at prices reasonably within their financial means. Data from our survey shows that half of renters living in studios and 16 percent of renters in 1-bedroom units live in severely overcrowded conditions. This is comparable to having 3 or more occupants living in a studio apartment with a kitchen (2 rooms) and 5 or more occupants in 1-bedroom apartment with a living room and kitchen (3 rooms). Both examples illustrate densities that undermine the health and quality of living environments. Furthermore, survey data shows that 70 percent or more of renter households larger than 4 persons are living in overcrowded or severely overcrowded conditions. Renters, faced with declining wages and rising rents, are doubling- or tripling-up in units or renting smaller, inadequately sized units to minimize their rent burden.

Homeless residents face the most challenging housing problems – the complete lack of shelter. On any given night, 40,100 City residents are estimated to be without a home. Over the course of a year, an estimated 82,900 residents in 65,700 households experience homelessness.[15] Scant housing options for the City's homeless residents exacerbate the harsh economic, health and social conditions of this population.

Table 7-5
Estimated Population Distribution and Housing Needs of the Annual Homeless Population in the City of Los Angeles in 2007

| Type of Housing Needed | Type of Household | Income Range in 2006 | Income as % of 2006 AMI* | Estimated Number of Households | Percent of House-holds |
|---|---|---|---|---|---|
| Affordable Family | Very low income family | $18,000+ | 35% | 8,000 | 12% |
| Affordable Individual | Extremely low income single adult | $13,500+ | 26% | 26,500 | 40% |
| Affordable Family | Extremely low income family | $11,250 to $17,999 | 29% | 1,700 | 3% |
| Affordable Individual | Extremely low income single adult | $7,875 to $13,499 | 21% | 17,400 | 27% |
| Subsidized Family | Extremely low income family | $0 to $11,249 | 11% | 200 | 0.3% |
| Subsidized Individual | Extremely low income single adult | $0 to $7,874 | 8% | 5,800 | 9% |
| Supportive Family** | Extremely low income family | $0 to $11,249 | 11% | 200 | 0.3% |
| Supportive Individual** | Extremely low income single adult | $0 to $7,874 | 8% | 5,800 | 9% |
| **Total Annual Homeless Households** | | | **23%** | **65,700** | **100%** |

**Area Median Income (AMI) in 2006 = $51,315. Income of homeless households includes all spendable resources, including wages, cash grants, Food Stamps, and Earned Income Tax Credits.*

***Supportive housing is extremely low-income housing with on-site case management.*
*Sources: Los Angeles Homeless Services Authority, "2007 Greater Los Angeles Homeless Count," and Economic Roundtable, "10-Year Strategy to End Homelessness"*

*Household numbers do not add up to total because of rounding.*

Most stints of homelessness are estimated to last 6 months or less, and many precariously housed residents who become homeless have multiple stints of homelessness. It is estimated that one-third of the individuals who experience homelessness in the course of a year have had previous stints of homelessness, suggesting that roughly 43,000 new households have their first experience of homelessness each year in Los Angeles.[16]

Most homeless households fall into the extremely low-income category, as shown in Table 7-5. The average annual income of homeless households is estimated to be 23 percent of the median income for Los Angeles County (Area Median Income or AMI). These households require very deep rent subsidies to enable them to exit homelessness. However, 68 percent of adult homeless residents have worked in the past five years and many have prospects of future employment.[17] Long-term rent subsidies can be reduced by requiring households with employable members to contribute 40 percent of their spendable resources to rent when they enter housing and to increase this amount by at least five percentage points each year thereafter.[18]

Homeless households should be included in the universe of need that is addressed by affordable housing plans because the amount of permanent housing being produced by homeless service agencies is comparatively small. The Los Angeles Homeless Services Authority reports that 1,331 units of permanent supportive housing are currently under development, leaving an unmet need of 35,673 units.[19]

### *Recommendations to Prioritize Affordable Housing for High-need Populations*

1. *Produce affordable housing that will meet the specific needs of seniors and persons with disabilities to promote better physical and mental health.*
2. *Produce larger rental units specifically designed to house families at acceptable densities. Family-sized affordable units can help mitigate some of the overcrowding*

*problems in the City, promote healthier living environments, and decrease rent-burden so that families can afford rising costs of food, health care, and other vital services.*

3. *Include homeless residents in the universe of need addressed by affordable housing.*

*Increasing Affordable Housing Production to Correct Jobs-Housing Imbalance*

*New* funding and development strategies are needed to provide affordable housing units for Los Angeles residents in the lowest income brackets. High land and development costs, coupled with low vacancy rates and excess demand, places upward pressure on housing costs, leaving a large share of residents overburdened by rent and in overcrowded living conditions. Given the difficulty of financing affordable units and a grim economic climate, public policies must drive the production of needed affordable units. The following recommendations are drawn from the analysis of policy options for increasing the production of affordable housing presented in Chapter 6.

***Recommendations to Increase Affordable Housing Production and Correct Jobs-Housing Imbalance:***

1. ***Inclusionary Zoning*** *– Include housing that residents can afford as part of market rate development. Couple inclusionary zoning with cost offsets such as permit streamlining, density bonuses, parking requirement relief and others to achieve revenue neutral, or near-revenue-neutral, outcomes for developers while adding affordable units.*
2. ***Housing Choice Vouchers*** *- Use housing choice vouchers (commonly referred to as Section 8 vouchers) to increase the revenues generated by affordable rental projects.*
3. ***Regulatory Relief*** *- Streamline entitlement or approval processes to reduce the burden of carrying costs for affordable housing projects that are on the margin of profitability.*
4. ***Creative use of "Non-traditional" Land*** *- Identify "non-traditional" land that has the capacity to be developed into housing. Areas to consider include: a) parking lots, b) blighted properties and c) obsolete industrial land that will not result in the loss of sustainable jobs.*
5. ***Inventory of Developable Parcels*** *- Create a database of and provide information about parcels that the City is most interested in seeing developed. Use this inventory to focus development interest and identify those communities in which the City will actively support development.*
6. ***Expedite Recycling of Blighted Property*** *- Streamline the condemnation and eminent domain processes for blighted properties to provide incentives for current landowners to either sell their property or clean and redevelop the property in a timely fashion. In some instances, this can produce new multifamily units (either market rate or affordable); in others, it will enhance the community's character and make it more conducive to housing and other investment.*

7. ***Protect Affordable Units*** *- Direct public funds to either purchase affordable units with covenants on the brink of expiration or incentivize the owners of these units to continue to provide their units at affordable rent levels.*
8. ***Affordable Housing Land Bank*** *- Develop an affordable housing land bank that is controlled by either the City or a non-profit whose mission is to provide and preserve affordable housing.*
9. ***Internal Cross-Subsidy*** *- Promote the development of projects where the subsidy originates from internal cash flows, namely mixed-income and mixed-use projects.*
10. ***Development Fees*** *- Establish development fees for residential, commercial and industrial construction projects that increase the demand for affordable housing. New development should be partially accountable for the affordable housing needs that are created.*
11. ***Link Property Owners with Affordable Housing Developers*** *– 1,363 RSO owners reported in the survey that they are definitely interested or might be interested in redeveloping their properties at higher densities with affordable or rent-stabilized housing included in the new development. Contact these owners to secure their permission to release their names to affordable housing developers so as to identify a large inventory of sites for potential use by the affordable development community.*

# *APPENDIX A*

Renter Survey Sampling Methods

*By Gerald Sumner, Project Sampling Statistician*

## Sample Design and Selection

Respondents in the Renter Survey were selected via a multi-frame probability sample of telephones in the City of Los Angeles. The main sampling frame included coverage of the entire City. A second frame, with coverage restricted to all listed telephones in the City, was employed to improve cost efficiency. Two additional frames were restricted to particular telephone exchanges in order to enhance coverage in certain sparsely populated areas.

All telephone numbers used by the survey were purchased from a vendor, Scientific Telephone Samples (STS). ERT and STS worked jointly to identify telephone exchanges to include in the main sampling frame. The process involved the mapping of Zip Codes and the physical locations of telephone exchange wire centers. Some exchanges were later dropped from the frame because they were not producing Los Angeles numbers. STS then used the so-called TYPE A sampling method, an unweighted equal probability approach, to generate sample numbers from this frame.

A total of 71,141 numbers were purchased. These excluded numbers from telephone exchanges known to be dedicated to cell phones, numbers known by STS to be non-residential telephones, and numbers tested and found by STS to be non-working. With the help of mapping software and county assessor information, the ERT office was able to tag 11,819 of these numbers as non-renters or out-of-City locations. The remaining 59,321 numbers were forwarded to the Social Science Research Center (SSRC) at Cal State Fullerton, where 54,246 were released to field staff for interviewing.

The survey was implemented in 10 successive 'replicates' between September 18, 2007 and April 7, 2008. Each replicate constituted an independent simple random sample employing random digit dialing (RDD), although the sampling populations were different for some. Seven replicates had coverage of the entire City of Los Angeles. An eighth replicate had citywide coverage of listed residential numbers only, a ninth was from a restricted set of telephone exchanges, and the tenth had coverage of listed numbers in a restricted set of telephone exchanges. Since cases from such restricted replicates must be weighted downward during data analysis, the sizes of those replicates were carefully planned so that the down-weighting would not unduly inflate sampling variance.

## Field Operations

The survey instrument was developed by the principal investigators with input from the SSRC, and was programmed for administration utilizing computer assisted telephone interviewing (CATI) software. This was the Ci3 CATI software package, the same system promulgated by the Centers for Disease Control and Prevention (CDC) for its state and national surveys. The English language survey instrument was translated into Spanish by a native Spanish- speaking translator.

Field personnel called each number at least ten times, and as many as twenty-one times, in order to determine whether the associated cases were eligible for interview. Cases were eligible if the telephone belonged to a rental household in the City of Los Angeles, if English, Spanish or Korean was spoken, and if at least one occupant was eighteen years of age or older. Cell phones were accepted. In the end, 4859 interviews were completed, 2782 (57.3%) in English, 2,025 (41.7%) in Spanish, and 52 (1.1%) in Korean.

## Survey Response

Table A-1 lists the number of cases for each disposition category recorded by the field teams. Note that some dispositions represent cases known to be eligible, some represent cases known to be ineligible, and some represent cases for which eligibility is unknown. For each disposition type we make a simple *pro rata* estimate of the number of eligible cases. Summing these, we obtain an estimate of 10,973 eligible cases in the sample. Calculating the ratio of completions to this number, we obtain our estimated response rate, .44. This estimation procedure corresponds to the so-called RR3 approach described in AAPOR (American Association of Public Opinion and Research) documents.

Table A-1
*Sample Dispositions and Estimated Eligible Cases*

| | **Known Eligible** | **Known Ineligible** | **Eligibility Unknown** | **Estimated Eligible** |
|---|---|---|---|---|
| **Completion** | 4868 | | | 4868 |
| **Break off** | 12 | | | 12 |
| **Screened eligible** | 248 | | | 248 |
| **Busy** | | | 1135 | 282 |
| **No answer** | | | 7538 | 2259 |
| **Answering machine** | | | 3992 | 1617 |
| **Call blocking** | | | 443 | 179 |
| **Screen incomplete** | | | 115 | 47 |
| **Incoherent** | | | 337 | 137 |
| **Hang up** | | | 1912 | 775 |
| **Refusal** | | | 1358 | 550 |
| **Language problem** | | 316 | | |
| **Other** | | 3 | | |
| **Screened ineligible** | | 59 | | |
| **Ineligible** | | 7326 | | |
| **Fax machine** | | 3532 | | |
| **Not working** | | 16068 | | |
| **Out of service** | | 202 | | |
| **Number change** | | 180 | | |
| **NonResidence** | | 4339 | | |
| **No eligible respondent** | | 146 | | |
| **Other** | | 117 | | |
| **Totals** | **5128** | **32288** | **16830** | **10973** |

**Survey Weights**

Each of the replicates constituted an equal probability sample, but because of the restricted coverage of some of the sampling frames, three of the replicates provided biased representation of the City. In order to 'knit' the several replicates into an unbiased whole, so-called dual-frame methods were used to calculate weights. In general, an overall selection probability for each case was calculated as the sum of the separate probabilities for selecting that case in each replicate. A raw weight was then calculated as the inverse of the overall selection probability. From the raw weight, two sets of weights were calculated for purposes of data analysis. One is appropriate for questions related to households, and the other for questions related to individuals.

Because selection probabilities for households are affected by the number of telephones and by lapses in telephone service, the weights were adjusted accordingly. There was a third adjustment to convert household weights to individual weights. The adjustments were conservative in that they were constrained to a narrow range. Households with more than three telephones were adjusted as if they had three. Households with more than five weeks without telephone service in the previous year were adjusted as if there were five. In calculating the weight for individuals, households with more than three persons aged eighteen or older were treated as if there were three.

To calculate the household weight, the raw weight was first adjusted for multiple telephones and lapse in service. The distribution of this adjusted raw weight was then 'trimmed' by reducing all values in the top decile to the ninetieth percentile, and increasing all values in the bottom decile to the tenth percentile. The trimming removed extreme weight values that would inordinately inflate sampling variance. Finally, the trimmed results were scaled to sum to the sample size, 4859.

To calculate the individual weight, the adjusted raw weight from the above paragraph was first adjusted for household size. The distribution of this result was then trimmed and scaled in the same manner described in the above paragraph.

# *APPENDIX B*
Owner Survey Methods

## Protection of Human Subjects

A research protocol for the owner survey that sets forth the nature of the study, describes risks and benefits to human subjects, outlines procedures for obtaining informed consent, and specifies measures that will be taken to protect the confidentiality of respondents was submitted to and the Economic Roundtable Institutional Review Board and approved on September 21, 2007.

## Sampling Methods

The Los Angeles Housing Department (LAHD) provided the Economic Roundtable with a list of all of the rental properties regulated by the Rent Stabilization Ordinance (RSO) as of August 15, 2007. The list provided information for 638,051 units on 118,254 properties under RSO jurisdiction. In some cases, multiple properties are owned by the same person, family, trust or corporation. A final list of 86,174 unique rental property owners was created by linking properties with identical owner names, addresses or telephone numbers in the LAHD database. Each of these 86,174 owners was then assigned a unique identifying number. A sum of the total number of records aggregated to each ID number was used as the total number of rent-stabilized units held by each owner.

The sample of 7,043 owners who received the survey was selected from the master database of the City of Los Angeles Housing Department. Four different methods of random selection were used to select the sample of survey recipients from among owners of at least one RSO unit in the City of Los Angeles.

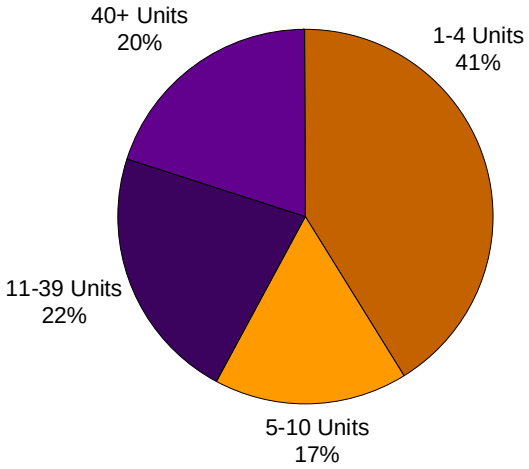
*Selection Method #1: Owners of RSO Units Occupied by Respondents to the Renter Survey* - All owners and managers who had tenants in their units responding to the Renter Survey of this RSO Study (see Chapter 2) were also selected for the study sample and were mailed a questionnaire. This accounted for 1,178 owners and managers in the sample, who were in effect randomly selected with probabilities proportional to their respective numbers of RSO units. (The methods describing respondent selection for the renter survey are described in Chapter 2.) These property owners and managers were then removed from the master list of unique owners when subsequent samples were drawn.

*Selection Method #2: Probabilities Proportional to Size* - A total of 4,582 owners and property managers of units under the RSO were randomly selected with probabilities proportional to their respective numbers of RSO units as reported in LAHD data. This method increased the likelihood that large owners would be selected and increased the likelihood of enough large owners among survey respondents to support reliable analysis of all ownership size groups.

*Selection Method #3: Probabilities Proportional to Size among Owners of 1 to 4 Units* - To offset lower response rates from small owners, 775 owners were selected with probabilities proportional to numbers of units within the universe of owners of 1 to 4 units. This increased the number of survey responses received from small owners.

*Selection Method #4: Over-Sampling of Mobile Home Park and Residential Hotel Owners* - Six owners of mobile home parks were selected with certainty, in addition to the 37 mobile home park owners selected randomly, in order to capture the complete universe of 44 mobile home parks in the sample. Thirty-six residential hotel owners were selected with certainty, in addition to the 105 residential hotel owners selected randomly, in order to capture the complete universe of residential hotels in the Central Los Angeles planning region. A modified version of the survey was sent to mobile home park owners because several questions about the Housing Department's inspection program do not apply to these properties (City of Los Angeles Housing Department, *Landlord-Tenant Handbook for Rental Units Subject to the Rent Stabilization Ordinance*, p. 41-42) .

Figure A-1
Distribution of Survey **Recipients** by Number of Units Owned
*Unweighted Count*




The sample of 7,043 survey recipients was selected in twelve separate iterations, or replicates, each a probabilistic sample from the population of owners. Each replicate was implemented in a separate wave of survey mailings. The selection of owners was done without replacement, meaning that each owner selected in a particular replicate was removed from the sampling population prior to the subsequent round of sample selection. The distribution of survey recipients by ownership size is shown in Figure A-1. The size and source of each of the twelve survey replicates is shown in Table A-2.

Table A-2
Methodology and Size of Survey Replicates

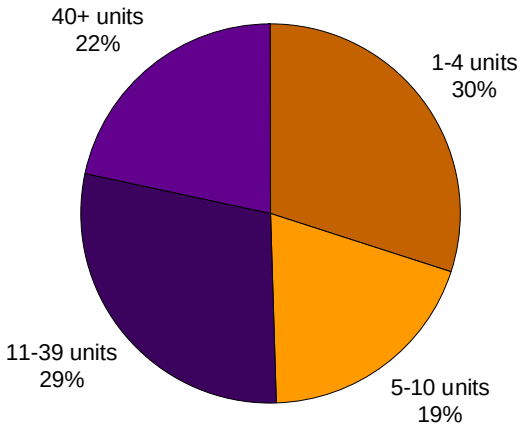
| Replicate Number | Sampling Methodology | Sample Size |
|---|---|---|
| 1 | Landlords of LA City RSO tenants responding to renter survey | 250 |
| 2 | Landlords of LA City RSO tenants responding to renter survey | 440 |
| 3 | Landlords proportionate to probability of owning RSO unit | 750 |
| 4 | Landlords proportionate to probability of owning RSO unit | 749 |
| 5 | Landlords proportionate to probability of owning RSO unit | 751 |
| 6 | Landlords of LA City RSO tenants responding to renter survey | 285 |
| 7 | Landlords proportionate to probability of owning RSO unit | 200 |
| 8 | Landlords proportionate to probability 1-4 RSO units | 775 |
| 9 | Landlords proportionate to probability of owning RSO unit | 800 |
| 10 | Landlords of LA City RSO tenants responding to renter survey | 203 |
| 11 | Landlords proportionate to probability of owning RSO unit | 1,797 |
| 12a | Over-sample of mobile home park owners to include all owners | 7 |
| 12b | Over-sample of residential hotel owners to include all in Central LA | 36 |
| TOTAL | | 7,043 |

## Mailing the Survey Questionnaires

Survey questionnaires were mailed successively to each replicate starting November 30, 2007 and ending March 14, 2008. Questionnaires were re-mailed to non-respondents from January 21 to March 21, 2008, with each re-mail going out approximately one month after the first mailing. The over-

sample of mobile home parks and single residential occupancy hotels received only one mailing. The surveys were mailed in envelopes bearing the logo of the City of Los Angeles Housing Department, with a transmittal letter on Economic Roundtable letterhead describing the purpose of the survey and with signatures of the project team and the Housing Department. Cover letters for the initial and follow-up mailings varied slightly in content. Toward the end of the survey period, re-mailings went out in Housing Department envelopes with cover letters on Housing Department letterhead bearing the signature of the general manager of the Housing Department, which increased the response rate noticeably. All cover letters contained an option to request the survey in Spanish and a phone number to request more information. One percent of the sample requested the survey in Spanish (N=81). After receiving the requests, one copy of the Spanish survey was sent to each individual that requested it.

Figure A-2
Distribution of Survey **Respondents** by Number of Units Owned
*Unweighted Count*




## Survey Responses

The survey was mailed to 7,043 owners of rental properties in the City of Los Angeles that are subject to the Rent Stabilization Ordinance. The distribution of respondents by ownership size is shown in Figure A-2. A breakout of the number and rate of responses is shown in Table A-3.

Table A-3
Survey Responses from Owners

| Survey Response Cohort | Number of Surveys |
|---|---|
| Number of owners survey mailed to | 7,043 |
| Undeliverable with no forwarding address | 384 |
| Ineligible because owner sold or occupies the unit(s) | 124 |
| Ineligible because property is not in RSO inventory | 14 |
| *Subtotal of eligible sample reached by the survey* | *6,521* |
| Total number of returned eligible surveys | 2,148 |
| Duplicate responses from same owner | 24 |
| Total unduplicated eligible responses | 2,123 |
| *Response rate from unduplicated eligible sample* | *33%* |
| Received after 5/7/08 cut-off date | 33 |
| Incomplete surveys - insufficient usable information | 42 |
| Refused to participate-blank or torn-up surveys | 13 |
| **Total number of useable surveys** | **2,036** |

## Survey Weights

Two weights were calculated, the first reflects each respondent's representativeness of the total universe of RSO owners and the second reflects each respondent's share of RSO units.

First, an overall selection probability for each respondent was calculated as the sum of the separate probabilities for selecting that respondent in each replicate. A raw weight was then calculated as the inverse of the overall selection probability:

*Raw Wt = 1/ sum of probabilities of being selected in each replicate*

To calculate owner weights, the raw weights were adjusted for non-response, and scaled to sum to the sample size:

$$Landlord\ weight = K_1 * (Raw\ Wt) / NR$$

where $K_1$ is a scaling factor that makes the weights sum to the total number of unweighted respondents, and the non-response adjustment NR is the probability of that owner responding to the survey, as determined from a logistic regression that uses number and location of units as predictors. This weight reduces the numeric representation of large owners, who are over-represented among respondents, and increases the numeric representation of small owners, who are under-represented in the sample.

The Unit weight is the Landlord weight adjusted to reflect the landlord's respective share of housing in the RSO market. Since the Landlord weight is roughly inversely proportional to number of units, we used the following shortcut:

$$Unit\ weight = K_2 / NR$$

where $K_2$ scales the Unit weights to sum to the sample size, and NR is defined as before.

## *APPENDIX C*

Sources of Data on Apartment Operating Costs

Apartment operating cost data is very limited compared to other types of real estate data such as information on apartment rents and sales prices. The available data provides adequate information to measure longer term trends in operating costs and to provide an overview of the relationships between operating cost increases and rent increases, but not for making comparisons of operating cost levels among different portions of the rental housing stock. However, in order to place this limitation in perspective, it should be noted that the differences between the profitability of rental housing in different segments of the rental housing stock are mainly the outcome of differences in rent levels, rather than differences in operating costs.

Currently available data on overall apartment operating costs consists of income and expense database samples of larger professionally managed buildings, one annual study by a local appraisal firm of expenses for smaller buildings, and data from current real estate listings, compiled by the authors of this report.

In comparison, when prior studies on the impacts of the RSO were performed for the Housing Department (1984, 1988, and 1994), extensive statistical information on the operating costs of apartments within the City could be obtained from the Franchise Tax Board data, which was based on aggregate information from thousands of tax returns. The prior study for the RSO supplied extensive information on apartment operating costs in 1992, from FTB data. This sample contained 4,000 buildings with 29,000 units, and, therefore, reflected the age of rental stock that is covered by the RSO (1994 RSO Study, p. 184). This data source, which made it possible to make comparisons of average operating expenses based on location and number of units in the building, is no longer available. When the past studies on the RSO were performed the Franchise Tax Board received copies of federal tax returns including schedule E which included a breakdown of income and expenses from rental properties. These returns are no longer submitted along with state returns.

The following discussion describes the six different data sources. The first three sources provide detailed operating cost information on a relatively small number of large professionally managed buildings, with higher than average rents. The latter two sources provide less detailed data on smaller buildings.

*1. Institute of Real Estate Management (IREM) - "Income/Expense Analysis Apartments"*: Since the 1950's, the Institute of Real Estate Management (IREM) has published annual reports based on tabulations of income and expense data provided by apartment managers who are members of IREM. These reports are well-known in the real estate industry and cover various types of properties. One edition, covers conventional apartments - "Income/Expense Analysis Conventional Apartments." The reports are based on income and expense data from buildings that are professionally managed and on the average are larger than the average apartment building. Nationwide, the IREM survey of conventional apartment operating expenses in 2006 covered 3,959 buildings with 930,000 units. IREM's 2006 sample for the Los Angeles metropolitan area included 59 garden apartment buildings with 14,368 units, with an average size of 243 units. The IREM survey also includes data on other types of buildings in Los Angeles. However, the sample sizes for these types of buildings are too small to provide reliable

averages. Thirty-three of those properties, with 8,287 units, were constructed in 1979 or later and, therefore, are not part of the rental stock covered by the RSO. However, data from the whole sample is used because the median of total expenses for the newer buildings was only about 3 percent higher than for whole sample. (Samples for prior years, 1992-2005, usually included 40 or more buildings.)

*2. Urban Land Institute (ULI) Studies*: From 1997 to 2006, the Urban Land Institute (based in Washington, D.C.) published annual reports on the operating costs of apartment buildings with ten or more units - "Dollars and Cents of Multifamily Housing". The last ULI report, in 2006, provided data on apartment operating expenses in 2004. Its nationwide sample included 12,816 buildings with 828,664 units. It's sample for the Los Angeles metropolitan area included a sample of 120 buildings with less than 100 units, with an average size of 56 units and 157 buildings with 100 to 299 units (with an average size of 176 units.)

*3. National Apartment Association*: The National Apartment Association publishes annual reports based on tabulations of income and expense data provided by apartment managers. Nationwide, in 2006, the survey covered 3,645 market rate buildings with 850,155 units. The 2006 sample for the Los Angeles metropolitan area included 47 buildings with 11,599 units, with an average of 247 units per building. The rents in these buildings were about 40 percent above the city-wide average.

*4. Apartment Building Appraisers and Analysts, "Apartment Building Operating Expense Guidelines" (Long Beach):* Apartment Building Appraisers and Analysts, an appraisal firm in Long Beach that specializes in appraising apartment buildings, produces an annual report on apartment operating expenses based on the expense information collected in the course of its appraisals. Its 2006 report is based on data from 43 buildings with 463 units in the Los Angeles area. The reports of this firm contain statistics on overall operating expenses and detailed discussions of the factors influencing various types of expenses and normal ranges for those expenses.

*5. Apartments for Sale Listings*: A widely used service - Loopnet - provides the public with free internet access to real estate listings. The listings provide basic information about the building (no. of units, building size, gross income, and net operating income). A substantial portion of the listings also include more detailed income and expense information in a format selected by the listing party. Certain formats are commonly used. For the purposes of preparing this report, all listings of buildings with 5 or more units within the City of Los Angeles as of November 2007 were reviewed. The analysis was based on information from 235 listings of buildings with a total of 4299 units (an average of 18 units a building) that contained "actual" income and expense information (as opposed to listings that contained expense information that was labeled "proforma").

*6. Other Data Sources for Individual Types of Expenses*: Information on some specific types of expenses are public record - e.g. property tax bills. Other public reports contain information about average expense levels for specified types of expenses. For example, the Santa Monica

Rent Board has studied specific types of utility costs. Rate information can be used to estimate trends in utility costs.

*7. Santa Monica Rent Board Utility Cost Studies*: The Santa Monica Rent Board annually prepares apartment operating cost studies that are used in order to determine the allowable annual rent adjustment. In addition, in some years, the Rent Board has also prepared reports apartment owners' utility costs

# *APPENDIX D*

## Economic Roundtable Rent Stabilization Tenant Survey

SHELLO Hello I'm calling from the Social Science Research Center at Cal State University, Fullerton on behalf of the City of Los Angeles to conduct a survey of renters. The results of this survey will affect rental housing policy in the City. This is not a sales call. Have I reached [READ RESPONDENT'S TELEPHONE NUMBER]?

1. YES
2. NO

SPHONE Is this your personal cell phone number?

1. YES
2. NO

SINTRO1 This is not a sales call. It's a scientific survey to help the City of Los Angeles understand the needs of renters and to help set rent policies.

SRENT Do you currently rent your place of residence?

1. YES [SKIPTO SCITY]
2. NO [CONTINUE]

NOTRENT I'm sorry, but this is a survey of renters. Thank you for your time.
PRESS '1' TO END CALL.

IF18 May I verify that you are 18 years of age or older?

1. YES [SKIPTO SZIP]
2. NO [CONTINUE]
7. DON'T KNOW/ NO RESPONSE
9. REFUSED

NOT18 I'm sorry, but our survey procedures require respondents to be 18 years of age or older. Thank you for your time.
PRESS '1' TO END CALL.

SCITY [ASK ONLY IF OUTSKIRTS QUOTA IS FILLED]
Do you live in the City of Los Angeles?

1. YES [SKIPTO SHEAD]
2. NO [CONTINUE]

NOTRENT I'm sorry, but this is a survey of Los Angeles City renters. Thank you for your time.
PRESS '1' TO END CALL.

SHEAD Are you the head of the household, or his or her spouse or domestic partner?

| | | |
|---|---|---|
| 1. | YES | [SKIPTO INTRO] |
| 2. | YES, CALL BACK. | [SKIPTO CALLBAK] |
| 3. | NO | [CONTINUE] |

SHEAD2 May I please speak with the head of the household or her or his spouse or domestic partner.

| | | |
|---|---|---|
| 1. | YES | [SKIPTO INTRO] |
| 2. | YES, CALL BACK. | [SKIPTO CALLBAK] |
| 3. | NO | [CONTINUE] |

SANY18 May I please speak to another adult 18 years or older who lives there?

| | | |
|---|---|---|
| 1. | YES | [SKIPTO INTRO] |
| 2. | YES, CALL BACK. | [SKIPTO CALLBAK] |
| 3. | NO | [SKIPTO THANKYOU] |

CALLBAK Can you please tell me when to call back to reach that person?

THANYOU Thanks for your time. Good bye.

INTRO I wonder if we might ask you some survey questions for this study that I think you might find interesting. This survey takes less than fifteen minutes to complete. Your household was selected through a random digit dialing process. Your identity and your responses will remain completely confidential, and of course, you are free to decline to answer any survey question. Participation is purely voluntary.

The information you provide will be used together with publicly available property records to understand the needs of renters and to help set rent policies. Participants in the survey receive a $10 gift card. [IF CELL: Because you're on a cell phone, we'll send an additional two dollars to compensate you for the call.] We'll ask for your name and address only so we can mail you a gift card. This information and your telephone number will be separated from your survey responses and destroyed.

MONITOR I should also mention that this call may be monitored by my supervisor for quality control purposes only. Is it all right to ask you these questions now?

| | | |
|---|---|---|
| 1. | YES | [SKIP TO Q1] |
| 2. | NO | [CONTINUE] |

APPT Can you suggest a more convenient time to ask you the survey questions?

| | | |
|---|---|---|
| 1. | YES | [SCHEDULE CALLBACK] |
| 2. | NO | [SKIP TO TERMINATE] |

CALLBAK2 When should I call back to ask you the survey questions?

SZIP Zip Code [INSERT ZIP CODE] covers most telephone numbers in your area. Is this your correct ZIP Code?

| | | |
|---|---|---|
| 1. | YES | [SKIP TO Q59] |
| 2. | NO | |
| 7. | DON'T KNOW/ NO RESPONSE | |
| 9. | REFUSED | |

REALZIP For sampling purposes only, may I have your correct zip code?

| | |
|---|---|
| _____. | ZIP CODE |
| 77777. | DON'T KNOW/ NO RESPONSE |
| 99999. | REFUSED |

Q1. What best describes the building where you live?

| | | |
|---|---|---|
| 1. | Apartment building (including condominiums) | [SKIP TO Q1b] |
| 2. | Single-family detached home | [SKIP TO Q1b] |
| 3. | Attached home such as a duplex or triplex | [SKIP TO Q1b] |
| 4. | Mobile home | [SKIP TO Q1b] |
| 5 | Hotel or motel, or | [SKIP TO Q1b] |
| 6. | Some other type of place, including places not normally meant for human habitation? | [SKIP TO Q1a] |
| 7. | DON'T KNOW/ NO RESPONSE | [SKIP TO Q1b] |
| 9. | REFUSED | [SKIP TO Q1b] |

Q1a. What type of place do you live in?

1. BOARDING HOUSE
2. BOAT
3. CAMPER, RECREATIONAL VEHICLE OR TRAILER
4. GARAGE
5. HOMELESS IN PLACE NOT MEANT FOR HABITATION
6. HOUSING PROJECT
7. RESIDENTIAL CARE FACILITY
8. SHELTER, TEMPORARY
9. OTHER, NOT LISTED [SPECIFY_____]
77. DON'T KNOW/ NO RESPONSE
99. REFUSED

Q1b. Do you rent this entire unit, or just some portion of it?

1. ENTIRE UNIT
2. DESCRIBE PORTION RENTED>
7. DON'T KNOW/ NO RESPONSE
9. REFUSED

Q2. When did you move into this [INSERT Q1 RESPONSE]?

1. SPECIFY MONTH>
2. SPECIFY YEAR>
7. DON'T KNOW/ NO RESPONSE
9. REFUSED

Q3. How many rooms in this [INSERT Q1 RESPONSE] are you renting?
[Count bedrooms, kitchen, and living, family or dining rooms]

1. 1 room
2. 2 rooms
3. 3 rooms
4. 4 rooms
5. 5 rooms
6. 6 rooms
7. 7 rooms
8. 8 rooms
9. 9 or more rooms
77. DON'T KNOW/ NO RESPONSE
99. REFUSED

[NOTE: IF RESPONSE TO Q1b=1 READ: "Does the [INSERT Q1 RESPONSE] that you rent" IF RESPONSE TO Q1b=2 READ: "Do the rooms or space in the [INSERT Q1 RESPONSE] that you rent"]

Q4. Does the [INSERT Q1 RESPONSE] that you rent / Do the rooms or space in the [INSERT Q1 RESPONSE] that you rent have COMPLETE plumbing facilities; that is, 1) hot and cold piped water, 2) a flush toilet, and 3) a bathtub or shower?

1. YES, HAS ALL THREE FACILITIES
2. NO
7. DON'T KNOW/ NO RESPONSE
9. REFUSED

Q5 Does the [INSERT Q1 RESPONSE] that you rent / Do the rooms or space in the [INSERT Q1 RESPONSE] that you rent have COMPLETE kitchen facilities; that is, 1) a sink with piped water, 2) a stove or range (not just a hotplate), and 3) a refrigerator?

1. YES, HAS ALL THREE FACILITIES
2. NO
7. DON'T KNOW/ NO RESPONSE
9. REFUSED

Q6. Do you have a written lease or rent agreement with your landlord?

| | | |
|---|---|---|
| 1. | YES | [CONTINUE] |
| 2. | NO | [SKIP TO Q7] |
| 7. | DON'T KNOW/ NO RESPONSE | [SKIP TO Q7] |
| 9. | REFUSED | [SKIP TO Q7] |

Q6a. How long is the term of the agreement?

1. _____ Months
2. _____ Years
7. DON'T KNOW/ NO RESPONSE
9. REFUSED

Q6b. In what language was the rental agreement that you signed?

1. ENGLISH
2. SPANISH
3. OTHER (SPECIFY_____)
7. DON'T KNOW/ NO RESPONSE
9. REFUSED

Q7. How would you describe the condition of the [INSERT Q1 RESPONSE] that you rent / rooms or space in the [INSERT Q1 RESPONSE] that you rent? Would you say…

1. Excellent
2. Good
3. Fairly good (Some minor defects)
4. Fair (Defects that need repair)
5. Fairly poor (Major defects), or
6. Very poor (Dangerous or unhealthy conditions)?
7. DON'T KNOW/ NO RESPONSE
9. REFUSED

Q8. How would you describe the way the owner or manager of your building treats tenants?

1. Very poorly (Abusive or hostile – makes it difficult to live here)
2. Somewhat poorly
3. Somewhat well
4. Very well (Courteous and polite)
7. DON'T KNOW/ NO RESPONSE
9. REFUSED

Q9. How likely are you to recommend your building to a friend or relative as a good place to live? Would you say…

1. Very unlikely
2. Somewhat unlikely
3. Somewhat likely, or
4. Very likely?
7. DON'T KNOW/ NO RESPONSE
9. REFUSED

Q10 How many people <u>younger</u> than 18 years of age are living or staying at the [INSERT Q1 RESPONSE] that you rent / rooms or space in the [INSERT Q1 RESPONSE] that you rent?

1. SPECIFY NUMBER>
7. DON'T KNOW/ NO RESPONSE
9. REFUSED

Q10a. How many people 18 years of age or older are living or staying at the [INSERT Q1 RESPONSE] that you rent / rooms or space in the [INSERT Q1 RESPONSE] that you rent?

1. SPECIFY NUMBER>
7. DON'T KNOW/ NO RESPONSE
9. REFUSED

Q11. Do you speak a language other than English at home?

| | | |
|---|---|---|
| 1. | YES | [CONTINUE] |
| 2. | NO | [SKIP TO Q15] |
| 7. | DON'T KNOW/ NO RESPONSE | [SKIP TO Q15] |
| 9. | REFUSED | [SKIP TO Q15] |

Q12. What is this language?

| | | | |
|---|---|---|---|
| 1. | SPANISH | 7. | CHINESE |
| 2. | KOREAN | 8. | JAPANESE |
| 3. | TAGALOG | 9. | VIETNAMESE |
| 4. | ARMENIAN | 10. | OTHER (SPECIFY _____) |
| 5. | PERSIAN | 77. | DON'T KNOW/ NO RESPONSE |
| 6. | RUSSIAN | 99. | REFUSED |

Q13. How well do you speak English? Would you say…

1. Not at all,
2. Not well,
3. Well, or
4. Very well?
7. DON'T KNOW/ NO RESPONSE
9. REFUSED

Q14. How well do you read English? Would you say…

1. Not at all,
2. Not well,
3. Well, or
4. Very well?
7. DON'T KNOW/ NO RESPONSE
9. REFUSED

Q15. What best describes your household's ability to pay the cost of rent? Would you say…

1. Very difficult
2. Somewhat difficult
3. Somewhat easy, or
4. Very easy?
7. DON'T KNOW/ NO RESPONSE
9. REFUSED

Q16. Is the Federal, State or local government paying any of the rent for this residence?

| | | |
|---|---|---|
| 1. | YES | [CONTINUE] |
| 2. | NO | [SKIP TO Q18] |
| 7. | DON'T KNOW/ NO RESPONSE | [SKIP TO Q18] |
| 9. | REFUSED | [SKIP TO Q18] |

Q17. Is this through Section 8 or through some other government housing program?

| | | |
|---|---|---|
| 1. | SECTION 8 | [SKIP TO Q18] |
| 2. | SOME OTHER GOVERNMENT HOUSING PROGRAM | |
| 7. | DON'T KNOW/ NO RESPONSE | [SKIP TO Q18] |
| 9. | REFUSED | [SKIP TO Q18] |

Q17a. Which government housing program provides the assistance you receive?

1. PUBLIC HOUSING (HOUSING AUTHORITY OF THE CITY OF LOS ANGELES)
2. SENIOR HOUSING (HOUSING AUTHORITY OF THE CITY OF LOS ANGELES)
3. AFFORDABLE RENTAL HOUSING PROVIDED BY PRIVATE ORGANIZATION
4. RENTAL UNIT REGULATED BY CITY OF LOS ANGELES RENT STABILIZATION ORDINANCE
5. HOUSING OPPORTUNITIES FOR PERSONS WITH AIDS (HOPWA)
6. CALWORKS MOVING ASSISTANCE PROGRAM (LOS ANGELES COUNTY DEPARTMENT OF PUBLIC SOCIAL SERVICES)
7. SPECIAL CIRCUMSTANCES GRANT PROGRAM (LOS ANGELES COUNTY DEPARTMENT OF PUBLIC SOCIAL SERVICES)
8. EMERGENCY HOUSING VOUCHER FOR GENERAL RELIEF RECIPIENTS (LOS ANGELES COUNTY DEPARTMENT OF PUBLIC SOCIAL SERVICES)
9. CALWORKS HOMELESS ASSISTANCE (LOS ANGELES COUNTY DEPARTMENT OF PUBLIC SOCIAL SERVICES)
10. EMERGENCY HOMELESS SHELTER (AT NONPROFIT SERVICE ORG. FUNDED BY LOS ANGELES HOMELESS SERVICES AUTHORITY)
11. OTHER NOT LISTED ABOVE [SPECIFY_____]
77. DON'T KNOW/ NO RESPONSE
99. REFUSED

Q18 Is your [INSERT RESPONSE FROM Q1] under rent control?

| | | |
|---|---|---|
| 1. | YES | [CONTINUE] |
| 2. | NO | [SKIP TO Q21] |
| 7. | DON'T KNOW/ NO RESPONSE | [SKIP TO Q21] |
| 9. | REFUSED | [SKIP TO Q21] |

Q19. Did you know that the rent control law limits the amount of rent increases?

1. YES
2. NO
7. DON'T KNOW/ NO RESPONSE
9. REFUSED

Q20. Did you know that the rent control law limits the reasons for evicting (throwing out) tenants?

1. YES
2. NO
7. DON'T KNOW/ NO RESPONSE
9. REFUSED

Q20a. How important is it for the City of Los Angeles to adopt policies and programs designed to provide affordable housing for renters?

1. Not important at all
2. Somewhat unimportant
3. Somewhat important
4. Very important.
7. DON'T KNOW/ NO RESPONSE
9. REFUSED

Q21. What should Los Angeles do to provide enough affordable housing for renters? Please rate each choice as Not important at all, Somewhat unimportant, Somewhat important, or Very Important. [RANDOMIZE ORDER OF PRESENTATION]

a. Require all new apartment buildings to have some affordable units
b. Spend more public money on building affordable apartments
c. Build affordable apartments that are big enough for families
d. Build affordable apartments for senior citizens with low incomes
e. Help more renters to become homeowners
f. Save existing affordable housing
g. Prevent unfair evictions
h. Prevent discrimination against people who are applying for apartments
i. Inform renters about their rights and where to go for help
j. Prevent major rent increases
k. Let the private market solve housing problems.

1. NOT IMPORTANT AT ALL
2. SOMEWHAT UNIMPORTANT
3. SOMEWHAT IMPORTANT
4. VERY IMPORTANT
7. DON'T KNOW/ NO RESPONSE
9. REFUSED

Q21l. What else should Los Angeles do to provide enough affordable housing for renters?

1. SPECIFY.
7. DON'T KNOW/ NO RESPONSE
9. REFUSED

TRANS1 We are almost at the end of the survey. Soon, we'll ask for an address to send a gift card to you. Before we do that, we have several questions about household finances. If you do not want to answer these questions, simply say "Pass," and we will move on. If you do provide the information it will be helpful for the City of Los Angeles in setting rent policies. Remember, all your responses will remain confidential.

Q22. What is the monthly rent for the [INSERT Q1 RESPONSE] that you rent / rooms or space in the [INSERT Q1 RESPONSE] that you rent?

1. SPECIFY DOLLARS> [SKIPTO Q24]
7. DON'T KNOW/ NO RESPONSE
9. REFUSED

[IF NO AMOUNT IS PROVIDED, CONTINUE]

Q23. Is the monthly rent amount:

1. Less than $350
2. $400 to $499
3. $500 to $599
4. $600 to $699
5. $700 to $799
6. $800 to $899
7. $900 to $999
8. $1,000 to $1,199
9. $1,200 to $1,399
10. $1,400 to $1,599
11. $1,600 to $1,999
12. $2,000 or more
77. DON'T KNOW/ NO RESPONSE
99. REFUSED

Q24. How many wage-earners contribute to the rent payment in an average month?

1. SPECIFY NUMBER>
7. DON'T KNOW/ NO RESPONSE
9. REFUSED

Q25. Do you pay for any of your own utilities?

1. YES [CONTINUE]
2. NO [SKIP TO Q27]
7. DON'T KNOW/ NO RESPONSE [SKIP TO Q27]
9. REFUSED [SKIP TO Q27]

Q26. Which utilities?

a. Electricity?
b. Water?
c. Gas?
d. Trash collection?

1. YES
2. NO
7. DON'T KNOW/ NO RESPONSE
9. REFUSED

[ASK Q27 ONLY IF THE ANSWER TO Q2 INDICATES THAT RESPONDENT HAS BEEN LIVING IN THE APARTMENT FOR LONGER THAN 1 YEAR, ELSE SKIP TO TRANS2]

Q27. Has your rent increased since you moved into the [INSERT Q1 RESPONSE] that you rent / rooms or space in the [INSERT Q1 RESPONSE] that you rent?

| | | |
|---|---|---|
| 1. | YES | [CONTINUE] |
| 2. | NO | [SKIP TO TRANS2] |
| 7. | DON'T KNOW/ NO RESPONSE | [SKIP TO TRANS2] |
| 9. | REFUSED | [SKIP TO TRANS2] |

Q28. Has the rent increased every year?

1. YES
2. NO
7. DON'T KNOW/ NO RESPONSE
9. REFUSED

Q29. How much was the rent when you moved in?

1. SPECIFY DOLLARS>
7. DON'T KNOW/ NO RESPONSE
9. REFUSED

TRANS2 Just a few more questions for classification purposes only.

Q30. How many telephone numbers (including cell phones) serve the people in the [INSERT Q1 RESPONSE] that you rent / rooms or space in the [INSERT Q1 RESPONSE] that you rent?

1. SPECIFY N OF PHONES>
7. DON'T KNOW/ NO RESPONSE
9. REFUSED

Q31. How many weeks in the past year were the people [INSERT Q1 RESPONSE] that you rent / rooms or space in the [INSERT Q1 RESPONSE] that you rent without phone service of any kind?

1. SPECIFY N OF WEEKS>
7. DON'T KNOW/ NO RESPONSE
9. REFUSED

Q32. In what year were you born?

1. 19___
7. DON'T KNOW/ NO RESPONSE
9. REFUSED

Q33. Which of the following categories best describes your ethnicity or race?

1. Latino or Hispanic
2. White
3. Black or African American
4. Asian American or Pacific Islander
5. Native American
6. Two or more races
7. Other: [SPECIFY] _____
77. DON'T KNOW/ NO RESPONSE
99. REFUSED

Q34. What is your best estimate of the total annual income from all sources before taxes of everyone who lives in the [INSERT Q1 RESPONSE] that you rent / rooms or space in the [INSERT Q1 RESPONSE] that you rent?

[PAUSE TO ALLOW RESPONDENT TO PROVIDE SPECIFIC AMOUNT]

1. SPECIFY DOLLARS> [SKIPTO Q36]
7. DON'T KNOW/ NO RESPONSE
9. REFUSED

[IF NO AMOUNT IS PROVIDED, CONTINUE]

Q35. Is the total annual household income:

1. Less than $5,000
2. $5,000 to $9,999
3. $10,000 to $14,999
4. $15,000 to $19,999
5. $20,000 to $24,999
6. $25,000 to $34,999
7. $35,000 to $49,999
8. $50,000 to $74,999
9. $75,000 to $99,999
10. $100,000 or more
77. DON'T KNOW/ NO RESPONSE
99. REFUSED

Q36. We've reached the end of the survey. What kind of $10 [$12 IF CELL] gift certificate would you like to receive?

1. A telephone calling card (Good for local and international calls)
2. Ralph's grocery store
3. Vons' grocery store
4. Barnes and Noble bookstore
5. Starbucks coffee, or would you like to
6. Donate gift amount to City of Los Angeles Affordable Housing Trust Fund?
7. DON'T KNOW/ NO RESPONSE
9. REFUSED

TRANS3 I'd like to get your name and address so that we can mail your gift certificate to you. This information is completely confidential and will not be given to anyone.

Q37. First, may I please have your name?

1. SPECIFY>
7. DON'T KNOW/ NO RESPONSE
9. REFUSED

Q38. And your street address?

1. SPECIFY> [SKIPTO Q40]
7. DON'T KNOW/ NO RESPONSE [CONTINUE]
9. REFUSED

Q39. OK. For classification purposes, may I please have your two nearest major cross-streets?

1. SPECIFY STREET1>
2. SPECIFY STREET2>
7. DON'T KNOW/ NO RESPONSE
9. REFUSED

Q40 Would you be willing to participate in a follow-up interview some time in the future?

1. YES
2. NO [SKIP TO CONCLUD]
7. DON'T KNOW/ NO RESPONSE
9. REFUSED

Q41. Your telephone number will be provided to researchers for a follow-up telephone call. Do you prefer to be called at the telephone number I used to reach you today, or should the researchers contact you at a different number?

1. USE SAMPLE NUMBER [TELEPHONE NUMBER]
2. USE ANOTHER NUMBER (SPECIFY>)

TRANS4 Once again, I assure you that your telephone number and responses to this survey will remain completely confidential.

CONCLUD Thank you. That concludes the survey. Your participation is deeply appreciated.

[INTERVIEWER: CODE GENDER, LANGUAGE OF INTERVIEW, AND LEVEL OF COOPERATION]

# *APPENDIX E*

City of Los Angeles Rental Property Owners and Managers Survey

Owner/Manager Name
Address
Assessors Property Number

*ALL RESPONSES ARE CONFIDENTIAL*

**1. Are you the owner or the manager of property with rent-controlled units**?

a ❑ Owner b ❑ Manager c ❑ Both

**2. Do you own or manage one residential rental property or more than one property?**

a ❑ One property b ❑ More than one property

**3. How long have you (the owner) owned residential rental property?**

a ❑ Less than 1 year
b ❑ 1 to 2 years
c ❑ 3 to 4 years
d ❑ 5 to 9 years
e ❑ 10 years or more

**4. How many rent-controlled residential units do you or your company own or manage in the City of Los Angeles that are:**

a Vacant for rent? ..... _____ *Units*
b Vacant for other reason? ..... _____ *Units*
c Occupied?..... _____ *Units*
d TOTAL RENT-CONTROLLED UNITS?..... _____ *Units*

**5. Do you have residential rental units in the City of Los Angeles that are *<u>not</u>* regulated by the Rent Stabilization Ordinance?**

a ❑ Yes b ❑ No

**6. Do you have residential rental properties *<u>outside</u>* of the City of Los Angeles?**

a ❑ Yes b ❑ No

**7. Do you have a written lease or rent agreement with your tenants?**

a ❑ Yes b ❑ No

8. *IF "YES":* **What is the typical length of the agreement for the units that are under rent control?** *Mark ☑ only ONE box:*

a ❑ Month-to-month
b ❑ 2 to 11 months
c ❑ 1 year at a time
d ❑ 1 year, then month-to-month
e ❑ More than 1 year but less than 2 years
f ❑ 2 years
g ❑ More than 2 years

**9.** *The City's rent control program allows owners to seek approval to pass on half of the cost of capital improvements as a rent increase for tenants.* **Have you ever applied for approval to pass through capital improvement costs?**

a ❑ Yes → go to question 10
b ❑ No → go to question 11
c ❑ Don't know → go to question 12

**10.** *IF "YES":* **Describe your experience with the pass-through program.**
*Mark ☑ all that apply:*

a ❑ The program works well
b ❑ 50% of costs is not enough - need to be able to pass through 100%
c ❑ Takes too long to for application to be approved
d ❑ Other _____

**11.** *IF "NO"*: **Why haven't you used the pass-through option to help pay for your capital improvements?** *Mark ☑ all that apply:*

a ❑ Have not made capital improvements
b ❑ Did not know about this process
c ❑ Tenants can not afford the additional rent
d ❑ Did not want to do the paper work
e ❑ 50% of costs is not enough - need to be able to pass through 100%
f ❑ Other _____

**12. How would you describe your experience with the Housing Department's inspection of your rental units (the SCEP program)?** *Mark ☑ only ONE box:*

a ❑ Very helpful for identifying needed maintenance
b ❑ A useful service
c ❑ A potentially useful program that is administered inconsistently
d ❑ An unnecessary expense for property owners
e ❑ Have not had an inspection yet
f ❑ Other _____

**13. How many SCEP inspections have you had?** _____ *Inspections*

b **How many times have you been cited?** _____ *Citations*
c **How many times have your tenants been cited?** _____ *Citations*

**14. How would you describe the annual rental unit fee (this year it is $18.71 per unit for registration and $35.52 for SCEP) that the Housing Department charges?**

a ❑ Low
b ❑ Affordable
c ❑ A significant cost
d ❑ A burden

**15.** *Los Angeles allows owners to pass half of the $18.71 registration fee and the entire $35.52 SCEP program fee to tenants*. **Do you pass these costs on to your tenants?**

a ❑ Yes, pass on both fees to tenants
b ❑ Yes, pass on the $35.52 SCEP program fee but ***not*** half of the $18.71 registration fee to tenants
c ❑ Yes, pass on half of the $18.71 registration fee but ***not*** the $35.52 SCEP program fee to tenants
d ❑ No, do not pass either fee on to tenants

**16. Do you usually increase rents by the annual amount allowed under LA's rent control program?**

a ❑ Yes
b ❑ Depends on the tenant
c ❑ No

**17. Does the allowable yearly rent increase for rent-controlled units enable you to get a reasonable return on the investment in your property?**

a ❑ Yes b ❑ No c ❑ Don't know

**18. Have rent increases kept up with increases in operating costs?**

a ❑ Yes b ❑ No c ❑ Don't know

**19. How would you describe the way the Housing Department balances the interests of landlords and tenants?**

a ❑ An honest broker between tenants and landlords
b ❑ Favors landlords
c ❑ Favors tenants
d ❑ Unpredictable
e ❑ Don't know

**20. Is there anything that you would like to change about Los Angeles' rent control program?**

a ❑ Yes b ❑ No c ❑ Not Sure

**21.** *IF "YES"* **What do you think are the <u>most important</u> things to change in the rent control program?**

*Mark ☑ as many as are important:*

a ❑ Adopt a *Code of Responsibility* that defines what is expected of both landlords and tenants
b ❑ Increase the level of tenant accountability for things that should be their responsibility
c ❑ Penalize tenants for destructive or anti-social behavior
d ❑ Penalize tenants who make repeated unwarranted complaints
e ❑ Allow landlords who do not increase rents by the allowable annual amount in a given year to make this increase in a future year
f ❑ Allow owners to update the leases of rent-controlled tenants to reflect changes in law or changes in management policies for buildings
g ❑ Allow larger annual rent increases
h ❑ Change the property inspection program (SCEP) to a complaint-driven program rather than a routine inspection of all residential rental units
i ❑ Increase the share of costs that tenants pay for capital improvements
j ❑ Limit occupancy of rent-controlled units to tenants who cannot afford market-rate units
k ❑ Make it easier to evict problem tenants
l ❑ Other _____

**22.** *Los Angeles rent control regulations allow owners to redevelop rent-controlled property and build more units if the rent-controlled units are replaced. For example, if zoning regulations permit 20 units on a site that currently has 4 units, the owner can demolish the 4 units and build 20 new units if 4 of the new units are set aside for affordable housing. This leaves 16 new units that are not under rent control.* **If it were profitable, would you be interested in redeveloping your rent-controlled property in this manner?**

a ❑ Yes b ❑ No c ❑ Not Sure

**23.** *IF "YES"*: **What would make it profitable for you to redevelop your rent-controlled property and build more units on the site?**

*Mark ☑ as many as are important*:

a ❑ Low interest loan
b ❑ Reduced building permit fees
c ❑ Expedited building permit processing
d ❑ Reduced parking requirements
e ❑ Waive zoning restrictions
f ❑ Reduce the required number of affordable replacement units
g ❑ Reduce relocation fees
h ❑ Reduce the maximum period for tenant notification to 120 days
i ❑ Increase the number of units allowed on the property
j ❑ Other _____

**24. How important is it for the City of Los Angeles to implement policies and programs that provide affordable housing for renters?**

a ❑ Very important
b ❑ Somewhat important
c ❑ Somewhat unimportant
d ❑ Not important at all
e ❑ Don't know

**25. What should Los Angeles do to provide enough affordable housing for renters?**

*Mark ☑ the importance of each choice:*

| | ***Not Important At All*** | ***Somewhat Unimportant*** | ***Somewhat Important*** | ***Very Important*** |
|---|---|---|---|---|
| a Require all new apartment buildings to have some affordable units | ☐ | ☐ | ☐ | ☐ |
| b Levy a citywide tax so that everyone contributes to meeting the need for affordable housing | ☐ | ☐ | ☐ | ☐ |
| c Spend more public money on building affordable apartments | ☐ | ☐ | ☐ | ☐ |
| d Provide financial assistance for owners of rent-controlled property to redevelop their property and build more rental units | ☐ | ☐ | ☐ | ☐ |

| | | *Not Important At All* | *Somewhat Unimportant* | *Somewhat Important* | *Very Important* |
|---|---|---|---|---|---|
| e | Help more renters to become homeowners | ☐ | ☐ | ☐ | ☐ |
| f | Subsidize the rent of more low-income renters | ☐ | ☐ | ☐ | ☐ |
| g | Build affordable units that are big enough for families | ☐ | ☐ | ☐ | ☐ |
| h | Build affordable units for low-income senior citizens | ☐ | ☐ | ☐ | ☐ |
| i | Make it more feasible for owners of rent-controlled property to finance capital improvements | ☐ | ☐ | ☐ | ☐ |
| j | Reduce the amount of parking required when building new housing | ☐ | ☐ | ☐ | ☐ |
| k | Expedite the approval of building permits for affordable housing | ☐ | ☐ | ☐ | ☐ |
| l | Preserve existing affordable housing | ☐ | ☐ | ☐ | ☐ |
| m | Let the private market solve housing problems | ☐ | ☐ | ☐ | ☐ |
| n | Other _____ | ☐ | ☐ | ☐ | ☐ |

**26. What level of maintenance are you able to provide with the income from rent-controlled property?**

a ❑ All maintenance postponed
b ❑ Major problems postponed, minor problems handled as soon as possible
c ❑ Most maintenance postponed, major problems handled as quickly as possible
d ❑ All maintenance handled immediately and preventive maintenance practiced

*IF YOU ALSO OWN OR MANAGE RESIDENTIAL RENTAL UNITS THAT ARE NOT UNDER RENT CONTROL, ANSWER 27, OTHERWISE SKIP TO 28*

**27. How does this compare to the level of maintenance for your rental units that are not under rent control?**

a ❑ Units not under rent control receive less maintenance
b ❑ Units not under rent control receive more maintenance
c ❑ Units not under rent control receive the same level of maintenance
d ❑ Don't know
e ❑ Other _____

**28. Did your rent-controlled units make a profit last year?**

a ❑ Yes
b ❑ No, broke even
c ❑ No, had a loss
d ❑ Don’t know or not sure

*IF YOU OWN OR MANAGE RESIDENTIAL RENTAL UNITS THAT ARE NOT UNDER RENT CONTROL, ANSWER 29, OTHERWISE SKIP TO 30*

**29. Is this more or less profit than from your rental units that are not under rent control?**

a ❑ More
b ❑ Less
c ❑ The same
d ❑ Don't know

**30. Is there a mortgage, equity line of credit, or similar debt on your rent-controlled property?**

a ❑ Yes b ❑ No c ❑ Don't know

31. *IF "YES":* **What was the *MOST RECENT* year in which this property was mortgaged or refinanced?** _____ *(Year)*

**32. How many of your rent-controlled units turned over in the past 12 months?**

_____ *Units*

*IF YOU ALSO OWN OR MANAGE RESIDENTIAL RENTAL UNITS THAT ARE NOT UNDER RENT CONTROL, ANSWER 33, OTHERWISE SKIP TO 34*

**33. Is this more or less tenant turnover than in your rental units that are not under rent control?**

a ❑ More c ❑ The same
b ❑ Less d ❑ Don't know

**34. Has the turnover rate for rent-controlled units increased or decreased over the past 12 months?**

a ❑ Increased c ❑ Remained the same
b ❑ Decreased d ❑ Don't know

**35. How many of your rent-controlled units have been occupied by the same tenant for:**

a 2 to 4 years? _____ *Units*
b 5 to 9 years? _____ *Units*
c 10 to 14 years? _____ *Units*
d 15 to 19 years? _____ *Units*
e 20 or more years? _____ *Units*

**36. How do you usually find tenants for your vacant rent-controlled units?**

*Mark ☑ as many as are effective for you in finding tenants:*

a ❑ Newspaper or magazine advertising
b ❑ Word of mouth referrals from tenants
c ❑ Signs on property
d ❑ Neighborhood bulletin boards
e ❑ Internet (Craig's List or other)
f ❑ Listing agency
g ❑ Other _____

**37. Do tenants in rent-controlled units pay additional costs for any of the following services?** *Mark ☑ all that have additional costs:*

a ❑ Parking
b ❑ Laundry facilities
c ❑ Storage
d ❑ Use of special facilities
e ❑ Electric utilities
f ❑ Water utilities
g ❑ Gas utilities
h ❑ Trash collection
i ❑ Other _____

**38. How would you describe your experience with holding tenants in rent-controlled units accountable for maintenance and repairs that should be their responsibility?**

a ❑ This has never been an issue
b ❑ This has rarely been a problem
c ❑ This has sometimes been a problem
d ❑ This is often a problem

**39. In the past two years, how many tenants in rent-controlled units are delinquent in their rent payments in a typical month?**

_____ *Tenants*

*IF YOU ALSO OWN OR MANAGE RESIDENTIAL RENTAL UNITS THAT ARE NOT UNDER RENT CONTROL, ANSWER 40, OTHERWISE SKIP TO 41*

**40.** Is this more or less delinquency than for your rental units that are not under rent control?

a ❑ More
b ❑ Less
c ❑ The same
d ❑ Don't know

**41. In the past two years, how many times have tenant eviction procedures for *delinquent rent payments* been started at rent-controlled units?**

_____ *Eviction procedures for rent delinquency*

**42. In the past two years, how many times have tenant eviction procedures for *undesirable or disruptive behavior* been started at rent-controlled units?**

_____ *Eviction procedures for undesirable or disruptive behavior*

**IF 1 OR MORE EVICTIONS STARTED FOR UNDESIRABLE OR DISRUPTIVE BEHAVIOR, ANSWER 43, OTHERWISE SKIP TO 44**

43. How would you describe the legal requirements for evicting tenants from rent-controlled units for undesirable or disruptive behavior?

a ❑ Very easy
b ❑ Easy
c ❑ Neither easy nor difficult
d ❑ Difficult
e ❑ Very difficult
f ❑ Don't know

**44. What were the reasons for acquiring rent-controlled units?** *Mark ☑ all that apply:*

a ❑ As a residence for self or family member(s)
b ❑ To provide affordable housing in the community
c ❑ For income from residential rents
d ❑ For long-term capital gains
e ❑ As a tax shelter for other income
f ❑ As retirement security
g ❑ As future security for family member(s)
h ❑ The property was acquired before rent control was enacted
i ❑ Did not know much about the rent control program
j ❑ Inherited the property
k ❑ Some other reason _____

45. **Which reason from those marked above was the MAIN reason for acquiring the property?** *Mark ☑ only ONE:*

a b c d e f g h i j k

**46. If you were deciding again today, would you (the owner) still acquire your rent-controlled units?**

a ❑ Yes
b ❑ No
c ❑ Don't know or not sure

**47.** The Economic Roundtable will hold focus groups in different areas of Los Angeles to discuss the results of this survey. **Are you interested in being invited to participate in a focus group of property owners and managers?**

a ❑ Yes
b ❑ No

*THANK YOU FOR TAKING THE TIME TO COMPLETE THIS SURVEY!*

Please return to: Economic Roundtable, 315 W. 9th St., Suite 1209, Los Angeles, CA 90015 Fax 213-892-8105

## *ENDNOTES – CHAPTER 1*

[1] Supporting data for Figure 1-1, City of Los Angeles population and housing units 1970-2006, are as follows:

| Year | Total Population | Total Housing Units | Rental Housing Units |
|---|---|---|---|
| 1970 | 2,811,801 | 1,076,179 | 628,843 |
| 1971 | 2,827,474 | 1,087,479 | 636,503 |
| 1972 | 2,843,147 | 1,098,779 | 644,163 |
| 1973 | 2,858,820 | 1,110,079 | 651,824 |
| 1974 | 2,874,493 | 1,121,379 | 659,484 |
| 1975 | 2,890,166 | 1,132,679 | 667,144 |
| 1976 | 2,905,839 | 1,143,979 | 674,804 |
| 1977 | 2,921,512 | 1,155,279 | 682,464 |
| 1978 | 2,937,185 | 1,166,579 | 690,125 |
| 1979 | 2,952,858 | 1,177,879 | 697,785 |
| 1980 | 2,968,528 | 1,189,179 | 705,445 |
| 1981 | 3,007,563 | 1,200,116 | 713,990 |
| 1982 | 3,067,195 | 1,211,053 | 722,535 |
| 1983 | 3,125,274 | 1,221,990 | 731,080 |
| 1984 | 3,170,175 | 1,232,927 | 739,625 |
| 1985 | 3,224,417 | 1,243,865 | 748,170 |
| 1986 | 3,292,588 | 1,254,802 | 756,714 |
| 1987 | 3,349,624 | 1,265,739 | 765,259 |
| 1988 | 3,389,943 | 1,276,676 | 773,804 |
| 1989 | 3,436,939 | 1,287,613 | 782,349 |
| 1990 | 3,485,398 | 1,298,550 | 790,894 |
| 1991 | 3,507,791 | 1,302,573 | 793,308 |
| 1992 | 3,551,677 | 1,306,596 | 795,721 |
| 1993 | 3,554,444 | 1,310,618 | 798,135 |
| 1994 | 3,565,792 | 1,314,641 | 800,548 |
| 1995 | 3,566,464 | 1,318,664 | 802,962 |
| 1996 | 3,568,602 | 1,322,687 | 805,375 |
| 1997 | 3,602,441 | 1,326,710 | 807,789 |
| 1998 | 3,624,682 | 1,330,732 | 810,202 |
| 1999 | 3,656,395 | 1,334,755 | 812,616 |
| 2000 | 3,694,820 | 1,338,778 | 815,029 |
| 2001 | 3,686,723 | 1,345,335 | 813,276 |
| 2002 | 3,678,625 | 1,351,891 | 811,523 |
| 2003 | 3,719,310 | 1,350,146 | 809,771 |
| 2004 | 3,745,742 | 1,348,041 | 808,018 |
| 2005 | 3,731,437 | 1,355,741 | 806,265 |
| 2006 | 3,773,846 | 1,359,686 | 804,020 |

[2] Housing inventory data is from the U.S. Census Bureau. This reference includes all owner-occupied and renter-occupied housing units.

[3] Supporting data for Figure 1-2, rental units as share of housing in the US and three major cities, are as follows:

| Year | United States | New York | Los Angeles | Chicago |
|---|---|---|---|---|
| 1970 | 37% | 71% | 58% | 53% |
| 1980 | 36% | 77% | 59% | 61% |
| 1990 | 36% | 71% | 61% | 59% |
| 2000 | 34% | 70% | 61% | 56% |
| 2006 | 33% | 66% | 61% | 51% |

[4] Supporting data for Figure 1-3, the number of rental units and renters in the City of Los Angeles, are as follows:

| Year | Total Rental Units | Total Renters |
|---|---|---|
| 1970 | 628,843 | 1,364,744 |
| 1980 | 705,445 | 1,565,402 |
| 1990 | 790,894 | 2,002,001 |
| 2000 | 815,029 | 2,137,229 |
| 2006 | 804,020 | 2,106,563 |

[5] This apparent change is within the margin of error for the Census Bureau's 2006 American Community Survey data for the City of Los Angeles. The Public Use Microdata Sample (PUMS) of Records for the City of Los Angeles produced by this survey in 2006 contains 7,012 records for rental dwelling units, 6,774 of which were occupied at the time of the survey. The margin of error shown by the Census Bureau in Table B25003 from Summary File 3 (which draws on the same census data that PUMS records are drawn from) for the tenure of occupied housing units in the City of Los Angeles, that is whether occupants are owners or renters, is 1.4 percent.

[6] Supporting data for Figure 1-4, the ratio of renters to rental units and bedrooms in the City of Los Angeles, are as follows:

| Year | Ratio of Rental Population to Occupied Rental Units | Ratio of Rental Population to Bedrooms in Occupied Rental units |
|---|---|---|
| 1970 | 2.2 | 1.74 |
| 1980 | 2.2 | 1.67 |
| 1990 | 2.5 | 1.97 |
| 2000 | 2.6 | 2.05 |
| 2006 | 2.8 | 1.77 |

[7] Information about the number of rental units as well as the number of bedrooms in those rental units is from the U.S. Census Bureau. The data in Figure 4 is for occupied units; vacant units are excluded. Census data breaks out units by: 0 bedrooms, 1 bedroom, 2 bedrooms, 3 bedrooms, 4 bedrooms, and 5 or more bedrooms. In calculating the total number of bedrooms, we counted 0 bedroom units (i.e., studio apartments) as having 0.5 bedrooms, since these units provide reasonable habitation for at least one occupant. Units with 5 or more units were counted as having just 5 units.

[8] Econometrica, Inc. (2007), Measuring Overcrowding in Housing, prepared for the U.S. Department of Housing and Urban Development Office of Policy Development and Research.

[9] Supporting data for Figure 1-5, income and rent of renter households in the City of Los Angeles, are as follows:

| Year | Median Monthly Gross Rent | Median Monthly Household Income of Renters | Median Rent as % of Median Income |
|---|---|---|---|
| 1970 | $657 | | |
| 1971 | $659 | | |
| 1972 | $662 | | |
| 1973 | $664 | | |
| 1974 | $666 | | |
| 1975 | $669 | | |
| 1976 | $671 | | |
| 1977 | $673 | | |
| 1978 | $676 | | |
| 1979 | $678 | $2,859 | 24% |
| 1980 | $680 | $2,907 | 24% |
| 1981 | $708 | $2,955 | 25% |
| 1982 | $736 | $3,004 | 26% |
| 1983 | $764 | $3,052 | 26% |
| 1984 | $792 | $3,101 | 27% |
| 1985 | $820 | $3,149 | 27% |
| 1986 | $848 | $3,198 | 28% |
| 1987 | $876 | $3,246 | 29% |
| 1988 | $904 | $3,295 | 29% |
| 1989 | $932 | $3,343 | 30% |
| 1990 | $960 | $3,301 | 30% |
| 1991 | $949 | $3,259 | 30% |
| 1992 | $938 | $3,216 | 30% |
| 1993 | $927 | $3,174 | 30% |
| 1994 | $916 | $3,131 | 30% |
| 1995 | $905 | $3,089 | 30% |
| 1996 | $894 | $3,047 | 30% |
| 1997 | $884 | $3,004 | 29% |
| 1998 | $873 | $2,962 | 29% |
| 1999 | $862 | $2,920 | 29% |
| 2000 | $851 | $2,890 | 29% |
| 2001 | $866 | $2,860 | 31% |
| 2002 | $882 | $2,831 | 32% |
| 2003 | $919 | $2,893 | 31% |
| 2004 | $951 | $2,831 | 32% |
| 2005 | $951 | $2,753 | 34% |
| 2006 | $970 | $2,779 | 34% |

[10] U.S. Census Bureau, 2006 American Community Survey, Table B25071, "Median Gross Rent as a Percentage of Household Income in the Past 12 Months (dollars)," Universe: Renter-occupied housing units paying cash rent.

[11] Supporting data for Figure 1-6, annual rent increases for rental housing in the Los Angeles Region Consumer Price Index - All Urban Consumers, Los Angeles CMSA 1970-2007, are as follows:

| Year | Cost Index for Rental Housing | | All Consumer Costs Less Shelter | |
|---|---|---|---|---|
| | Annual Price Index | % Annual Change | Annual Price Index | % Annual Change |
| 1969 | 38.4 | | | |
| 1970 | 40.6 | 6% | | |
| 1971 | 42.2 | 4% | | |
| 1972 | 43 | 2% | | |
| 1973 | 44.2 | 3% | | |
| 1974 | 46.4 | 5% | | |
| 1975 | 48.9 | 5% | | |
| 1976 | 52.3 | 7% | 59.3 | |
| 1977 | 57 | 9% | 63.1 | 6% |
| 1978 | 62.2 | 9% | 67.2 | 6% |
| 1979 | 68.3 | 10% | 74.3 | 11% |
| 1980 | 76.6 | 12% | 83.5 | 12% |
| 1981 | 85.3 | 11% | 90.9 | 9% |
| 1982 | 93.5 | 10% | 96.6 | 6% |
| 1983 | 99.6 | 7% | 99.8 | 3% |
| 1984 | 106.9 | 7% | 103.6 | 4% |
| 1985 | 115.6 | 8% | 107.5 | 4% |
| 1986 | 123.8 | 7% | 109.4 | 2% |
| 1987 | 130.5 | 5% | 113.3 | 4% |
| 1988 | 136.8 | 5% | 118.1 | 4% |
| 1989 | 143.2 | 5% | 124.1 | 5% |
| 1990 | 149.6 | 4% | 131.1 | 6% |
| 1991 | 153.9 | 3% | 136.7 | 4% |
| 1992 | 155.8 | 1% | 142.4 | 4% |
| 1993 | 156.1 | 0% | 147.1 | 3% |
| 1994 | 156.4 | 0% | 149.8 | 2% |
| 1995 | 155.7 | 0% | 152.9 | 2% |
| 1996 | 157.3 | 1% | 155.9 | 2% |
| 1997 | 159.6 | 1% | 158.2 | 1% |
| 1998 | 164 | 3% | 159.3 | 1% |
| 1999 | 169.9 | 4% | 162 | 2% |
| 2000 | 176.8 | 4% | 167 | 3% |
| 2001 | 186.4 | 5% | 171.5 | 3% |
| 2002 | 197 | 6% | 173.8 | 1% |
| 2003 | 207.4 | 5% | 176.9 | 2% |
| 2004 | 220.7 | 6% | 181 | 2% |
| 2005 | 234.9 | 6% | 187.4 | 4% |
| 2006 | 248.5 | 6% | 193.7 | 3% |
| 2007 | 263.758 | 6% | 196.625 | 2% |

[12] This cost data from the U.S. Bureau of Labor Statistics is for the Los Angeles CMSA, the 5-county Los Angeles-Riverside-Orange County area.

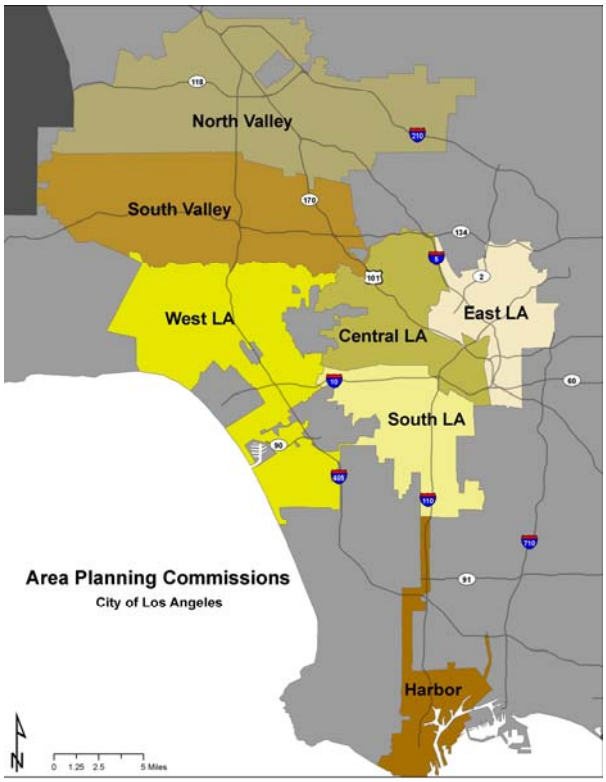
[13] Supporting data for Figure 1-7, annual building permits for new housing, are as follows:

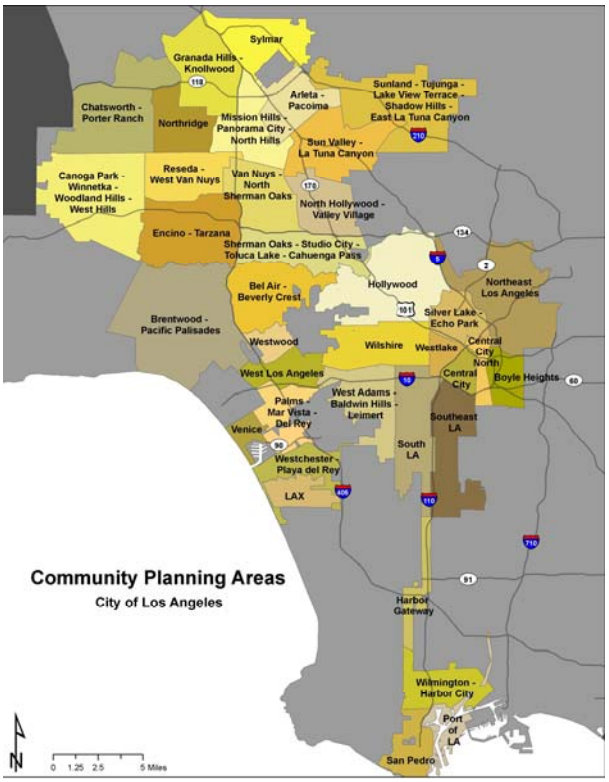
| Year | New Single Family Units | New Multifamily Units | 26 Year Trend for New Housing Permits |
|---|---|---|---|
| 1981 | 916 | 7,253 | 17,774 |
| 1982 | 732 | 4,514 | 17,548 |
| 1983 | 1,124 | 8,608 | 17,322 |
| 1984 | 2,020 | 12,395 | 17,096 |
| 1985 | 2,004 | 20,499 | 16,870 |
| 1986 | 2,350 | 20,357 | 16,644 |
| 1987 | 2,324 | 16,931 | 16,417 |
| 1988 | 2,088 | 18,121 | 16,191 |
| 1989 | 2,550 | 12,804 | 15,965 |
| 1990 | 1,869 | 9,957 | 15,739 |
| 1991 | 1,166 | 4,649 | 15,513 |
| 1992 | 911 | 1,716 | 15,287 |
| 1993 | 436 | 1,627 | 15,061 |
| 1994 | 880 | 1,549 | 14,835 |
| 1995 | 983 | 1,654 | 14,609 |
| 1996 | 873 | 1,305 | 14,383 |
| 1997 | 1,201 | 2,039 | 14,157 |
| 1998 | 1,334 | 1,474 | 13,931 |
| 1999 | 1,384 | 3,067 | 13,705 |
| 2000 | 1,679 | 4,950 | 13,479 |
| 2001 | 1,723 | 5,528 | 13,252 |
| 2002 | 1,433 | 7,170 | 13,026 |
| 2003 | 1,498 | 6,433 | 12,800 |
| 2004 | 1,878 | 10,362 | 12,574 |
| 2005 | 2,001 | 9,549 | 12,348 |
| 2006 | 2,427 | 13,487 | 12,122 |
| 2007 | 1,774 | 8,994 | 11,896 |

[14] Building permit data is from the Construction Industry Research Board. Multi-family units are predominantly rental housing; single-family units are predominantly owner occupied. Single-family housing includes detached, semi-detached, row house and townhouse units. Row houses and townhouses are included when an unbroken ground-to-roof party or firewall separates each unit from the adjacent unit. Condominiums are included in the single-family category when they are of zero-lot-line or zero-property-line construction; when units are separated by an air space; or, when an unbroken ground-to-roof party or firewall separates units. Multi-family housing includes duplexes, 3-4-unit structures and apartment-type structures with five units or more. Multi-family housing also includes condominium units in structures of more than one living unit that do not meet the above single-family housing definition.

[15] LA City Dept of Water and Power, Information Systems. February 2008. Residential Meter Activity Report for Multi-Unit Dwellings. “Vacant” refers to idle or inactive LADWP electrical meters, regardless of cause, but does not include DWP’s “Owner-Occupied” category.

[16] The seven Area Planning Commission (APC) regions and thirty-five Community Plan Areas (CPA) are the geographic frames of reference used throughout this report. These geographic areas have been demarcated by the Planning Department of the City of Los Angeles. The two maps that follow show the boundaries of APCs and CPAs.




[17] Supporting data for Figure 1-9, owner- and renter-occupied housing units by APC, are as follows:

| APC | Owner-occupied Housing Units | | | Renter-occupied Housing Units | | |
|---|---|---|---|---|---|---|
| | 1990 | 2000 | 2006 | 1990 | 2000 | 2006 |
| Harbor | 25,792 | 25,276 | 27,436 | 36,201 | 35,381 | 31,889 |
| South LA | 64,408 | 66,166 | 68,658 | 129,578 | 125,509 | 132,878 |
| Central LA | 47,502 | 52,953 | 54,723 | 207,921 | 231,527 | 221,012 |
| East LA | 36,693 | 38,555 | 38,534 | 66,471 | 72,400 | 75,421 |
| West LA | 48,969 | 49,406 | 51,782 | 84,507 | 90,176 | 84,401 |
| South Valley | 142,061 | 138,521 | 144,153 | 141,776 | 155,463 | 145,974 |
| North Valley | 111,673 | 121,991 | 124,684 | 66,987 | 74,322 | 72,622 |

[18] Pursuant to Los Angeles Municipal Code (LAMC) Section 91.109, every building or structure is required to have a Certificate of Occupancy issued by the Department of Building and Safety before it can be occupied. The Certificate of Occupancy is issued after completion of construction and inspection, but before occupants are legally allowed to move into the structure. Thus, Certificates of Occupancy records are the most accurate record of occupied residential buildings for the City of Los Angeles, although electronic versions of these certificates cover only the last few years. Source: City of Los Angeles, Department of Building and Safety Information Bulletin / Public - Building Code; Reference No.: LAMC 91.109 Effective: 12-4-06; Document No. P/BC 2002-109

[19] Supporting data for Figure 1-11, renter occupied housing units that were built before 1980 as a percent of all renter-occupied housing units in the City of Los Angeles in 2006, are ACS estimates only and are as follows:

| APC | Renter Occupied Housing Units Built Before 1980 | All Renter-Occupied Housing Units | Percent Built Before 1980 |
|---|---|---|---|
| North Valley | 36,235 | 72,622 | 50% |
| East LA | 43,532 | 75,421 | 58% |
| South LA | 81,284 | 132,878 | 61% |
| Harbor Area | 20,770 | 31,889 | 65% |
| West LA | 55,514 | 84,401 | 66% |
| South Valley | 98,008 | 145,974 | 67% |
| Central LA | 167,452 | 221,012 | 76% |
| City of Los Angeles | 502,795 | 764,197 | 66% |

[20] Supporting data for Figure 1-12, LA's current inventory of RSO units and properties by year built, are as follows:

| Year | Properties | Units | Year | Properties | Units | Year | Properties | Units |
|---|---|---|---|---|---|---|---|---|
| 1900 | 208 | 697 | 1936 | 709 | 2,374 | 1972 | 1,632 | 11,302 |
| 1901 | 242 | 867 | 1937 | 980 | 3,496 | 1973 | 2,036 | 7,837 |
| 1902 | 471 | 1,451 | 1938 | 1,043 | 3,857 | 1974 | 1,652 | 5,124 |
| 1903 | 830 | 2,685 | 1939 | 1,151 | 5,803 | 1975 | 1,161 | 4,016 |
| 1904 | 583 | 1,926 | 1940 | 1,352 | 5,762 | 1976 | 1,164 | 5,859 |
| 1905 | 1,803 | 5,651 | 1941 | 1,152 | 5,552 | 1977 | 1,246 | 7,275 |
| 1906 | 1,109 | 3,721 | 1942 | 522 | 1,546 | 1978 | 1,530 | 6,736 |
| 1907 | 1,323 | 3,986 | 1943 | 345 | 3,539 | 1979 | 286 | 104 |
| 1908 | 1,347 | 4,159 | 1944 | 665 | 1,913 | 1980 | 203 | 4 |
| 1909 | 1,137 | 3,551 | 1945 | 345 | 1,121 | 1981 | 129 | 0 |
| 1910 | 1,879 | 6,331 | 1946 | 824 | 3,783 | 1982 | 134 | 6 |
| 1911 | 1,270 | 4,471 | 1947 | 1,580 | 6,672 | 1983 | 238 | 8 |
| 1912 | 1,918 | 8,460 | 1948 | 2,406 | 10,513 | 1984 | 350 | 2 |
| 1913 | 1,434 | 5,965 | 1949 | 1,437 | 6,914 | 1985 | 544 | 2 |
| 1914 | 1,141 | 4,822 | 1950 | 1,681 | 9,364 | 1986 | 708 | 59 |
| 1915 | 812 | 2,987 | 1951 | 1,079 | 5,835 | 1987 | 873 | 3 |
| 1916 | 739 | 2,848 | 1952 | 1,176 | 6,210 | 1988 | 810 | 9 |
| 1917 | 506 | 2,060 | 1953 | 1,714 | 10,632 | 1989 | 759 | 11 |
| 1918 | 502 | 1,994 | 1954 | 1,500 | 9,722 | 1990 | 700 | 23 |
| 1919 | 594 | 1,799 | 1955 | 1,410 | 9,631 | 1991 | 373 | 8 |
| 1920 | 2,048 | 6,380 | 1956 | 1,460 | 11,779 | 1992 | 206 | 3 |
| 1921 | 3,423 | 10,305 | 1957 | 1,529 | 13,602 | 1993 | 131 | 37 |
| 1922 | 5,394 | 18,125 | 1958 | 1,463 | 13,661 | 1994 | 78 | 0 |
| 1923 | 6,105 | 25,138 | 1959 | 1,230 | 10,844 | 1995 | 105 | 2 |
| 1924 | 5,031 | 21,967 | 1960 | 1,136 | 10,803 | 1996 | 98 | 169 |
| 1925 | 2,833 | 13,309 | 1961 | 1,649 | 15,263 | 1997 | 93 | 59 |
| 1926 | 2,273 | 10,690 | 1962 | 1,605 | 17,560 | 1998 | 110 | 2 |
| 1927 | 1,776 | 10,664 | 1963 | 2,273 | 24,850 | 1999 | 108 | 27 |
| 1928 | 2,142 | 13,293 | 1964 | 3,363 | 30,226 | 2000 | 133 | 0 |
| 1929 | 1,683 | 10,439 | 1965 | 1,994 | 16,259 | 2001 | 148 | 10 |
| 1930 | 1,434 | 7,340 | 1966 | 1,107 | 7,748 | 2002 | 161 | 0 |
| 1931 | 840 | 3,396 | 1967 | 604 | 5,105 | 2003 | 173 | 10 |
| 1932 | 440 | 1,520 | 1968 | 753 | 6,387 | 2004 | 197 | 34 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 1933 | 323 | 1,068 | 1969 | 782 | 11,127 | 2005 | 184 | 99 |
| 1934 | 214 | 629 | 1970 | 1,249 | 13,300 | 2006 | 57 | 43 |
| 1935 | 355 | 1,183 | 1971 | 2,329 | 14,378 | | | |

[21] Change of ownership data in this report is derived from the "Base Year" recorded by the LA County Assessor. The Base year refers to the valuation date of the property, mostly due to the last change of ownership on the open real estate market. However, the Base Year can also be set when a partial interest transfer takes place, such as an existing owner selling a significant portion of the ownership rights to another party. The Base Year can also be set on a year when the property undergoes major construction, such as building a new structure on a previously vacant lot, even though the ownership has not changed. This is the best information that the LA County Assessor's Office can provide regarding change of ownership, as per discussion with Bulmaro Borrero, Supervisor in the Property Data Sales division, and Jennifer E. Budzak, in the Field Assessor's division.

[22] Supporting data for Figure 1-14, RSO units by APC and by share bought after rent stabilization was enacted, are as follows:

| APC | Bought 1978 or Before | Bought After 1978 | Percent Bought After 1978 |
|---|---|---|---|
| Harbor | 7,245 | 19,185 | 73% |
| North Valley | 6,922 | 31,367 | 82% |
| East LA | 17,148 | 51,369 | 75% |
| West LA | 23,867 | 47,801 | 67% |
| South Valley | 17,983 | 73,642 | 80% |
| South LA | 22,278 | 105,112 | 83% |
| Central LA | 36,483 | 154,814 | 81% |
| LA City Total | 131,926 | 483,290 | 79% |

[23] Supporting data for Figure 1-15, RSO-Regulated Housing Units by Year Purchased (Base Year) and CPA, are as follows. (See footnote above for a discussion of the LA County Assessor's Base Year.)

| Community Plan Area Name | CPA # | RSO-Regulated Rental Properties Purchased <1978 | | RSO-Regulated Rental Properties Purchased ≥1978 | | All RSO Properties |
|---|---|---|---|---|---|---|
| | | Count | Percent | Count | Percent | Count |
| Northeast LA | 1 | 8,661 | 26% | 24,760 | 74% | 33,421 |
| Boyle Heights | 2 | 3,847 | 25% | 11,725 | 75% | 15,572 |
| Southeast LA | 3 | 5,038 | 14% | 32,012 | 86% | 37,050 |
| W. Adams – BH | 4 | 7,879 | 19% | 32,548 | 81% | 40,427 |
| South LA | 5 | 9,361 | 19% | 40,552 | 81% | 49,913 |
| Wilshire | 6 | 16,795 | 20% | 67,691 | 80% | 84,486 |
| Hollywood | 7 | 13,979 | 21% | 52,334 | 79% | 66,313 |
| Silver Lake - EP | 8 | 4,658 | 24% | 14,900 | 76% | 19,558 |
| Westlake | 9 | 3,401 | 12% | 24,520 | 88% | 27,921 |
| Central City | 10 | 1,380 | 13% | 9,175 | 87% | 10,555 |
| Central City North | 11 | 910 | 46% | 1,078 | 54% | 1,988 |
| Sherman Oaks | 12 | 3,144 | 26% | 9,165 | 74% | 12,309 |
| North Hollywood | 13 | 5,028 | 20% | 20,134 | 80% | 25,162 |
| Arleta-Pacoima | 14 | 614 | 27% | 1,683 | 73% | 2,297 |
| Van Nuys | 15 | 4,559 | 17% | 22,321 | 83% | 26,880 |
| Mission Hills | 16 | 1,119 | 9% | 11,099 | 91% | 12,218 |
| Sun Valley | 17 | 811 | 18% | 3,721 | 82% | 4,532 |
| Sylmar | 18 | 538 | 20% | 2,124 | 80% | 2,662 |
| Granada Hills | 19 | 739 | 27% | 1,961 | 73% | 2,700 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Canoga Park | 20 | 2,056 | 17% | 9,803 | 83% | 11,859 |
| Chatsworth - PR | 21 | 1,664 | 27% | 4,396 | 73% | 6,060 |
| Northridge | 22 | 1,008 | 21% | 3,686 | 79% | 4,694 |
| Reseda | 23 | 1,442 | 16% | 7,366 | 84% | 8,808 |
| Encino - Tarzana | 24 | 1,754 | 27% | 4,853 | 73% | 6,607 |
| Sunland - Tujunga | 25 | 429 | 14% | 2,697 | 86% | 3,126 |
| Westwood | 26 | 2,435 | 32% | 5,135 | 68% | 7,570 |
| West LA | 27 | 6,112 | 37% | 10,222 | 63% | 16,334 |
| Palms - Mar Vista | 28 | 7,694 | 33% | 15,675 | 67% | 23,369 |
| Venice | 29 | 2,497 | 23% | 8,379 | 77% | 10,876 |
| Westchester - PDR | 30 | 1,707 | 27% | 4,537 | 73% | 6,244 |
| Brentwood | 31 | 3,273 | 47% | 3,670 | 53% | 6,943 |
| Bel Air | 32 | 149 | 45% | 183 | 55% | 332 |
| Wilmington | 33 | 2,318 | 25% | 6,842 | 75% | 9,160 |
| San Pedro | 34 | 4,100 | 33% | 8,514 | 67% | 12,614 |
| Harbor Gateway | 35 | 827 | 18% | 3,829 | 82% | 4,656 |

[24] Supporting data for Figure 1-18, apartment property construction conversions and demolitions, are as follows:

| Year | Demolished | Alteration into Condominiums | Alteration into other Use | Other Uses Converted into Apartment Buildings | Newly Permitted Construction of Apartment Buildings | Net |
|---|---|---|---|---|---|---|
| 1997 | -70 | -6 | -20 | 17 | 66 | -13 |
| 1998 | -51 | -24 | -32 | 22 | 70 | -15 |
| 1999 | -79 | -18 | -29 | 29 | 91 | -6 |
| 2000 | -90 | -15 | -29 | 39 | 153 | 58 |
| 2001 | -65 | -16 | -23 | 30 | 133 | 59 |
| 2002 | -79 | -46 | -17 | 63 | 241 | 162 |
| 2003 | -166 | -21 | -15 | 75 | 191 | 64 |
| 2004 | -113 | -51 | -15 | 77 | 306 | 204 |
| 2005 | -128 | -114 | -6 | 70 | 291 | 113 |
| 2006 | -238 | -129 | -11 | 58 | 312 | -8 |
| 2007 | -193 | -206 | -12 | 58 | 258 | -95 |

[25] City of Los Angeles, Department of Building and Safety, Building Permit Data from the Plan Check and Inspection System (PCIS), 1997-2007.

[26] Supporting data for Figure 1-19, number of occupied rental units by bedrooms and amount of rent (adjusted to 2007 dollars) in the City of LA, are as follows:

| | City of LA Rents in 1990 (Adjusted to 2007 Dollars) | | | | |
|---|---|---|---|---|---|
| Bedrooms/Unit | Less than $300 | $300 to $499 | $500 to $749 | $750 to $999 | $1000 or More |
| 0 Bedroom | 7,119 | 16,906 | 53,621 | 49,319 | 22,640 |
| 1 Bedroom | 11,251 | 18,966 | 55,057 | 106,170 | 108,603 |
| 2 Bedrooms | 2,993 | 7,572 | 19,037 | 37,865 | 144,423 |
| 3+ Bedrooms | 659 | 2,416 | 4,396 | 5,531 | 47,758 |
| Total | 22,022 | 45,860 | 132,111 | 198,885 | 323,424 |

| | City of LA Rents in 2000 (Adjusted to 2007 Dollars) | | | | |
|---|---|---|---|---|---|
| Bedrooms/Unit | Less than $300 | $300 to $499 | $500 to $749 | $750 to $999 | $1000 or More |
| 0 Bedroom | 13,581 | 37,228 | 87,802 | 39,350 | 19,150 |
| 1 Bedroom | 13,511 | 19,319 | 98,938 | 101,530 | 66,501 |
| 2 Bedrooms | 5,048 | 7,568 | 31,120 | 62,514 | 97,695 |
| 3+ Bedrooms | 1,674 | 3,187 | 6,577 | 10,263 | 43,444 |
| Total | 33,814 | 67,302 | 224,437 | 213,657 | 226,790 |

| | City of LA Rents in 2006 (Adjusted to 2007 Dollars) | | | | |
|---|---|---|---|---|---|
| Bedrooms/Unit | Less than $300 | $300 to $499 | $500 to $749 | $750 to $999 | $1000 or More |
| 0 Bedroom | 5,018 | 9,674 | 31,157 | 20,116 | 10,869 |
| 1 Bedroom | 14,966 | 15,170 | 80,182 | 113,928 | 102,464 |
| 2 Bedrooms | 3,840 | 7,229 | 22,290 | 57,598 | 169,742 |
| 3+ Bedrooms | 1,089 | 2,668 | 6,252 | 11,069 | 60,960 |
| Total | 24,913 | 34,741 | 139,881 | 202,711 | 344,035 |

[27] Supporting data for Figure 1-20, Occupied Rental Units by APC, Bedrooms, and Rent in 2006, are as follows:

| City of L.A. | Less than $300 | $300 to $499 | $500 to $749 | $750 to $999 | $1000 or More |
|---|---|---|---|---|---|
| 0 Bedroom | 1% | 1% | 4% | 3% | 1% |
| 1 Bedroom | 2% | 2% | 11% | 15% | 14% |
| 2 Bedrooms | 1% | 1% | 3% | 8% | 23% |
| 3+ Bedrooms | 0% | 0% | 1% | 1% | 8% |
| Total | 3% | 5% | 19% | 27% | 46% |

| Harbor | Less than $300 | $300 to $499 | $500 to $749 | $750 to $999 | $1000 or More |
|---|---|---|---|---|---|
| 0 Bedroom | 0% | 1% | 3% | 1% | 0% |
| 1 Bedroom | 1% | 1% | 12% | 22% | 3% |
| 2 Bedrooms | 1% | 2% | 4% | 12% | 23% |
| 3+ Bedrooms | 0% | 0% | 1% | 2% | 11% |
| Total | 2% | 3% | 21% | 37% | 37% |

| South LA | Less than $300 | $300 to $499 | $500 to $749 | $750 to $999 | $1000 or More |
|---|---|---|---|---|---|
| 0 Bedroom | 0% | 1% | 2% | 1% | 0% |
| 1 Bedroom | 3% | 4% | 14% | 13% | 4% |
| 2 Bedrooms | 2% | 3% | 6% | 12% | 18% |
| 3+ Bedrooms | 0% | 1% | 2% | 3% | 10% |
| Total | 5% | 8% | 25% | 28% | 34% |

| Central LA | Less than $300 | $300 to $499 | $500 to $749 | $750 to $999 | $1000 or More |
|---|---|---|---|---|---|
| 0 Bedroom | 1% | 3% | 9% | 4% | 2% |
| 1 Bedroom | 2% | 2% | 12% | 16% | 17% |
| 2 Bedrooms | 0% | 0% | 2% | 5% | 19% |
| 3+ Bedrooms | 0% | 0% | 0% | 1% | 4% |
| Total | 4% | 5% | 23% | 26% | 42% |

| East LA | Less than $300 | $300 to $499 | $500 to $749 | $750 to $999 | $1000 or More |
|---|---|---|---|---|---|
| 0 Bedroom | 2% | 2% | 3% | 1% | 2% |
| 1 Bedroom | 5% | 4% | 15% | 11% | 6% |
| 2 Bedrooms | 0% | 2% | 5% | 11% | 17% |
| 3+ Bedrooms | 0% | 1% | 2% | 2% | 9% |
| Total | 8% | 8% | 25% | 26% | 34% |

| West LA | Less than $300 | $300 to $499 | $500 to $749 | $750 to $999 | $1000 or More |
|---|---|---|---|---|---|
| 0 Bedroom | 0% | 0% | 2% | 5% | 4% |
| 1 Bedroom | 1% | 1% | 3% | 14% | 27% |
| 2 Bedrooms | 0% | 0% | 1% | 3% | 34% |
| 3+ Bedrooms | 0% | 0% | 0% | 0% | 6% |
| Total | 1% | 2% | 5% | 22% | 70% |

| South Valley | Less than $300 | $300 to $499 | $500 to $749 | $750 to $999 | $1000 or More |
|---|---|---|---|---|---|
| 0 Bedroom | 0% | 0% | 3% | 3% | 1% |
| 1 Bedroom | 0% | 1% | 9% | 18% | 17% |
| 2 Bedrooms | 0% | 0% | 1% | 6% | 29% |
| 3+ Bedrooms | 0% | 0% | 0% | 1% | 9% |
| Total | 1% | 1% | 13% | 28% | 56% |

| North Valley | Less than $300 | $300 to $499 | $500 to $749 | $750 to $999 | $1000 or More |
|---|---|---|---|---|---|
| 0 Bedroom | 0% | 0% | 1% | 2% | 1% |
| 1 Bedroom | 2% | 1% | 8% | 17% | 10% |
| 2 Bedrooms | 0% | 1% | 4% | 10% | 24% |
| 3+ Bedrooms | 0% | 1% | 1% | 2% | 16% |
| Total | 2% | 3% | 14% | 31% | 50% |

[28] Supporting data for Figure 1-21, rental properties by number of units on property, are as follows:

| Name | 1 unit | 2-4 units | 5-9 units | 10-19 units | 20+ units |
|---|---|---|---|---|---|
| Central LA | 17,393 | 8,699 | 5,294 | 2,725 | 2,597 |
| West LA | 12,174 | 4,118 | 3,667 | 1,573 | 836 |
| Harbor | 9,917 | 2,786 | 987 | 350 | 162 |
| South Valley | 23,671 | 3,156 | 2,996 | 1,749 | 1,765 |
| South LA | 44,753 | 11,380 | 3,464 | 1,124 | 454 |
| East LA | 30,133 | 5,585 | 1,652 | 594 | 289 |
| North Valley | 22,071 | 1,223 | 674 | 512 | 867 |
| City of LA | 160,112 | 36,945 | 18,733 | 8,626 | 6,970 |

[29] Supporting data for Figure 1-22, rental units broken out by number of units on the property, are as follows:

| Name | 1 unit | 2-4 units | 5-9 units | 10-19 units | 20+ units | % 20+ unit |
|---|---|---|---|---|---|---|
| South LA | 44,753 | 32,438 | 20,783 | 16,301 | 16,925 | 13% |
| East LA | 30,133 | 15,211 | 9,912 | 8,606 | 11,063 | 15% |
| Harbor | 9,917 | 8,406 | 5,920 | 5,070 | 6,472 | 18% |
| West LA | 12,174 | 11,881 | 22,001 | 22,803 | 33,441 | 33% |
| South Valley | 23,671 | 9,388 | 17,973 | 25,366 | 69,650 | 48% |
| Central LA | 17,393 | 24,306 | 31,766 | 39,508 | 105,457 | 48% |
| North Valley | 22,071 | 3,441 | 4,045 | 7,427 | 36,186 | 49% |
| City of LA | 160,112 | 105,071 | 112,400 | 125,081 | 279,194 | 36% |

[30] Supporting data for Figure 1-23, number of units by property size and RSO status in 2000, are as follows:

| South Valley | 2-4 Units | 5-9 Units | 10-19 Units | 20+ Units |
|---|---|---|---|---|
| Non-RSO | 1,085 | 3,181 | 4,631 | 17,240 |
| RSO | 7,083 | 11,547 | 14,194 | 42,500 |
| Non-RSO | 4% | 12% | 18% | 66% |
| RSO | 9% | 15% | 19% | 56% |

| North Valley | 2-4 Units | 5-9 Units | 10-19 Units | 20+ Units |
|---|---|---|---|---|
| Non-RSO | 958 | 1,176 | 2,837 | 12,376 |
| RSO | 2,792 | 3,284 | 4,792 | 23,062 |
| Non-RSO | 6% | 7% | 16% | 71% |
| RSO | 8% | 10% | 14% | 68% |

| Harbor | 2-4 Units | 5-9 Units | 10-19 Units | 20+ Units |
|---|---|---|---|---|
| Non-RSO | 1,514 | 1,601 | 1,390 | 2,485 |
| RSO | 7,557 | 4,084 | 3,244 | 3,613 |
| Non-RSO | 22% | 23% | 20% | 36% |
| RSO | 41% | 22% | 18% | 20% |

| South LA | 2-4 Units | 5-9 Units | 10-19 Units | 20+ Units |
|---|---|---|---|---|
| Non-RSO | 3,775 | 2,123 | 2,335 | 4,446 |
| RSO | 26,548 | 17,022 | 13,872 | 11,239 |
| Non-RSO | 30% | 17% | 18% | 35% |
| RSO | 39% | 25% | 20% | 16% |

| East LA | 2-4 Units | 5-9 Units | 10-19 Units | 20+ Units |
|---|---|---|---|---|
| Non-RSO | 2,342 | 2,002 | 3,257 | 12,409 |
| RSO | 17,062 | 12,364 | 12,368 | 29,674 |
| Non-RSO | 12% | 10% | 16% | 62% |
| RSO | 24% | 17% | 17% | 42% |

| Central LA | 2-4 Units | 5-9 Units | 10-19 Units | 20+ Units |
|---|---|---|---|---|
| Non-RSO | 1,477 | 3,414 | 5,118 | 18,929 |
| RSO | 20,600 | 26,946 | 27,681 | 58,457 |
| Non-RSO | 5% | 12% | 18% | 65% |
| RSO | 15% | 20% | 21% | 44% |

| West LA | 2-4 Units | 5-9 Units | 10-19 Units | 20+ Units |
|---|---|---|---|---|
| Non-RSO | 1,160 | 5,015 | 6,291 | 14,991 |
| RSO | 12,696 | 19,916 | 20,770 | 27,408 |
| Non-RSO | 4% | 18% | 23% | 55% |
| RSO | 16% | 25% | 26% | 34% |

[31] Housing Department data is for all RSO units. RSO properties with no rental units are excluded. Census data is from the Public Use Microdata Sample from the 2006 American Community Survey. The Census Bureau's sampling frame is the master address file, a list of addresses for the entire country kept up to date by matching this list to the current address files (the delivery sequence file) supplied by the US Postal Service. This master address file apparently leaves out a significant number of units that are part of the Housing Department's RSO inventory. The count of RSO units from Census data includes units that meet all of the following criteria:

- In structure first built 1979 or earlier
- Occupied and rented (cash or no-cash rent), or rented but not occupied, or vacant for rent
- One-family attached house or apartment building (mobile homes, RVs, vans, and boats are excluded)

[32] Supporting data for Figure 1-24, City of LA mobile homes by tenure, are as follows:

| | North Valley | Harbor | South Valley | South LA | West LA | East LA | Central LA |
|---|---|---|---|---|---|---|---|
| Owner-occupied | 4,101 | 775 | 592 | 287 | 341 | 136 | 95 |
| Renter-Occupied | 629 | 152 | 190 | 174 | 71 | 180 | 137 |

[33] Given that some of the 7,800 mobile homes shown in Census data are on single-unit parcels, this count of mobile homes is close to the City of Los Angeles Housing Department's count of 6,622 occupied mobile homes in mobile home parks.

[34] The City of Los Angeles is divided into 7 Area Planning Commission (APC) regions:

| | | | |
|---|---|---|---|
| North Valley | East LA | Central LA | Harbor |
| South Valley | South LA | West LA | |

The 36 Community Plan Areas aggregate to fit within these 7 APCs.

[35] Supporting data for Figure 1-25, occupied housing units by tenure and planning area, are as follows:

| Harbor | 1970 | 1980 | 1990 | 2000 | 2006 |
|---|---|---|---|---|---|
| Owner-occupied | 22,007 | 25,074 | 25,139 | 26,276 | 27,631 |
| Renter-occupied | 24,330 | 28,171 | 34,656 | 35,950 | 31,465 |
| % Renter Occupied | 53% | 53% | 58% | 58% | 53% |

| South LA | 1970 | 1980 | 1990 | 2000 | 2006 |
|---|---|---|---|---|---|
| Owner-occupied | 69,983 | 67,101 | 65,714 | 65,981 | 69,258 |
| Renter-occupied | 127,887 | 126,340 | 131,486 | 131,410 | 136,980 |
| % Renter Occupied | 65% | 65% | 67% | 67% | 66% |

| Central LA | 1970 | 1980 | 1990 | 2000 | 2006 |
|---|---|---|---|---|---|
| Owner-occupied | 49,406 | 40,652 | 40,604 | 41,521 | 44,843 |
| Renter-occupied | 174,505 | 199,617 | 202,540 | 218,613 | 211,988 |
| % Renter Occupied | 78% | 83% | 83% | 84% | 83% |

| East LA | 1970 | 1980 | 1990 | 2000 | 2006 |
|---|---|---|---|---|---|
| Owner-occupied | 43,068 | 44,034 | 44,097 | 45,279 | 45,782 |
| Renter-occupied | 65,406 | 67,237 | 72,195 | 75,141 | 80,096 |
| % Renter Occupied | 60% | 60% | 62% | 62% | 64% |

| West LA | 1970 | 1980 | 1990 | 2000 | 2006 |
|---|---|---|---|---|---|
| Owner-occupied | 61,191 | 66,531 | 72,860 | 75,603 | 78,142 |
| Renter-occupied | 77,202 | 88,647 | 95,437 | 102,382 | 95,571 |
| % Renter Occupied | 56% | 57% | 57% | 58% | 55% |

| South Valley | 1970 | 1980 | 1990 | 2000 | 2006 |
|---|---|---|---|---|---|
| Owner-occupied | 102,274 | 112,770 | 120,644 | 122,692 | 125,051 |
| Renter-occupied | 86,357 | 116,303 | 134,004 | 146,568 | 137,797 |
| % Renter Occupied | 46% | 51% | 53% | 54% | 52% |

| North Valley | 1970 | 1980 | 1990 | 2000 | 2006 |
|---|---|---|---|---|---|
| Owner-occupied | 85,239 | 101,178 | 109,693 | 115,421 | 120,221 |
| Renter-occupied | 37,507 | 51,757 | 66,974 | 73,598 | 72,261 |
| % Renter Occupied | 31% | 34% | 38% | 39% | 38% |

| City of Los Angeles | 1970 | 1980 | 1990 | 2000 | 2006 |
|---|---|---|---|---|---|
| Owner-occupied | 433,168 | 457,340 | 478,751 | 492,773 | 510,928 |
| Renter-occupied | 593,194 | 678,072 | 737,292 | 783,662 | 766,159 |
| Total | 1,026,362 | 1,135,412 | 1,216,043 | 1,276,435 | 1,277,087 |

Supporting data for Figure 1-26, population in occupied housing units by tenure and planning area, 1970-2006, are as follows:

| Harbor | 1970 | 1980 | 1990 | 2000 | 2006 |
|---|---|---|---|---|---|
| Owner-occupied | 73,225 | 74,538 | 73,633 | 76,849 | 87,139 |
| Renter-occupied | 68,396 | 77,517 | 105,890 | 113,138 | 102,427 |
| % Renters | 48% | 51% | 59% | 60% | 54% |

| South LA | 1970 | 1980 | 1990 | 2000 | 2006 |
|---|---|---|---|---|---|
| Owner-occupied | 218,562 | 205,000 | 228,007 | 245,133 | 259,887 |
| Renter-occupied | 336,309 | 341,697 | 430,022 | 433,182 | 457,387 |
| % Renters | 61% | 63% | 65% | 64% | 64% |

| Central LA | 1970 | 1980 | 1990 | 2000 | 2006 |
|---|---|---|---|---|---|
| Owner-occupied | 116,669 | 106,922 | 107,281 | 104,897 | 114,874 |
| Renter-occupied | 314,069 | 405,543 | 504,725 | 525,562 | 497,377 |
| % Renters | 73% | 79% | 82% | 83% | 81% |

| East LA | 1970 | 1980 | 1990 | 2000 | 2006 |
|---|---|---|---|---|---|
| Owner-occupied | 130,820 | 136,769 | 149,589 | 149,235 | 145,600 |
| Renter-occupied | 183,983 | 204,690 | 250,259 | 248,162 | 265,866 |
| % Renters | 58% | 60% | 63% | 62% | 65% |

| West LA | 1970 | 1980 | 1990 | 2000 | 2006 |
|---|---|---|---|---|---|
| Owner-occupied | 185,856 | 172,884 | 178,381 | 179,496 | 178,928 |
| Renter-occupied | 158,596 | 164,564 | 185,047 | 199,468 | 188,682 |
| % Renters | 46% | 49% | 51% | 53% | 51% |

| South Valley | 1970 | 1980 | 1990 | 2000 | 2006 |
|---|---|---|---|---|---|
| Owner-occupied | 337,816 | 308,732 | 319,570 | 333,721 | 359,695 |
| Renter-occupied | 192,799 | 235,209 | 314,506 | 368,935 | 353,787 |
| % Renters | 36% | 43% | 50% | 53% | 50% |

| North Valley | 1970 | 1980 | 1990 | 2000 | 2006 |
|---|---|---|---|---|---|
| Owner-occupied | 311,592 | 322,583 | 351,837 | 388,509 | 426,886 |
| Renter-occupied | 110,592 | 136,182 | 211,552 | 248,782 | 244,395 |
| % Renters | 26% | 30% | 38% | 39% | 36% |

| City of Los Angeles | 1970 | 1980 | 1990 | 2000 | 2006 |
|---|---|---|---|---|---|
| Owner-occupied | 1,374,540 | 1,327,428 | 1,408,298 | 1,477,840 | 1,573,009 |
| Renter-occupied | 1,364,744 | 1,565,402 | 2,002,001 | 2,137,229 | 2,109,921 |
| Total | 2,739,284 | 2,892,830 | 3,410,299 | 3,615,069 | 3,682,930 |

[36] Data for 1970 through 2000 is census tract-level data, standardized for consistent tract boundaries by GeoLytics. This data aggregates to the precise boundaries of City of Los Angeles Area Planning Commission (APC) regions. Data for 2006 is from the Census Bureau's American Community Survey Public Use Microdata Sample (PUMS), which uses Public Use Microdata Areas (PUMA) as the smallest geographic unit shown in records. There are 24 PUMAs in the City of Los Angeles, and their boundaries provide a close, but not precise, match with the boundaries APCs. For data series where exact quantities are shown, such a number of housing units or renters, it is necessary to adjust data obtained from PUMS records to be consistent with data obtained for census tracts. This was done by

comparing 1990 and 2000 PUMS data with 1990 and 2000 census tract data and calculating an adjustment factor for each type of data. The average adjustment factors for data related to tenancy are:

| | | | |
|---|---|---|---|
| Harbor | 1.00 | East LA | 1.08 |
| South LA | 1.01 | South Valley | 0.92 |
| Central LA | 0.95 | North Valley | 0.98 |
| Westside | 1.28 | | |

[37] To get data at the more detailed Community Planning Area level rather than the more aggregated Area Planning Commission level it is necessary to use census tract data from the 2000 census rather than the more recent (PUMA-level) data from the 2006 American Community Survey. Supporting data for Figure 1-27 are as follows:

| # | CPA Name | 15-24 Yrs | 25-34 Yrs | 35-44 Yrs | 45-64 Yrs | 65+ Yrs | % 65+ |
|---|---|---|---|---|---|---|---|
| 1 | Northeast LA | 2,946 | 11,912 | 10,123 | 10,648 | 4,855 | 12% |
| 2 | Boyle Heights | 1,103 | 4,772 | 3,926 | 4,617 | 2,077 | 13% |
| 3 | Southeast LA | 3,571 | 12,801 | 11,192 | 9,777 | 3,796 | 9% |
| 4 | Baldwin Hills | 2,656 | 9,216 | 9,759 | 11,997 | 5,842 | 15% |
| 5 | South LA | 5,622 | 12,825 | 12,289 | 13,430 | 6,637 | 13% |
| 6 | Wilshire | 7,181 | 30,648 | 23,728 | 23,479 | 10,843 | 11% |
| 7 | Hollywood | 6,170 | 25,194 | 17,715 | 17,753 | 9,575 | 13% |
| 8 | Silver Lake | 1,155 | 5,766 | 4,828 | 4,778 | 1,635 | 9% |
| 9 | Westlake | 3,251 | 9,170 | 7,998 | 7,353 | 3,762 | 12% |
| 10 | Central City | 734 | 1,770 | 1,467 | 3,221 | 3,219 | 31% |
| 11 | Central City No | 223 | 639 | 899 | 1,202 | 1,419 | 32% |
| 12 | Sherman Oaks | 1,600 | 7,862 | 5,681 | 5,283 | 1,765 | 8% |
| 13 | N Hollywood | 2,966 | 11,232 | 9,742 | 8,177 | 3,121 | 9% |
| 14 | Pacoima | 567 | 2,305 | 2,400 | 2,455 | 806 | 9% |
| 15 | Van Nuys | 3,319 | 12,057 | 10,433 | 9,453 | 3,630 | 9% |
| 16 | Mission Hills | 1,792 | 6,225 | 5,310 | 3,985 | 1,555 | 8% |
| 17 | Sun Valley | 867 | 2,655 | 2,956 | 2,323 | 604 | 6% |
| 18 | Sylmar | 377 | 1,578 | 1,721 | 1,176 | 439 | 8% |
| 19 | Granada Hills | 354 | 1,469 | 1,562 | 1,678 | 577 | 10% |
| 20 | Canoga Park | 1,933 | 7,412 | 6,470 | 5,285 | 2,247 | 10% |
| 21 | Chatsworth | 730 | 2,931 | 2,837 | 2,696 | 722 | 7% |
| 22 | Northridge | 1,757 | 2,963 | 2,157 | 1,895 | 630 | 7% |
| 23 | Reseda | 1,196 | 4,232 | 4,136 | 3,721 | 1,576 | 11% |
| 24 | Encino | 560 | 3,045 | 2,961 | 3,185 | 2,011 | 17% |
| 25 | Sunland | 496 | 1,875 | 1,717 | 1,946 | 787 | 12% |
| 26 | Westwood | 3,928 | 3,637 | 1,871 | 1,621 | 1,082 | 9% |
| 27 | West LA | 2,401 | 8,044 | 4,700 | 4,445 | 2,354 | 11% |
| 28 | Palms | 3,793 | 12,193 | 8,230 | 7,443 | 2,497 | 7% |
| 29 | Venice | 963 | 5,225 | 3,358 | 2,824 | 911 | 7% |
| 30 | Westchester | 1,052 | 3,786 | 2,609 | 2,579 | 808 | 7% |
| 31 | Brentwood | 660 | 3,427 | 1,884 | 2,016 | 1,069 | 12% |
| 32 | Bel Air | 26 | 217 | 324 | 288 | 117 | 12% |
| 33 | Wilmington | 1,246 | 4,406 | 3,325 | 2,579 | 834 | 7% |
| 34 | San Pedro | 853 | 4,602 | 4,396 | 5,021 | 1,783 | 11% |
| 35 | Harbor Gateway | 580 | 2,361 | 1,946 | 1,644 | 374 | 5% |
| City of Los Angeles | | 68,628 | 240,452 | 196,650 | 191,973 | 85,959 | 11% |

[38] 2006 American Community Survey, Public Use Microdata Sample.

[39] Supporting data for Figure 1-28, the City of LA's population broken out by ethnicity and tenure, are as follows:

| Asian | 1990 | 2000 | 2006 |
|---|---|---|---|
| Owner-occupied Population | 146,252 | 158,143 | 166,204 |
| Renter-occupied Population | 162,079 | 200,493 | 203,561 |

| Black / African American | 1990 | 2000 | 2006 |
|---|---|---|---|
| Owner-occupied Population | 161,062 | 133,041 | 110,713 |
| Renter-occupied Population | 265,582 | 250,648 | 230,149 |

| Hispanic / Latino | 1990 | 2000 | 2006 |
|---|---|---|---|
| Owner-occupied Population | 378,156 | 523,411 | 625,967 |
| Renter-occupied Population | 1,040,432 | 1,166,145 | 1,202,028 |

| White | 1990 | 2000 | 2006 |
|---|---|---|---|
| Owner-occupied Population | 705,928 | 614,995 | 631,722 |
| Renter-occupied Population | 517,511 | 451,645 | 425,615 |

[40] Supporting data for Figure 1-29, the City of LA's renter population by ethnicity and APC, are as follows:

| North Valley | 1990 | 2000 | 2006 |
|---|---|---|---|
| White | 32% | 20% | 19% |
| Black/African American | 6% | 5% | 5% |
| Asian | 5% | 7% | 9% |
| Hispanic/Latino | 57% | 65% | 66% |
| Other | 1% | 3% | 1% |

| South Valley | 1990 | 2000 | 2006 |
|---|---|---|---|
| White | 52% | 38% | 37% |
| Black/African American | 5% | 6% | 5% |
| Asian | 5% | 7% | 7% |
| Hispanic/Latino | 37% | 45% | 49% |
| Other | 1% | 5% | 2% |

| West LA | 1990 | 2000 | 2006 |
|---|---|---|---|
| White | 58% | 46% | 48% |
| Black/African American | 7% | 9% | 8% |
| Asian | 10% | 14% | 16% |
| Hispanic/Latino | 25% | 26% | 23% |
| Other | 1% | 5% | 5% |

| Central LA | 1990 | 2000 | 2006 |
|---|---|---|---|
| White | 24% | 23% | 23% |
| Black/African American | 6% | 6% | 7% |
| Asian | 15% | 16% | 16% |
| Hispanic/Latino | 54% | 52% | 53% |
| Other | 1% | 4% | 2% |

| East LA | 1990 | 2000 | 2006 |
|---|---|---|---|
| White | 8% | 6% | 7% |
| Black/African American | 3% | 3% | 2% |
| Asian | 11% | 13% | 12% |
| Hispanic/Latino | 78% | 76% | 78% |
| Other | 0% | 2% | 1% |

| South LA | 1990 | 2000 | 2006 |
|---|---|---|---|
| White | 2% | 2% | 2% |
| Black/African American | 42% | 35% | 31% |
| Asian | 2% | 2% | 2% |
| Hispanic/Latino | 54% | 59% | 63% |
| Other | 1% | 2% | 2% |

| Harbor | 1990 | 2000 | 2006 |
|---|---|---|---|
| White | 26% | 18% | 16% |
| Black/African American | 8% | 8% | 7% |
| Asian | 5% | 5% | 4% |
| Hispanic/Latino | 59% | 67% | 70% |
| Other | 1% | 4% | 3% |

| City of Los Angeles | 1990 | 2000 | 2006 |
|---|---|---|---|
| White | 26% | 21% | 20% |
| Black/African American | 13% | 12% | 11% |
| Asian | 8% | 9% | 10% |
| Hispanic/Latino | 52% | 55% | 57% |
| Other | 1% | 3% | 2% |

[41] Supporting data for Figure 1-30, educational attainment of renter householders by APC, are as follows:

| North Valley | 1990 | 2000 | 2006 |
|---|---|---|---|
| Less than HS | 38% | 40% | 35% |
| HS Graduate | 20% | 19% | 25% |
| Some College | 20% | 22% | 17% |
| AA Degree | 7% | 5% | 7% |
| BA Degree or Higher | 15% | 14% | 15% |

| South Valley | 1990 | 2000 | 2006 |
|---|---|---|---|
| Less than HS | 22% | 24% | 19% |
| HS Graduate | 19% | 17% | 22% |
| Some College | 25% | 23% | 23% |
| AA Degree | 7% | 6% | 6% |
| BA Degree or Higher | 27% | 29% | 31% |

| West LA | 1990 | 2000 | 2006 |
|---|---|---|---|
| Less than HS | 12% | 11% | 7% |
| HS Graduate | 12% | 11% | 11% |
| Some College | 24% | 24% | 20% |
| AA Degree | 7% | 6% | 8% |
| BA Degree or Higher | 46% | 49% | 53% |

| Central LA | 1990 | 2000 | 2006 |
|---|---|---|---|
| Less than HS | 35% | 33% | 25% |
| HS Graduate | 18% | 16% | 17% |
| Some College | 17% | 18% | 17% |
| AA Degree | 7% | 5% | 5% |
| BA Degree or Higher | 23% | 28% | 36% |

| East LA | 1990 | 2000 | 2006 |
|---|---|---|---|
| Less than HS | 58% | 52% | 37% |
| HS Graduate | 15% | 17% | 28% |
| Some College | 13% | 15% | 15% |
| AA Degree | 4% | 4% | 4% |
| BA Degree or Higher | 10% | 12% | 16% |

| South LA | 1990 | 2000 | 2006 |
|---|---|---|---|
| Less than HS | 51% | 51% | 42% |
| HS Graduate | 21% | 20% | 25% |
| Some College | 16% | 18% | 18% |
| AA Degree | 5% | 4% | 5% |
| BA Degree or Higher | 7% | 7% | 10% |

| Harbor | 1990 | 2000 | 2006 |
|---|---|---|---|
| Less than HS | 39% | 40% | 29% |
| HS Graduate | 21% | 21% | 34% |
| Some College | 22% | 22% | 18% |
| AA Degree | 6% | 5% | 6% |
| BA Degree or Higher | 12% | 12% | 13% |

| City of LA | 1990 | 2000 | 2006 |
|---|---|---|---|
| Less than HS | 35% | 34% | 27% |
| HS Graduate | 18% | 17% | 21% |
| Some College | 19% | 20% | 19% |
| AA Degree | 6% | 5% | 6% |
| BA Degree or Higher | 21% | 24% | 27% |

[42] Supporting data for Figure 1-32, tenure for the City of Los Angeles' foreign-born householders by years living in U.S., are as follows:

| Immigrant Households: Years Living in the U.S. | Living in Owner-Occupied Housing | Living in Renter-Occupied Housing |
|---|---|---|
| 5 Years or Less | 6% | 94% |
| 6-10 Years | 16% | 84% |
| 11-15 Years | 21% | 79% |
| 16-20 Years | 27% | 73% |
| 21-25 Years | 39% | 61% |
| 26-30 Years | 44% | 56% |
| 31-35 Years | 47% | 53% |
| More than 35 Years | 62% | 38% |
| U.S.-Born Residents | 46% | 54% |

[43] Supporting data for Figure 1-33, nativity of Los Angeles' renter householder by APC, are as follows:

| North Valley | 1990 | 2000 | 2006 |
|---|---|---|---|
| U.S.-born | 59% | 45% | 38% |
| Foreign-born | 41% | 55% | 62% |

| South Valley | 1990 | 2000 | 2006 |
|---|---|---|---|
| U.S.-born | 69% | 56% | 52% |
| Foreign-born | 31% | 44% | 48% |

| West LA | 1990 | 2000 | 2006 |
|---|---|---|---|
| U.S.-born | 73% | 68% | 68% |
| Foreign-born | 27% | 32% | 32% |

| Central LA | 1990 | 2000 | 2006 |
|---|---|---|---|
| U.S.-born | 44% | 39% | 41% |
| Foreign-born | 56% | 61% | 59% |

| East LA | 1990 | 2000 | 2006 |
|---|---|---|---|
| U.S.-born | 36% | 35% | 39% |
| Foreign-born | 64% | 65% | 61% |

| South LA | 1990 | 2000 | 2006 |
|---|---|---|---|
| U.S.-born | 63% | 54% | 51% |
| Foreign-born | 37% | 46% | 49% |

| Harbor | 1990 | 2000 | 2006 |
|---|---|---|---|
| U.S.-born | 60% | 51% | 52% |
| Foreign-born | 40% | 49% | 48% |

| City of Los Angeles | 1990 | 2000 | 2006 |
|---|---|---|---|
| U.S.-born | 57% | 49% | 48% |
| Foreign-born | 43% | 51% | 52% |

[44] "Householder" is a Census Bureau term that describes the person who is head of a household, such as the person who signed the rental or lease agreement.

[45] Supporting data for Figure 1-35, Los Angeles' senior renter householders by poverty status, are as follows:

| Household Income Relative to Poverty | Senior Renter Households | | | Other Renter Households (Not Senior) | | |
|---|---|---|---|---|---|---|
| | 1990 | 2000 | 2006 | 1990 | 2000 | 2006 |
| 0 to 100% | 15% | 22% | 25% | 21% | 27% | 23% |
| 101% to 150% | 31% | 29% | 34% | 13% | 14% | 15% |
| 151% to 200% | 13% | 13% | 10% | 11% | 10% | 12% |
| 201% to 300% | 14% | 14% | 13% | 16% | 16% | 16% |
| 301% to 400% | 9% | 8% | 5% | 13% | 10% | 11% |
| 401% to 499% | 6% | 4% | 4% | 9% | 7% | 7% |
| 500% and Over | 12% | 10% | 9% | 17% | 16% | 16% |

Seniors renter households are those where the head of household (the "householder") is age 65 or more. The Census Bureau determined household income relative to poverty at the time they collected the data.

[46] "Rent burden" is a ratio equal to tenants' rent (including utility payments) divided by their adjusted annual household income. Households are considered "rent burdened" if their rent to income ratio ranges between 30 percent and 49 percent. "Severely rent burdened" households have a rent to income ratio equal to or greater than 50 percent. These definitions closely parallel cost burden definitions set by the U.S. Department of Housing and Urban Development (HUD), which defines "cost burden" as housing costs between 31 and 50 percent of reported income and "severe cost burden" as housing costs exceeding 50 percent of reported income. Our definitions of rent burden and severely rent burdened are slightly different than HUD because of breakpoints used in Census data. Supporting data for Figure 1-36, percent of income spent on rent by senior renter householders, are as follows:

| Percent of Income Spent on Rent: | 1990 | | 2000 | | 2006 | |
|---|---|---|---|---|---|---|
| | Senior | Not Senior | Senior | Not Senior | Senior | Not Senior |
| Less than 30% (No Rent Burden) | 37% | 51% | 40% | 54% | 32% | 44% |
| 30% to 49% (Rent Burden) | 29% | 25% | 26% | 24% | 25% | 27% |
| 50% or More (Severe Rent Burden) | 34% | 24% | 34% | 23% | 43% | 29% |

[47] 2000 U.S. Census data indicates that approximately 237,000 renter householders had a disability, which is 30 percent of all renter householders. The 50 percent decrease in the number of renter householders with a disability between 2000 and 2006 is difficult to explain, but there was a sizeable disparity in the number of householders with a physical, mental, or emotional condition that limits their ability to go outside the home alone to shop or visit a doctor's office. Census data shows 114,000 residents with this difficulty in 2000, but only 38,000 in 2006. We chose to only report disability figures from the 2006 American Community Survey.

[48] Supporting data for Figure 1-37, poverty status of Los Angeles' households in 2006, by the householders' disability status, are as follows:

| Household Poverty Status | Householder has a Disability | Householder without a Disability |
|---|---|---|
| 0 to 100% | 35% | 21% |
| 101% to 150% | 27% | 15% |
| 151% to 200% | 10% | 12% |
| 201% to 300% | 12% | 17% |
| 301% to 400% | 6% | 11% |
| 401% to 499% | 4% | 7% |
| 500% and Over | 7% | 17% |

[49] Supporting data for Figure 1-38, percent of income spent on rent by Los Angeles households in 2006, by the householders' disability status, are as follows:

| Percent of Income Spent on Rent: | Householder has a Disability | Householder without a Disability |
|---|---|---|
| Less than 30% (No Rent Burden) | 28% | 45% |
| 30% to 49% (Rent Burden) | 27% | 27% |
| 50% or More (Severe Rent Burden) | 45% | 28% |

[50] The reader is reminded that Area Planning Commission (APC) data from the Census Bureau's 2006 American Community Survey is obtained by rolling up the 13,816 survey records for the City of Los Angeles, that include 24 different Public Use Microdata Areas (PUMA), to the level of the 7 APCs. These rolled up PUMA boundaries match the APC boundaries closely but not precisely. The most noticeable mismatch is in the West Los Angeles APC. As a consequence, percentage rates, particularly for the West Los Angeles APC, may be slightly impacted by this mismatch between PUMA and APC boundaries. Supporting data for Figure 1-39, vacancy rates in all rental housing units by APC, 1970-2006, are as follows:

| Area Planning Commission: | 1970 | 1980 | 1990 | 2000 | 2006 |
|---|---|---|---|---|---|
| North Valley | 5.30% | 4.25% | 6.39% | 2.81% | 3.91% |
| South Valley | 5.26% | 4.09% | 7.59% | 3.16% | 4.06% |
| West LA | 4.71% | 3.53% | 7.69% | 2.90% | 4.40% |
| Central LA | 6.25% | 4.26% | 7.32% | 3.89% | 3.95% |
| East LA | 4.21% | 2.56% | 4.83% | 4.23% | 4.14% |
| South LA | 6.65% | 3.87% | 5.87% | 5.74% | 4.17% |
| Harbor | 5.09% | 3.84% | 6.00% | 3.31% | 4.77% |
| City of Los Angeles | 5.67% | 3.88% | 6.78% | 3.85% | 4.14% |

[51] The Los Angeles Housing Department publishes monthly, on-line reports about rental housing vacancies, based upon data from the Department of Water and Power (DWP). These reports are based on all housing units in the City of Los Angeles with individual electrical meters, listing the numbers that are idle/inactive, owner-occupied, and tenant occupied. Based upon this data, the monthly vacancy rate can be calculated for the city as well as geographic units all the way down to census tracts. Roughly one-tenth of the City's buildings with residential rental units have master electrical meters and no meters for individual units. These master-metered buildings thus fall outside of the data studied in this report. In DWP's September 2007 Report on Residential Meter Activity RP91.A, master-

metered buildings accounted for 7,685 buildings, or 68,333 units. This amounts to nine percent of DWP's customer accounts in all multi-unit dwellings. Sources: http://lahd.ladwp.com/ and http://lahd.lacity.org/

[52] Individually Metered Apartment Vacancy Survey data and Residential Meter Activity data are produced on a monthly basis by the City of Los Angeles Department of Water and Power and distributed by the Los Angeles Housing Department. This data divides residential properties into three types: single family, multi-family, and master metered. For single and multi family properties the following data fields are provided:

- Total number of housing units with electrical meters
- Total number of housing units with electrical meters that are idle or inactive
- Total number of housing units with active electrical meter accounts but where the usage has dropped to a level that suggests vacancy

The last two categories of units with no electrical use or greatly reduced use are estimated to be vacant.

[53] Census Bureau data in Figure 1-40 is from Summary File 3 Tables: decennial 2000 Census - Tables H7, H8; American Community Surveys 2002 and 2003 - Tables H003, H004; American Community Surveys 2004 to 2006 - Tables B25003, B25004. The rental vacancy rates for the City of Los Angeles shown by Census Bureau data are:

| | | |
|---|---|---|
| 2000 | 3.8% | Decennial Census |
| 2002 | 3.8% | American Community Survey |
| 2003 | 3.8% | American Community Survey |
| 2004 | 2.5% | American Community Survey |
| 2005 | 3.2% | American Community Survey |
| 2006 | 4.1% | American Community Survey |

Rental vacancy rate data in Figrue 1-40 from the Los Angeles Department of Water and Power are as follows:

| Month | Rate | Month | Rate | Month | Rate | Month | Rate | Month | Rate |
|---|---|---|---|---|---|---|---|---|---|
| Jan 98 | 7.0% | Feb 00 | 4.1% | Mar 02 | 3.6% | Apr 04 | 3.5% | May 06 | 3.8% |
| Feb 98 | 6.9% | Mar 00 | 4.1% | Apr 02 | 3.6% | May 04 | 3.5% | Jun 06 | 3.9% |
| Mar 98 | 6.7% | Apr 00 | 4.0% | May 02 | 3.5% | Jun 04 | 3.7% | Jul 06 | 3.9% |
| Apr 98 | 6.5% | May 00 | 4.0% | Jun 02 | 3.6% | Jul 04 | 3.6% | Aug 06 | 4.1% |
| May 98 | 6.5% | Jun 00 | 3.9% | Jul 02 | 3.6% | Aug 04 | 3.7% | Sep 06 | 4.1% |
| Jun 98 | 6.5% | Jul 00 | 3.9% | Aug 02 | 3.5% | Sep 04 | 3.8% | Oct 06 | 4.1% |
| Jul 98 | 6.3% | Aug 00 | 3.8% | Sep 02 | 3.4% | Oct 04 | 3.8% | Nov 06 | 4.1% |
| Aug 98 | 6.0% | Sep 00 | 3.7% | Oct 02 | 3.4% | Nov 04 | 3.7% | Dec 06 | 4.2% |
| Sep 98 | 5.8% | Oct 00 | 3.6% | Nov 02 | 3.3% | Dec 04 | 3.8% | Jan 07 | 4.2% |
| Oct 98 | 5.5% | Nov 00 | 3.5% | Dec 02 | 3.5% | Jan 05 | 3.8% | Feb 07 | 4.2% |
| Nov 98 | 5.4% | Dec 00 | 3.5% | Jan 03 | 3.6% | Feb 05 | 3.8% | Mar 07 | 4.2% |
| Dec 98 | 5.4% | Jan 01 | 3.6% | Feb 03 | 3.6% | Mar 05 | 3.7% | Apr 07 | 4.3% |
| Jan 99* | 5.3% | Feb 01 | 3.5% | Mar 03 | 3.6% | Apr 05 | 3.8% | May 07 | 4.3% |
| Feb 99 | 5.2% | Mar 01 | 3.5% | Apr 03 | 3.5% | May 05 | 3.8% | Jun 07 | 4.3% |
| Mar 99 | 5.0% | Apr 01 | 3.5% | May 03 | 3.5% | Jun 05 | 3.9% | Jul 07 | 4.5% |
| Apr 99* | 4.95% | May 01 | 3.6% | Jun 03 | 3.7% | Jul 05 | 3.9% | Aug 07 | 4.4% |
| May 99 | 4.9% | Jun 01 | 3.6% | Jul 03 | 3.8% | Aug 05 | 3.9% | Sep 07 | 4.4% |
| Jun 99 | 4.7% | Jul 01 | 3.7% | Aug 03 | 3.6% | Sep 05 | 3.9% | Oct 07 | 4.4% |
| Jul 99 | 4.8% | Aug 01 | 3.7% | Sep 03 | 3.6% | Oct 05 | 3.9% | Nov 07 | 4.3% |
| Aug 99 | 4.7% | Sep 01 | 3.6% | Oct 03 | 3.5% | Nov 05 | 4.0% | Dec 07 | 4.2% |
| Sep 99 | 4.5% | Oct 01 | 3.6% | Nov 03 | 3.5% | Dec 05 | 4.1% | Jan 08 | 4.3% |
| Oct 99 | 4.3% | Nov 01 | 3.5% | Dec 03 | 3.7% | Jan 06 | 4.0% | Feb 08 | 4.4% |
| Nov 99 | 4.3% | Dec 01 | 3.7% | Jan 04 | 3.6% | Feb 06 | 3.7% | Mar 08 | 4.4% |
| Dec 99 | 4.4% | Jan 02 | 3.5% | Feb 04 | 3.6% | Mar 06 | 3.6% | | |
| Jan 00 | 4.3% | Feb 02 | 3.6% | Mar 04 | 3.5% | Apr 06 | 3.7% | | |

* DWP rental vacancy rate data is interpolated for these two months, due to unavailability.

[54] The US Department of Housing and Urban Development (HUD) has established an agreement with the United States Postal Service (USPS) to receive quarterly aggregate data on addresses identified by the USPS as vacant. These addresses represent the universe of all addresses in the United States and are updated every three months. The data include all addresses (residential and commercial) that USPS has recorded in its database, with a status indicator for addresses that delivery staff on urban routes have identified as being vacant, as well as a business/residential/other indicator. Addresses are identified as vacant if mail has not been collected for 90 days or longer. Source: http://www.huduser.org/datasets/usps.html

[55] RealFacts is a research organization and database publisher specializing in the multifamily housing market. Their database for the City of Los Angeles includes 255 properties with a total of 60,054 units, or roughly 8 percent of the occupied rental units in the City of Los Angeles. The smallest property has 90 units. Properties in this database can be grouped by a variety of attributes, including location, year of construction and class of building, making it possible to distinguish RSO properties from non-RSO properties, and to compare rents and vacancy rates for comparable classes of buildings within each category. The database includes: 119 RSO properties with 29,728 units, all of which are classified as Class C; 44 Class A non-RSO properties with a total of 12,389 units; 43 Class B non-RSO properties with a total of 10,379 units; and 49 Class C non-RSO properties with a total of 97,253 units. Since all RSO properties are Class C, it is reasonable to compare them to non-RSO Class C properties.

Supporting data for Figure 1-43, vacancy rates in Los Angeles' large rental properties, are as follows:

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|---|---|
| Non-RSO class A <10 years old | 2.9% | 2.8% | 6.4% | 23.9% | 17.2% | 14.6% | 9.9% | 8.5% | 11.5% |
| All RealFacts Rental Units | 2.1% | 2.4% | 3.0% | 4.7% | 4.5% | 4.7% | 4.0% | 3.9% | 5.1% |
| Non-RSO class B 10-20 years old | 2.2% | 2.0% | 3.6% | 4.0% | 3.2% | 3.7% | 3.5% | 3.7% | 4.5% |
| RSO class C 20+ years old | 2.1% | 2.8% | 2.7% | 3.2% | 3.4% | 3.5% | 3.0% | 2.9% | 3.5% |
| Non-RSO class C 20+ years old | 2.3% | 1.5% | 2.9% | 4.1% | 3.5% | 3.6% | 3.3% | 3.3% | 3.4% |

[56] The class designations for buildings in the RealFacts are strictly determined by age. A class "A" building is up to 10 years old. A class "B" building is from 10 to 20 years old. A class "C" building is more than 20 years old.

[57] Supporting data for Figure 1-44, number of bedrooms in occupied rental units by APC, are as follows:

| North Valley | 1990 | 2000 | 2006 |
|---|---|---|---|
| No Bedroom | 7,254 | 13,355 | 2,909 |
| 1 Bedroom | 24,073 | 25,595 | 26,925 |
| 2 Bedrooms | 22,575 | 21,876 | 27,850 |
| 3 Bedrooms | 10,445 | 10,098 | 10,675 |
| 4+ Bedrooms | 2,640 | 3,398 | 4,263 |
| Total Units | 66,987 | 74,322 | 72,622 |

| South Valley | 1990 | 2000 | 2006 |
|---|---|---|---|
| No Bedroom | 18,196 | 28,757 | 10,637 |
| 1 Bedroom | 58,861 | 62,703 | 64,925 |
| 2 Bedrooms | 49,575 | 47,448 | 54,386 |
| 3 Bedrooms | 12,802 | 13,440 | 13,585 |
| 4+ Bedrooms | 2,342 | 3,115 | 2,441 |
| Total Units | 141,776 | 155,463 | 145,974 |

| West LA | 1990 | 2000 | 2006 |
|---|---|---|---|
| No Bedroom | 12,026 | 16,046 | 8,502 |
| 1 Bedroom | 37,096 | 37,371 | 37,669 |
| 2 Bedrooms | 30,115 | 31,109 | 32,704 |
| 3 Bedrooms | 4,918 | 4,673 | 4,574 |
| 4+ Bedrooms | 352 | 977 | 952 |

| Central LA | 1990 | 2000 | 2006 |
|---|---|---|---|
| No Bedroom | 69,171 | 86,521 | 41,793 |
| 1 Bedroom | 88,143 | 91,709 | 106,723 |
| 2 Bedrooms | 42,582 | 42,676 | 58,473 |
| 3 Bedrooms | 6,656 | 8,744 | 11,766 |
| 4+ Bedrooms | 1,369 | 1,877 | 2,257 |

| | | | |
|---|---|---|---|
| Total Units | 84,507 | 90,176 | 84,401 |
| East LA | 1990 | 2000 | 2006 |
| No Bedroom | 16,275 | 21,037 | 6,505 |
| 1 Bedroom | 26,957 | 26,848 | 31,728 |
| 2 Bedrooms | 18,027 | 19,238 | 26,859 |
| 3 Bedrooms | 4,354 | 4,264 | 7,937 |
| 4+ Bedrooms | 858 | 1,013 | 2,392 |
| Total Units | 66,471 | 72,400 | 75,421 |

| | | | |
|---|---|---|---|
| Total Units | 207,921 | 231,527 | 221,012 |
| South LA | 1990 | 2000 | 2006 |
| No Bedroom | 22,900 | 27,088 | 6,035 |
| 1 Bedroom | 53,802 | 48,869 | 50,822 |
| 2 Bedrooms | 40,030 | 36,012 | 54,241 |
| 3 Bedrooms | 10,608 | 11,109 | 16,519 |
| 4+ Bedrooms | 2,238 | 2,431 | 5,261 |
| Total Units | 129,578 | 125,509 | 132,878 |

| | | | |
|---|---|---|---|
| Harbor | 1990 | 2000 | 2006 |
| No Bedroom | 4,992 | 7,643 | 1,818 |
| 1 Bedroom | 14,156 | 12,601 | 12,253 |
| 2 Bedrooms | 12,814 | 11,271 | 12,961 |
| 3 Bedrooms | 3,574 | 3,106 | 4,293 |
| 4+ Bedrooms | 665 | 760 | 564 |
| Total Units | 36,201 | 35,381 | 31,889 |

| | | | |
|---|---|---|---|
| Los Angeles City | 1990 | 2000 | 2006 |
| No Bedroom | 150,814 | 200,447 | 78,199 |
| 1 Bedroom | 303,088 | 305,696 | 331,045 |
| 2 Bedrooms | 215,718 | 209,630 | 267,474 |
| 3 Bedrooms | 53,357 | 55,434 | 69,349 |
| 4+ Bedrooms | 10,464 | 13,571 | 18,130 |
| Total Units | 733,441 | 784,778 | 764,197 |

[58] Supporting data for Figure 1-45, Number of People in Renter Households 2000-2006, are as follows:

| APC: | Year | Number of People in Renter Households | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 | 6 | 7+ |
| North Valley | 2006 | 21% | 22% | 19% | 16% | 13% | 5% | 4% |
| | 2000 | 20% | 21% | 16% | 17% | 12% | 7% | 7% |
| South Valley | 2006 | 33% | 29% | 15% | 13% | 6% | 3% | 1% |
| | 2000 | 31% | 26% | 15% | 13% | 8% | 4% | 3% |
| West LA | 2006 | 51% | 29% | 12% | 5% | 2% | 0% | 0% |
| | 2000 | 47% | 32% | 11% | 6% | 2% | 1% | 1% |
| Central LA | 2006 | 43% | 25% | 14% | 10% | 6% | 1% | 1% |
| | 2000 | 40% | 26% | 14% | 10% | 6% | 3% | 2% |
| East LA | 2006 | 32% | 23% | 15% | 15% | 8% | 4% | 2% |
| | 2000 | 29% | 20% | 15% | 15% | 10% | 6% | 6% |
| South LA | 2006 | 27% | 18% | 18% | 14% | 11% | 6% | 4% |
| | 2000 | 24% | 19% | 16% | 15% | 11% | 7% | 8% |
| Harbor | 2006 | 25% | 22% | 18% | 15% | 13% | 4% | 2% |
| | 2000 | 24% | 22% | 16% | 15% | 11% | 6% | 5% |
| City of Los Angeles | 2006 | 35% | 24% | 15% | 12% | 8% | 3% | 2% |
| | 2000 | 33% | 24% | 14% | 12% | 8% | 4% | 4% |

[59] Supporting data for Figure 1-46, average number of people per household in the City of Los Angeles' renter-occupied housing units, are as follows:

| Housing Unit Size: | 1990 | 2000 | 2006 |
|---|---|---|---|
| No bedroom | 2.65 | 2.47 | 1.51 |
| 1 Bedroom | 2.46 | 2.51 | 2.09 |
| 2 Bedrooms | 2.99 | 2.91 | 2.92 |
| 3 Bedrooms | 3.83 | 3.79 | 3.66 |
| 4 Bedrooms | 4.57 | 4.37 | 4.52 |
| 5+ Bedrooms | 4.36 | 4.61 | 3.93 |

[60] Supporting data for Figure 1-47, average number of people per household in the City of Los Angeles' 0-bedroom renter-occupied housing units, are as follows:

| Area Planning Commission: | 1990 | 2000 | 2006 |
|---|---|---|---|
| North Valley | 2.70 | 2.91 | 1.34 |
| South Valley | 2.24 | 2.36 | 1.29 |
| West LA | 1.62 | 1.56 | 1.14 |
| Central LA | 2.68 | 2.39 | 1.64 |
| East LA | 2.65 | 2.35 | 1.46 |
| South LA | 3.38 | 3.10 | 1.63 |
| Harbor | 2.93 | 3.11 | 1.66 |
| City of Los Angeles | 2.65 | 2.47 | 1.51 |

[61] Supporting data for Figure 1-48, average number of people per household in the City of Los Angeles' 1-bedroom renter-occupied housing units, are as follows:

| Area Planning Commission: | 1990 | 2000 | 2006 |
|---|---|---|---|
| North Valley | 2.74 | 3.12 | 2.49 |
| South Valley | 1.95 | 2.21 | 1.93 |
| West LA | 1.67 | 1.76 | 1.53 |
| Central LA | 2.45 | 2.36 | 2.05 |
| East LA | 3.27 | 3.02 | 2.26 |
| South LA | 3.00 | 3.04 | 2.37 |
| Harbor | 2.64 | 2.98 | 2.42 |
| City of Los Angeles | 2.46 | 2.51 | 2.09 |

[62] Supporting data for Figure 1-49, , are as follows:

| | Household Type | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Couple with Children | | Single Householder with Children | | Couple, No Children | | No Partner/ Living Alone | |
| APC: | Number | Percent | Number | Percent | Number | Percent | Number | Percent |
| North Valley | 23,593 | 32% | 14,062 | 19% | 9,355 | 13% | 25,612 | 35% |
| South Valley | 26,929 | 23% | 14,458 | 12% | 21,811 | 19% | 52,629 | 45% |
| West LA | 10,754 | 9% | 4,800 | 4% | 20,688 | 18% | 78,306 | 68% |
| Central LA | 26,965 | 16% | 14,304 | 9% | 26,609 | 16% | 100,085 | 60% |
| East LA | 31,928 | 25% | 16,957 | 13% | 21,452 | 17% | 58,133 | 45% |
| South LA | 34,698 | 26% | 32,431 | 24% | 12,824 | 10% | 52,925 | 40% |
| Harbor | 9,737 | 31% | 6,123 | 19% | 4,758 | 15% | 11,271 | 35% |
| City of Los Angeles | 164,604 | 22% | 103,135 | 13% | 117,497 | 15% | 378,961 | 50% |

[63] Based on the benchmark that non-overcrowded housing has at least 1 bedroom for every two occupants, a 5-person household needs a 3-bedroom housing unit if they are not to be overcrowded. Supporting data for Figure 1-50, number of occupied rental units with 3+ bedrooms for every renter households with 5+ people, are as follows:

| APC: | 2000 | 2006 |
|---|---|---|
| North Valley | 0.69 | 0.94 |
| South Valley | 0.80 | 1.11 |
| West LA | 1.49 | 2.65 |
| Central LA | 0.33 | 0.81 |

| APC: | 2000 | 2006 |
|---|---|---|
| East LA | 0.33 | 0.72 |
| South LA | 0.39 | 0.76 |
| Harbor | 0.52 | 0.78 |
| City of Los Angeles | 0.52 | 0.89 |

[64] Econometrica, Inc. (2007), *Measuring Overcrowding in Housing*, prepared for the U.S. Department of Housing and Urban Development Office of Policy Development and Research.

[65] Supporting data for Figure 1-51, overcrowding in Los Angeles' renter households by APC, are as follows:

| North Valley | 1990 | 2000 | 2006 |
|---|---|---|---|
| Not crowded | 69% | 61% | 73% |
| Overcrowded | 11% | 12% | 16% |
| Severely Overcrowded | 19% | 28% | 11% |

| South Valley | 1990 | 2000 | 2006 |
|---|---|---|---|
| Not crowded | 83% | 75% | 87% |
| Overcrowded | 6% | 7% | 9% |
| Severely Overcrowded | 12% | 18% | 4% |

| West LA | 1990 | 2000 | 2006 |
|---|---|---|---|
| Not crowded | 89% | 86% | 95% |
| Overcrowded | 4% | 5% | 4% |
| Severely Overcrowded | 7% | 9% | 1% |

| Central LA | 1990 | 2000 | 2006 |
|---|---|---|---|
| Not crowded | 65% | 64% | 76% |
| Overcrowded | 7% | 7% | 11% |
| Severely Overcrowded | 28% | 29% | 13% |

| East LA | 1990 | 2000 | 2006 |
|---|---|---|---|
| Not crowded | 55% | 60% | 77% |
| Overcrowded | 12% | 11% | 14% |
| Severely Overcrowded | 33% | 29% | 10% |

| South LA | 1990 | 2000 | 2006 |
|---|---|---|---|
| Not crowded | 63% | 60% | 77% |
| Overcrowded | 11% | 11% | 14% |
| Severely Overcrowded | 26% | 29% | 9% |

| Harbor | 1990 | 2000 | 2006 |
|---|---|---|---|
| Not crowded | 71% | 63% | 80% |
| Overcrowded | 10% | 9% | 14% |
| Severely Overcrowded | 19% | 28% | 6% |

| City of Los Angeles | 1990 | 2000 | 2006 |
|---|---|---|---|
| Not crowded | 70% | 67% | 80% |
| Overcrowded | 8% | 8% | 11% |
| Severely Overcrowded | 21% | 24% | 8% |

[66] Supporting data for Figure 1-52, overcrowding of the City of Los Angeles' renter households, broken out by the number of bedrooms per household, are as follows:

| 0 Bedroom | 1990 | 2000 | 2006 |
|---|---|---|---|
| Not crowded | 44% | 44% | 74% |
| Overcrowded | 3% | 3% | 2% |
| Severely Overcrowded | 53% | 54% | 24% |

| 1 Bedroom | 1990 | 2000 | 2006 |
|---|---|---|---|
| Not crowded | 73% | 69% | 79% |
| Overcrowded | 9% | 10% | 12% |
| Severely Overcrowded | 18% | 21% | 9% |

| 2 Bedrooms | 1990 | 2000 | 2006 |
|---|---|---|---|
| Not crowded | 82% | 81% | 82% |
| Overcrowded | 10% | 11% | 13% |
| Severely Overcrowded | 8% | 8% | 6% |

| 3 Bedrooms | 1990 | 2000 | 2006 |
|---|---|---|---|
| Not crowded | 84% | 85% | 86% |
| Overcrowded | 11% | 10% | 12% |
| Severely Overcrowded | 5% | 5% | 2% |

| 4+ Bedrooms | 1990 | 2000 | 2006 |
|---|---|---|---|
| Not crowded | 91% | 86% | 86% |
| Overcrowded | 6% | 10% | 10% |
| Severely Overcrowded | 3% | 4% | 4% |

[67] Supporting data for Figure 1-53, overcrowding by L.A. renter households' percent of poverty level, are as follows:

| 0 to 100% | 1990 | 2000 | 2006 |
|---|---|---|---|
| Not crowded | 53% | 54% | 72% |
| Overcrowded | 12% | 10% | 15% |
| Severely Overcrowded | 35% | 36% | 13% |

| 101% to 150% | 1990 | 2000 | 2006 |
|---|---|---|---|
| Not crowded | 59% | 56% | 72% |
| Overcrowded | 10% | 11% | 15% |
| Severely Overcrowded | 31% | 33% | 12% |

| 151% to 200% | 1990 | 2000 | 2006 |
|---|---|---|---|
| Not crowded | 58% | 57% | 71% |
| Overcrowded | 11% | 11% | 17% |

| 201% to 300% | 1990 | 2000 | 2006 |
|---|---|---|---|
| Not crowded | 69% | 68% | 82% |
| Overcrowded | 9% | 9% | 11% |

| | | | |
|---|---|---|---|
| Severely Overcrowded | 31% | 32% | 13% |

| | | | |
|---|---|---|---|
| Severely Overcrowded | 22% | 23% | 8% |

| 301% to 400% | 1990 | 2000 | 2006 |
|---|---|---|---|
| Not crowded | 82% | 79% | 89% |
| Overcrowded | 6% | 7% | 8% |
| Severely Overcrowded | 11% | 14% | 4% |

| 401% to 499% | 1990 | 2000 | 2006 |
|---|---|---|---|
| Not crowded | 90% | 86% | 91% |
| Overcrowded | 3% | 5% | 6% |
| Severely Overcrowded | 7% | 9% | 3% |

| 500% and Over | 1990 | 2000 | 2006 |
|---|---|---|---|
| Not crowded | 95% | 91% | 96% |
| Overcrowded | 2% | 3% | 2% |
| Severely Overcrowded | 3% | 6% | 1% |

[68] Supporting data for Figure 1-54, overcrowding of Los Angeles' renter households by ethnicity, are as follows:

| Not crowded | 1990 | 2000 | 2006 |
|---|---|---|---|
| White | 53% | 44% | 37% |
| Black/African American | 19% | 18% | 16% |
| Asian | 7% | 10% | 12% |
| Hispanic/Latino | 20% | 23% | 32% |
| Other | 1% | 5% | 3% |

| Overcrowded | 1990 | 2000 | 2006 |
|---|---|---|---|
| White | 12% | 11% | 6% |
| Black/African American | 13% | 11% | 6% |
| Asian | 12% | 12% | 9% |
| Hispanic/Latino | 62% | 63% | 78% |
| Other | 1% | 3% | 1% |

| Severely Overcrowded | 1990 | 2000 | 2006 |
|---|---|---|---|
| White | 6% | 7% | 3% |
| Black/African American | 6% | 5% | 4% |
| Asian | 12% | 11% | 8% |
| Hispanic/Latino | 76% | 76% | 84% |
| Other | 0% | 2% | 1% |

| All Renter Householders | 1990 | 2000 | 2006 |
|---|---|---|---|
| White | 40% | 32% | 31% |
| Black/African American | 16% | 14% | 14% |
| Asian | 8% | 11% | 11% |
| Hispanic/Latino | 35% | 39% | 42% |
| Other | 1% | 4% | 2% |

[69] Supporting data for Figure 1-55, overcrowding of L.A. renter households by citizenship status, are as follows:

| U.S.-born | 1990 | 2000 | 2006 |
|---|---|---|---|
| Not crowded | 91% | 89% | 93% |
| Overcrowded | 4% | 4% | 4% |
| Severely Overcrowded | 5% | 7% | 3% |

| Foreign-born: Citizen | 1990 | 2000 | 2006 |
|---|---|---|---|
| Not crowded | 59% | 61% | 83% |
| Overcrowded | 11% | 11% | 10% |
| Severely Overcrowded | 31% | 28% | 7% |

| Foreign-born: Not Citizen | 1990 | 2000 | 2006 |
|---|---|---|---|
| Not crowded | 38% | 39% | 60% |
| Overcrowded | 15% | 13% | 22% |
| Severely Overcrowded | 47% | 48% | 18% |

| All Renter Householders | 1990 | 2000 | 2006 |
|---|---|---|---|
| Not crowded | 70% | 67% | 80% |
| Overcrowded | 8% | 8% | 11% |
| Severely Overcrowded | 21% | 24% | 8% |

[70] The data on contract rent were obtained from answers to long-form questionnaire Item 46, which was asked on a sample basis at occupied housing units that were rented for cash rent and vacant housing units that were for rent at the time of enumeration (vacant units were excluded from this analysis). The median divides the rent distribution for the population of households that pay rent for their housing into two equal parts. The median household is the middle household in the distribution of households from highest to lowest rent amount. It is the rent amount paid by the middle household in this distribution. Quartiles divide the rent distribution into four equal parts. In computing median and quartile contract rent, units reported as "No cash rent" are excluded. Median and quartile rent calculations are rounded to the nearest whole dollar. Rent quartiles for Los Angeles City of Los Angeles planning regions were calculated using Public Use Microdata Sample data from the 2006 American Community Survey. The

Consumer Price Index for all urban consumers in the Los Angeles region was then used to convert 2006 rent levels into 2007 dollars.

[71] Supporting data for Figure 1-56, City of Los Angeles monthly rent in 2000 and 2006 by quartiles, adjusted to 2007 dollars, are as follows:

| | 2000 | 2006 |
|---|---|---|
| Lower quartile (25%) | $604 | $667 |
| Median (50%) | $775 | $887 |
| Upper quartile (75%) | $1,026 | $1,205 |

[72] Supporting data for Figure 1-57, rent quartiles for the City of Los Angeles's seven area planning commissions (converted to 2007 dollars), are as follows:

| APC | Lower Quartile (25%) | Median (50%) | Upper Quartile (75%) |
|---|---|---|---|
| North Valley | $826 | $1,033 | $1,343 |
| South Valley | $826 | $1,033 | $1,446 |
| West LA | $1,033 | $1,446 | $1,963 |
| Central LA | $826 | $1,136 | $1,549 |
| East LA | $651 | $878 | $1,240 |
| South LA | $671 | $857 | $1,136 |
| Harbor | $723 | $930 | $1,240 |

[73] The RealFacts database covers large rental properties (average size for properties in the City of Los Angeles is 236 units) and breaks out properties by age of construction. Class C properties, represented in this data, include 49 non-RSO properties with a total of 7,558 units and 119 RSO properties with a total of 29,728 units. RealFacts property classifications are based on age, not building conditions. Buildings are classified C if they were built 20 or more years ago. Supporting data for Figure 1-58, monthly rent per square foot for apartments in large buildings 20+ years old broken out by RSO status, are as follows:

| | RSO | Non-RSO | Difference |
|---|---|---|---|
| 4th Qtr. 2005 | $1.89 | $1.82 | 4% |
| 1st Qtr. 2006 | $1.92 | $1.82 | 5% |
| 2nd Qtr. 2006 | $1.92 | $1.80 | 7% |
| 3rd Qtr. 2006 | $1.96 | $1.84 | 6% |
| 4th Qtr. 2006 | $2.01 | $1.88 | 7% |
| 1st Qtr. 2007 | $2.01 | $1.91 | 5% |
| 2nd Qtr. 2007 | $1.98 | $1.91 | 4% |
| 3rd Qtr. 2007 | $2.01 | $1.93 | 4% |
| 4th Qtr. 2007 | $2.00 | $1.92 | 4% |

[74] Comparing rent costs per square foot controls for differences in the average size of RSO and Non-RSO units. When we compare rents costs on a unit basis, non-RSO tenants have higher monthly rent costs, as shown below in 2007 dollars:

| | Non-RSO | RSO |
|---|---|---|
| 4th Qtr. 2005 | $1,824 | $1,495 |
| 1st Qtr. 2006 | $1,843 | $1,523 |
| 2nd Qtr. 2006 | $1,839 | $1,530 |
| 3rd Qtr. 2006 | $1,862 | $1,556 |
| 4th Qtr. 2006 | $1,909 | $1,588 |
| 1st Qtr. 2007 | $1,945 | $1,573 |
| 2nd Qtr. 2007 | $1,938 | $1,556 |

| | | |
|---|---|---|
| 3rd Qtr. 2007 | $1,967 | $1,579 |
| 4th Qtr. 2007 | $1,993 | $1,561 |

[75] Supporting data for Figure 1-59, income of Los Angeles' renters as percent of poverty threshold, are as follows:

| Income relative to Poverty | 1980 | 1990 | 2000 | 2006 |
|---|---|---|---|---|
| Under 150% | 41% | 44% | 49% | 46% |
| 150% to 199% | 13% | 13% | 12% | 13% |
| 200% to 499% | 37% | 32% | 29% | 31% |
| 500% and Over | 9% | 11% | 10% | 10% |

[76] It is not clear whether the decline from 2000 to 2006 in the percent of renters with incomes under 150 percent of the poverty threshold is the result of growth in the earnings of LA's poorest renters or displacement/migration of some poor renters to other cities. This change together with the decline in the average size of renter households from 4.1 people in 2000 to 3.5 people in 2006, suggests that some poor families may have been displaced or chosen to move, and relocated in other cities.

[77] Supporting data for Figure 1-60, median income by tenure and APC, are as follows:

| North Valley | 1990 | 2000 | 2006 |
|---|---|---|---|
| Owner-occupied | $85,941 | $75,767 | $71,453 |
| Renter-occupied | $45,966 | $36,960 | $32,664 |

| South Valley | 1990 | 2000 | 2006 |
|---|---|---|---|
| Owner-occupied | $98,868 | $90,674 | $86,764 |
| Renter-occupied | $47,798 | $40,656 | $38,789 |

| West LA | 1990 | 2000 | 2006 |
|---|---|---|---|
| Owner-occupied | $100,215 | $98,559 | $93,910 |
| Renter-occupied | $52,026 | $47,185 | $46,546 |

| Central LA | 1990 | 2000 | 2006 |
|---|---|---|---|
| Owner-occupied | $85,245 | $81,311 | $86,815 |
| Renter-occupied | $34,790 | $30,553 | $32,664 |

| East LA | 1990 | 2000 | 2006 |
|---|---|---|---|
| Owner-occupied | $67,045 | $60,491 | $64,308 |
| Renter-occupied | $31,758 | $26,611 | $28,071 |

| South LA | 1990 | 2000 | 2006 |
|---|---|---|---|
| Owner-occupied | $50,144 | $50,512 | $46,240 |
| Renter-occupied | $25,834 | $22,422 | $23,579 |

| Harbor | 1990 | 2000 | 2006 |
|---|---|---|---|
| Owner-occupied | $76,440 | $73,919 | $66,482 |
| Renter-occupied | $40,617 | $33,264 | $33,072 |

| CITY OF LA | 1990 | 2000 | 2006 |
|---|---|---|---|
| Owner-occupied | $83,231 | $75,398 | $73,494 |
| Renter-occupied | $38,444 | $32,894 | $32,460 |

[78] Supporting data for Figure 1-61, income distribution of the City of Los Angeles' householders by tenure (owner- or renter-occupied), are as follows:

| | Owner-Occupied Households | | | Renter-Occupied Households | | |
|---|---|---|---|---|---|---|
| Income: | 1990 | 2000 | 2006 | 1990 | 2000 | 2006 |
| Less than $10,000 | 3% | 4% | 4% | 9% | 14% | 12% |
| $10,000 to $24,999 | 8% | 9% | 10% | 23% | 25% | 27% |
| $25,000 to $34,999 | 6% | 7% | 8% | 14% | 13% | 14% |
| $35,000 to $49,999 | 10% | 11% | 12% | 17% | 16% | 16% |
| $50,000 to $74,999 | 17% | 18% | 18% | 19% | 15% | 16% |
| $75,000 to $99,999 | 16% | 14% | 13% | 9% | 7% | 8% |
| $100,000 or More | 40% | 36% | 36% | 9% | 9% | 8% |

[79] U.S. Census Bureau data shows a small increase (from $2,753 to $2,779 per month, in 2007 dollars) in the median income of renters from 2005 to 2006, which can be seen in Figure 5, "Income and Rent of Renter Households." However, this small increase is within the margin of error for this data and remains in question.

[80] See footnote 46 on the definition of "Rent Burden."

[81] Supporting data for figure 1-62, the percent of renter households paying 50% or more of their income for rent, are as follows:

| Area Planning Commission: | 1990 | 2000 | 2006 |
|---|---|---|---|
| North Valley | 21.5% | 20.8% | 32.1% |
| South Valley | 22.5% | 21.1% | 28.8% |
| West LA | 24.0% | 22.5% | 30.1% |
| Central LA | 24.1% | 23.6% | 28.2% |
| East LA | 23.7% | 21.5% | 28.6% |
| South LA | 33.0% | 31.9% | 39.6% |
| Harbor | 22.0% | 24.2% | 26.8% |
| City of Los Angeles | 25.0% | 23.8% | 30.8% |

[82] Supporting data for Figure 1-63, rent burden by household income in 2006, are as follows:

| Income: | Less than 10% | 10% to 14% | 15% to 19% | 20% to 24% | 25% to 29% | 30% to 34% | 35% or More |
|---|---|---|---|---|---|---|---|
| Less than $35,000 | 0% | 0% | 1% | 3% | 8% | 8% | 80% |
| $35,000 to $49,999 | 0% | 2% | 9% | 20% | 23% | 15% | 31% |
| $50,000 to $99,999 | 2% | 18% | 27% | 21% | 15% | 6% | 11% |
| $100,000 or More | 23% | 36% | 22% | 11% | 3% | 2% | 3% |

[83] The U.S. Census Bureau follows the Office of Management and Budget's (OMB's) Directive 14 to determine poverty levels, which define nationwide income thresholds that vary by family size. poverty levels, which define nationwide income thresholds that vary by family size.

[84] Supporting data for Figure 1-65, distribution of Los Angeles' renter households relative to the poverty threshold by APC, are as follows:

| North Valley | 1990 | 2000 | 2006 |
|---|---|---|---|
| 0 to 100% | 18% | 25% | 23% |
| 101% to 150% | 13% | 16% | 18% |
| 151% to 200% | 11% | 11% | 15% |
| 201% to 300% | 18% | 19% | 17% |
| 301% to 400% | 15% | 11% | 11% |
| 401% to 499% | 10% | 7% | 6% |
| 500 and Over | 15% | 11% | 10% |

| South Valley | 1990 | 2000 | 2006 |
|---|---|---|---|
| 0 to 100% | 12% | 17% | 16% |
| 101% to 150% | 10% | 13% | 13% |
| 151% to 200% | 9% | 10% | 11% |
| 201% to 300% | 16% | 17% | 18% |
| 301% to 400% | 14% | 12% | 13% |
| 401% to 499% | 12% | 9% | 8% |
| 500 and Over | 25% | 22% | 20% |

| West LA | 1990 | 2000 | 2006 |
|---|---|---|---|
| 0 to 100% | 13% | 17% | 18% |
| 101% to 150% | 7% | 7% | 7% |
| 151% to 200% | 7% | 7% | 6% |
| 201% to 300% | 13% | 15% | 14% |
| 301% to 400% | 14% | 12% | 12% |
| 401% to 499% | 13% | 12% | 10% |
| 500 and Over | 33% | 29% | 33% |

| Central LA | 1990 | 2000 | 2006 |
|---|---|---|---|
| 0 to 100% | 20% | 26% | 20% |
| 101% to 150% | 17% | 17% | 18% |
| 151% to 200% | 11% | 10% | 12% |
| 201% to 300% | 16% | 16% | 15% |
| 301% to 400% | 12% | 10% | 11% |
| 401% to 499% | 8% | 7% | 8% |
| 500 and Over | 15% | 14% | 16% |

| East LA | 1990 | 2000 | 2006 |
|---|---|---|---|
| 0 to 100% | 26% | 32% | 26% |
| 101% to 150% | 21% | 21% | 23% |
| 151% to 200% | 14% | 12% | 13% |
| 201% to 300% | 17% | 15% | 15% |
| 301% to 400% | 9% | 8% | 7% |
| 401% to 499% | 5% | 4% | 5% |
| 500 and Over | 7% | 8% | 9% |

| South LA | 1990 | 2000 | 2006 |
|---|---|---|---|
| 0 to 100% | 34% | 43% | 38% |
| 101% to 150% | 21% | 18% | 21% |
| 151% to 200% | 12% | 11% | 11% |
| 201% to 300% | 13% | 13% | 14% |
| 301% to 400% | 9% | 6% | 8% |
| 401% to 499% | 5% | 3% | 4% |
| 500 and Over | 5% | 5% | 5% |

| Harbor | 1990 | 2000 | 2006 |
|---|---|---|---|
| 0 to 100% | 19% | 27% | 25% |
| 101% to 150% | 15% | 16% | 18% |
| 151% to 200% | 12% | 12% | 10% |
| 201% to 300% | 17% | 16% | 16% |
| 301% to 400% | 13% | 10% | 11% |
| 401% to 499% | 10% | 7% | 7% |
| 500 and Over | 15% | 13% | 13% |

| CITY OF LA | 1990 | 2000 | 2006 |
|---|---|---|---|
| 0 to 100% | 21% | 27% | 23% |
| 101% to 150% | 15% | 15% | 17% |
| 151% to 200% | 11% | 11% | 11% |
| 201% to 300% | 16% | 16% | 16% |
| 301% to 400% | 12% | 10% | 10% |
| 401% to 499% | 9% | 7% | 7% |
| 500 and Over | 16% | 15% | 15% |

[85] Supporting data for Figure 1-66, rent burden by poverty rate in 2006, are as follows:

| Household Income Relative to Poverty Rate: | Less than 30% (No Rent Burden) | 30% to 49% (Rent Burden) | 50% or More (Severe Rent Burden) |
|---|---|---|---|
| 0 to 100% | 7% | 16% | 78% |
| 101% to 150% | 20% | 37% | 42% |
| 151% to 200% | 33% | 40% | 27% |
| 201% to 300% | 45% | 39% | 16% |
| 301% to 400% | 64% | 31% | 5% |
| 401% to 500% | 78% | 19% | 3% |
| 501% and Over | 91% | 8% | 1% |
| All Households in the City of Los Angeles | 42% | 27% | 31% |

[86] Properties are regulated by the RSO if there are 2 or more rental units and the certificate of occupancy was issued on or before October 1, 1978. The U.S. Census identifies housing that was built before or after 1980, so this break point is used is used as a rough indicator of units built before the RSO took effect.

[87] Data from the 1990 decennial census for non-RSO tenants who were in their units 10+ years is not shown in Tables 11 and 12 because the sample of records is too small to provide reliable information. The sample is small because there was only a 2-year construction interval between 1978, the final year for coverage under the Rent Stabilization Ordinance, and 1990, when the census was conducted.

[88] The annual allowable rent increase is based on the Consumer Price Index (CPI) average for the Los Angeles - Long Beach - Anaheim areas for a twelve (12) month period ending September 30 of each year (LAMC 151.07 A6). Under the RSO, the percentage can be no lower than three percent (3%) and no higher than eight percent (8%). The percentage is published on or before May 30 of each year for the following twelve (12) month period beginning on July 1st and ending on June 30. *Landlord-Tenant Handbook for Rental Units subject to the Rent Stabilization Ordinance*, City of Los Angeles Housing Department, November 2006, p. 19.

[89] Data from Los Angeles County Assessor's file created for this study on March 14, 2008 shows the following assessed values for rental properties in the City of Los Angeles that are listed in the SCEP inventory:

| | Total Assessed Value | Number of Units | Average Assessed Value per Unit |
|---|---|---|---|
| Non-RSO Property | $14,903,701,797 | 150,134 | $99,269 |
| RSO Property | $47,541,536,328 | 638,051 | $74,511 |

[90] Although the U.S. Census Bureau is not likely to capture data for the full universe of unauthorized dwelling units in its various surveys (the Decennial Census, the American Community Survey, the American Housing Survey, etc.), it may well be more likely to capture data from residents in unauthorized dwelling units than city departments. This is because the U.S. Census Bureau surveys reach people either by telephone (regardless of being in a city department database) or by postal mail using USPS database of all residential and commercial addresses served by their carriers. People can be reached by US Census Bureau surveys if they receive mail or have a phone; databases maintained by city departments may not be as extensive.

[91] This data excludes people living in Group Institutional Quarters, for example jail, nursing facilities or supportive housing for individuals needing case management – i.e., people under custody or care. It includes autonomous individuals living in Single Room Occupancy hotels, which represented a significant share of the housing inventory in Downtown Los Angeles at the time of the 2000 Census. Supporting data for Figure 1-67, Rental Units with Incomplete Plumbing or Kitchen in 2000, are as follows:

| CPA Number & Name | | Percent with Incomplete Plumbing or Kitchen | CPA Number & Name | | Percent with Incomplete Plumbing or Kitchen |
|---|---|---|---|---|---|
| 1 | Northeast LA | 2.3% | 19 | Granada Hills | 0.9% |
| 2 | Boyle Heights | 4.2% | 20 | Canoga Park | 1.6% |
| 3 | Southeast LA | 3.5% | 21 | Chatsworth | 1.6% |
| 4 | Baldwin Hills | 2.6% | 22 | Northridge | 2.4% |
| 5 | South LA | 3.0% | 23 | Reseda | 1.2% |
| 6 | Wilshire | 3.2% | 24 | Encino | 2.8% |
| 7 | Hollywood | 3.2% | 25 | Sunland | 2.1% |
| 8 | Silver Lake | 2.8% | 26 | Westwood | 2.5% |
| 9 | Westlake | 5.9% | 27 | West LA | 2.7% |
| 10 | Central City | 30.1% | 28 | Palms | 2.4% |
| 11 | Central City N | 4.3% | 29 | Venice | 2.7% |
| 12 | Sherman Oaks | 1.1% | 30 | Westchester | 1.6% |
| 13 | N Hollywood | 2.3% | 31 | Brentwood | 1.4% |
| 14 | Pacoima | 2.4% | 32 | Bel Air | 1.2% |
| 15 | Van Nuys | 2.1% | 33 | Wilmington | 2.4% |
| 16 | Mission Hills | 2.9% | 34 | San Pedro | 1.7% |
| 17 | Sun Valley | 3.0% | 35 | Harbor Gateway | 1.3% |
| 18 | Sylmar | 2.6% | Total | LA CITY | 3.1% |

[92] The data used for this analysis is the 5% Public Use Microdata Sample (PUMS) from the 2000 Census. This data is used rather than data from the 2006 American Community survey because the latter is a 1% sample, meaning that it provides only one-fifth as many records. PUMS from the 2000 Census provides 3,613 records of renters living in housing units without complete facilities and/or complete kitchens. The 2006 ACS PUMS files provide only 285 records – an insufficient number to support reliable analysis.

[93] On its face, the 2000 and 2006 data suggest a 45 percent decline in the number of renter households living in housing that lacked complete plumbing and/or kitchens. It is quite probably that there was a significant decline in the number of these households, but the very small sample of records provided by ACS 2006 does not support a reliable quantified estimate of the amount of the reduction. The fact that we have only 285 records for 2006 creates a margin of error that is comparable to the amount of reduction suggested by the data.

## *ENDNOTES – CHAPTER 2*

[1] Of the 4,859 responses, 4,832 were considered valid. Twenty-seven cases did not have a geographic identifier (address or ZIP code) and were not used in the analysis.

[2] The English language survey instrument was translated into Spanish and Korean by a native Spanish- and Korean-speaking translators. Two thousand seven hundred eighty-four (57.3%) interviews were conducted in English, 2,025 (41.7%) in Spanish, and 52 (1.1%) in Korean.

[3] When a call from the SSRC was answered by a resident, the staff began the interview by asking questions to determine if the household rented, and if so, the interviewer asked to speak to the head of household or other adult of age 18 or over. Respondents were also asked if they lived outside the City of Los Angeles, since a pre-determined limited number of these renters were surveyed. After screening potential survey participants using the above criteria, the staff informed the respondents about the RSO Study for the LA Housing Department, and spoke about safeguards used to protect the information they shared, and asked the respondent if they were willing to participate. Survey calls were monitored by supervisors at the Social Science Research Center in order to maintain uniformity among different callers.

[4] Replicates are successive samples selected from the same universe, where each is independently random and can therefore be combined and used as in a single sample. In the case of this survey, purchasing a series of replicates of RDD telephone numbers over time allowed the Economic Roundtable to determine more accurately the overall sample amount to purchase from Scientific Telephone Samples necessary to achieve the initial target of 4,750 completed surveys.

[5] The sampling universe was initially defined as the collection of working residential telephone blocks (NPA-NXX-X) assigned by STS to ZIP codes that serve the City of Los Angeles. ERT supplemented this universe by identifying telephone exchanges (NPA-NXX) served by wire centers located within the city limits. Some of the working blocks were later removed if they yielded no successful contacts with eligible survey participants.

Selection of telephone numbers proceeded according to specific criteria agreed upon by the Economic Roundtable (ERT), Scientific Telephone Samples (STS), and the Social Science Research Center (SSRC) at CSU Fullerton. Telephone numbers for known businesses were screened out of all RDD replicates by STS, and STS conducted automated pre-dialing tests to screen out non-working numbers. "Working blocks" were defined in this survey as blocks of telephone numbers with 1 (and later 3) listed number. For example, if the listed number (323) 555-6789 was found to be a working number, all telephone numbers from (323) 555-6000 to (323) 555-6999 were eligible for RDD selection. (This method has the beneficial effect of capturing some wireless telephone numbers and adding them into the RDD sampling frame.)

To enhance the cost efficiency of field operations, ERT sought to tag sampled numbers for locations outside the city. Area codes (NPA) were useless for this purpose because the City of Los Angeles does not completely match the boundaries of any telephone area codes. However, for listed telephone numbers STS appended name and address information to the replicates delivered to ERT. An "estimated" county code and ZIP code was appended for both listed and unlisted telephone numbers. As each replicate was received from STS, ERT staff used this information to remove from the sample telephone numbers for addresses outside of the City of Los Angeles (the "Don't Call Records" in the table below), using geo-coding tools in GIS software and on-line. The filtered replicates of RDD telephone numbers then were sent to SSRC and released into the Computer Assisted Telephone Interviewing (CATI) system for their interviewers to call, as previous replicates were used up.

A total of 335,726 individual dial attempts were made to 54,250 unique telephone numbers to complete 4,861 interviews. 18.97% (922) interviews were completed on the first call attempt, 18.27% (791) on the second, 12.82% (623) on the third, and 9.5% (462) on the fourth call attempt. Between five and 21 calls were required to obtain the remaining 42.44% (2,063) interviews.

| Replicate | Date Rec'd from STS | Total RDD Records | Unlisted Records | Listed Records | Call Records | Call Records % | Don't Call Records |
|---|---|---|---|---|---|---|---|
| **1** | 9/10/2007 | 2,500 | 1,956 | 544 | 2,309 | 92% | 191 |
| **2** | 9/17/2007 | 10,000 | 7,785 | 2,215 | 9,360 | 94% | 640 |
| **3** | 10/3/2007 | 10,000 | 7,829 | 2,171 | 9,182 | 92% | 818 |
| **4** | 10/16/2007 | 5,000 | 3,905 | 1,095 | 4,635 | 93% | 365 |
| **5** | 10/22/2007 | 10,000 | 0 | 10,000 | 7,092 | 71% | 2,908 |
| **6** | 11/8/2007 | 3,000 | 2,387 | 613 | 2,781 | 93% | 219 |
| **7** | 11/19/2007 | 6,000 | 4,726 | 1,274 | 5,575 | 93% | 425 |
| **8** | 12/9/2008 | 8,190 | 6,080 | 2,110 | 7,561 | 92% | 629 |
| **9** | 2/12/2008 | 4,925 | 3,674 | 1,251 | 4,531 | 92% | 394 |
| **10** | 2/22/2008 | 11,526 | 0 | 11,526 | 6,295 | 55% | 5,231 |
| | | 71,141 | 38,342 | 32,799 | 59,321 | 83% | 11,820 |

[6] The geographic distribution of renter respondents across Community Plan Areas was monitored throughout the survey process. Two of the ten replicates targeted particular telephone exchanges in order to enhance coverage in sparsely represented CPAs.

[7] The survey was administered to 4,861 renters, 18 years of age and older. About one quarter (24.8%) of the surveys were completed between 9/18/07 and 10/27/07; about half (50.5%) by 11/27/07; three quarters (75.1%) by 1/22/08; and the last quarter from that date until 4/7/08.

[8] Renter respondents were offered a $10 gift card for completing the survey, and $12 if the responded using a cell phone. The following table shows the gift cards chosen by respondents:

| Gift Certificate | Frequency | Percent |
|---|---|---|
| Telephone calling card | 599 | 12% |
| Ralph's Grocery Store | 1,305 | 27% |
| Vons' Grocery Store | 521 | 11% |
| Barnes and Noble | 193 | 4% |
| Starbucks | 605 | 12% |
| Donate to City of Los Angeles Affordable Housing Trust Fund | 1,453 | 30% |
| Don't Know/ No Response | 24 | 0% |
| Refused | 159 | 3% |
| Total | 4,859 | 100% |

The largest number of respondents to the renter survey chose to donate the gift amount of their card to the City of Los Angeles' Affordable Housing Trust Fund. This combined donation will be disbursed by the Economic Roundtable upon the release of the report in early fall 2008.

[9] Supporting data for Figure 2-2, phone call attempts made to each RDD number, are as follows:

| Number of Phone Call Attempts | Frequency | Percent |
|---|---|---|
| 0 | 748 | 1.4 |
| 1 | 18,987 | 34.5 |
| 2 | 7,647 | 13.9 |
| 3 | 2,882 | 5.2 |
| 4 | 2,091 | 3.8 |
| 5 | 1,638 | 3 |
| 6 | 1,503 | 2.7 |
| 7 | 1,268 | 2.3 |
| 8 | 1,000 | 1.8 |
| 9 | 853 | 1.6 |
| 10 | 756 | 1.4 |
| 11 | 663 | 1.2 |
| 12 | 586 | 1.1 |
| 13 | 514 | 0.9 |
| 14 | 464 | 0.8 |
| 15 | 7,393 | 13.4 |
| 16 | 5,647 | 10.3 |
| 17 | 258 | 0.5 |
| 18 | 58 | 0.1 |
| 19 | 38 | 0.1 |
| Total | 54,994 | 100 |

[10] The SSRC staff obtained valid, completed surveys from about 9 percent of the RDD telephone numbers used in the survey. Twenty-two percent of the phone numbers called led to reaching someone ineligible for the survey, either a person who was not a renter, was less than age 18, or was unwilling to participate in the survey. Another 69 percent, approximately 37,500 of the RDD telephone numbers, were unreachable due to no one home, busy signal, call blocking or disconnected lines. A total of 97 interviewers completed between one and 248 interviews each, with an average of 49.6 completions and a median of 19.5. Interviewers and shift supervisors worked a total of 11,056.4 hours to collect these data. An average of 81 person-hours was worked per evening shift (Monday through Thursday) and an average of 98 hours on Saturday and Sunday. The average staff strength during evening shifts was 20 interviewers, falling to 16 interviewers per weekend shift. Over the life of the project, approximately one hour and 28 minutes of interviewer 'log on" time and 68.9 dialing attempts were required to obtain one completed interview.

[11] Survey questions were drawn from existing surveys of households (2000 Census and the 2006 American Community Survey), the Scope of Work requirements and issues identified by the Economic Roundtable and SSRC research teams. The draft questions were refined based on input from seven pre-survey focus groups held with renters across the City in August, September and October 2007. Final validation and refinement of the questions was completed through field tests conducted by SSRC.

[12] United States General Accounting Office letter to Congressman Bob Baar, Vice Chairman, Committee on Government Reform, House of Representatives; Subject: Legal Authority for American Community Survey, April 4, 2002.

[13] A more detailed comparison of benchmarks is provided below. Compared to the 2006 Census, renter households captured by the renter survey are:

- *Distributed equally across most regions of the City* - The share of survey respondents across the City's seven area planning commissions are similar to Census figures, with South LA being the exception. Survey respondents are slightly overrepresented in South LA (24 percent vs.19 percent).

- *Represented equally in RSO units* - Two-thirds of renters in the survey live in RSO regulated units. This is equal to the share of renter-occupied units in the City that fall under the purview of the RSO, as reported by the Census Bureau's 2006 ACS. Additionally, the distribution of RSO units is similar across both data sources. The survey, however, captures a larger share of RSO units in South LA (27 percent vs. 21 percent) and a smaller share of RSO units in West LA (7 percent vs. 12 percent) when compared to the Census.
- *Similarly distributed across ethnic groups* - Despite slight variations between the data sources, renters in most ethnic groups are well represented. Asian renters appear to be the only group underrepresented in the renter survey when compared to ACS 2006.
- *Slightly older* - Renters between the ages of 25 and 34 are slightly underrepresented and senior renter (65 years or older) are slightly overrepresented in the renter survey.
- *Poorer* – The average household income is 83 percent of the average income reported by the 2006 ACS.
- *Paying similar rent* – The average rent ($951) reported by renters in the survey is virtually equal to the average contract rent ($962) reported by the Census.
- *Have a similar number of wage earners contributing to rent* – The renter survey and the 2006 ACS both show that, on average, close to 1.5 people in a household contribute to rent. Additionally, both sources show that the median number of contributors to rent is 1 person.
- *Larger* – The average and median household size is a half-person and one-person, respectively, larger than 2006 ACS figures.
- *Renting slightly more single-family homes and less apartment units* - Seventy percent of renters in the renter survey occupy units in apartment building compared to 80 percent in the Census. Additionally, 28 percent of renter in the survey rent single-family homes compared to 20 percent in the Census.
- *Living in comparable size units* – The average and median rental unit in the renter survey has close to 3.5 rooms and 3 rooms, respectively, which is very close to the 3.4 and 3 rooms, respectively, in 2006 ACS.
- *More children* – The ratio of adults to children in the renter survey is 1.9 to 1 compared to 2.5 to 1 in the 2006 ACS.
- *More overcrowded* – Nine percent more households are in overcrowded units and over twice the share of households are in severely overcrowded units compared to the 2006 ACS.
- *More fluent in English* – The share of renters who speak a language other than English at home is almost 40 percent smaller, and the share of renters who speak English "very well" or "well" is 20 percent larger than 2006 ACS figures.

[14] Gregg Diffendal, U.S. Census Bureau, Demographic Statistical Methods Division, "The Hard-To-Interview in the American Community Survey," Proceedings of the Annual Meeting of the American Statistical Association, August 5-9, 2001.

[15] Supporting data for Figure 2-3, LA City renters by income, are as follows:

| Income Range | Survey (No Weights) | Survey (Household Weight) | U.S. Census 2006 ACS |
|---|---|---|---|
| $100,000 or More | 7% | 4% | 8% |
| $75,000 to $99,999 | 5% | 4% | 8% |
| $50,000 to $74,999 | 12% | 9% | 16% |
| $35,000 to $49,999 | 10% | 9% | 16% |
| $25,000 to $34,999 | 13% | 13% | 14% |
| $10,000 to $24,999 | 36% | 41% | 27% |
| Less than $10,000 | 16% | 20% | 12% |

[16] The 2006 ACS shows that the ratio of adults (18 years or older) to children (0-17 years) increases as income level increases, as shown in the table below.

| Household Income | Ratio of Adults to Children |
|---|---|
| Less than $35,000 | 2.0 to 1 |
| $35,000 to $49,999 | 2.5 to 1 |

| | |
|---|---|
| $50,000 to $99,999 | 3.4 to 1 |
| $100,000 or More | 6.3 to 1 |

[17] The only benchmark that may not reflect the seemingly greater representation of low-income renters is rent, a factor that we would expect to see fluctuating together with income. It is likely that even after converting 2006 ACS rents to 2007 dollars, they do not reflect the actual rate of housing inflation that occurred between 2006 and 2007, making ACS average rent artificially low in comparison to the rent survey average.

[18] Supporting data for Figure 2-4, length of stay in current unit by APC, are as follows:

| APC | Length of Stay | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Less than 2 Years (2007-2008) | 2 to 4 Years (2004-2006) | 5 to 9 Years (1999-2003) | 10 to 14 Years (1994-1998) | 15 to 19 Years (1989-1993) | 20 to 24 Years (1984-1988) | 25 to 29 Years (1979-1983) | 30 Years or More (1978 or earlier) |
| West LA | 8% | 27% | 28% | 17% | 9% | 4% | 3% | 4% |
| Central LA | 9% | 29% | 25% | 17% | 10% | 4% | 2% | 3% |
| Harbor | 14% | 28% | 33% | 19% | 5% | 1% | 0% | 1% |
| East LA | 15% | 26% | 26% | 16% | 6% | 5% | 0% | 4% |
| South LA | 16% | 29% | 27% | 15% | 7% | 3% | 1% | 3% |
| South Valley | 16% | 33% | 25% | 13% | 6% | 3% | 2% | 2% |
| North Valley | 17% | 33% | 30% | 12% | 4% | 2% | 1% | 1% |
| Outside LA City | 17% | 32% | 26% | 10% | 6% | 4% | 1% | 3% |
| City of LA | 14% | 29% | 27% | 15% | 7% | 3% | 2% | 3% |

[19] Data from the renter survey shows a smaller share (13 percent renter survey vs. 26 percent owner survey) of short-term renters who have lived in their units for less than 2 years and a larger share (15 percent vs. 8 percent) of long-term renters who have lived in their units for 15 or more years.

[20] Supporting data for Figure 2-7, breakout by APC of total renter households, households living in entire units and in partial units, are as follows:

| APC | Households Renting Entire Units | Households Renting Partial Units | Total Renter Households |
|---|---|---|---|
| West LA | 7% | 2% | 7% |
| Harbor | 5% | 3% | 4% |
| South Valley | 17% | 11% | 17% |
| North Valley | 9% | 14% | 10% |
| East LA | 12% | 15% | 12% |
| Central LA | 25% | 23% | 25% |
| South LA | 25% | 31% | 26% |

[21] Supporting data for Figure 2-8, household size by APC, are as follows:

| Area | Household Size - Persons | | | | | |
|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | 6+ |
| CITY OF LA | 26% | 21% | 16% | 18% | 10% | 9% |
| OUTSIDE LA | 24% | 19% | 17% | 19% | 10% | 11% |
| Harbor | 20% | 21% | 21% | 21% | 11% | 7% |
| South LA | 22% | 19% | 17% | 17% | 12% | 13% |
| East LA | 17% | 22% | 16% | 21% | 13% | 11% |
| Central LA | 33% | 23% | 16% | 15% | 8% | 5% |
| West LA | 39% | 28% | 13% | 11% | 5% | 3% |
| South Valley | 31% | 20% | 15% | 19% | 9% | 7% |
| North Valley | 19% | 19% | 17% | 21% | 11% | 13% |

[22] The universe for Figures 2-14 and 2-15 and Tables 2-8 and 2-9 only includes respondents who reported living in RSO units (Q18=YES).

[23] Consumer Price Index for "All Urban Consumers," for the 5-county Los Angeles region, produced by the US Bureau of Labor Statistics – see www.bls.gov/cpi for more information.

[24] The income distribution for RSO and Non-RSO renter households is as follows:

| | RSO | Non-RSO |
|---|---|---|
| Less than $10,000 | 20% | 19% |
| $10,000 to $24,999 | 41% | 33% |
| $25,000 to $34,999 | 13% | 13% |
| $35,000 to $49,999 | 9% | 10% |
| $50,000 to $74,999 | 8% | 12% |
| $75,000 to $99,999 | 6% | 6% |
| $100,000 or More | 3% | 8% |

[25] Several scenarios are possible when an eviction process starts. The property owner or manager may verbally threaten to evict a tenant household, and the tenant(s) may remedy the problem or leave the unit without being given an actual written notice. A written notice to evict may be given to a tenant household, but then not followed through by the landlord. If an eviction notice is served, not resolved and instead filed with the superior court as an unlawful detainer case, the landlord can still withdraw it before the case is heard or simply not show up to present evidence, thus nullifying the case. A tenant can retain private or pro bono legal representation and dispute the grounds of the unlawful detainer case, which can extend the proceedings to allow time for discovery of evidence and possible appeals.

[26] Supporting data for Figure 2-16, unlawful detainer cases filed in the Los Angeles Superior Court, landlord declarations of intent to evict, are as follows:

| Year Case Opened | LAHD Declarations of Intent to Evict (Units Affected) | Unlawful Detainer Cases Filed, City of LA | Unlawful Detainer Cases Filed, rest of LA County |
|---|---|---|---|
| 1998 | 6 | 42,671 | 46,321 |
| 1999 | 193 | 38,949 | 42,282 |
| 2000 | 663 | 39,483 | 42,861 |
| 2001 | 995 | 39,113 | 42,460 |
| 2002 | 990 | 34,216 | 37,144 |
| 2003 | 2,459 | 31,201 | 33,871 |
| 2004 | 2,845 | 28,379 | 30,806 |
| 2005 | 5,082 | 26,315 | 29,007 |
| 2006 | 4,707 | 24,941 | 27,487 |
| 2007 | 2,320 | 26,823 | 29,382 |

[27] Data analyzed from LAHD's Landlord Declarations of Intent to Evict is provided voluntary by property owners.

[28] Los Angeles Housing Department. 2008. Dataset 6: Landlord Declarations of Intent to Evict, Data for Each Declaration Filed. Data for 2008 covers only a partial year, so only years 1998-2007 are displayed. Data are counts of Landlord Declaration to Evict case records.

[29] Los Angeles Housing Department. 2008. Dataset 6: Landlord Declarations of Intent to Evict, Data for Each Declaration Filed; LA County Assessor's Office, Local Roll. Note: * = Year of purchase before 1976, which is not broken out in the Assessor's data, and thus shown as one bar.

[30] Raphael Bostic, Rental *Market Analysis: Housing Market Dynamics, Development Financing, and Growth Trends*, Chapter 6 of this report.

[31] Los Angeles Housing Department. 2008. Dataset 6: Landlord Declarations of Intent to Evict, Data for Each Declaration Filed. Data are based on 42 eviction types recorded by LAHD.

[32] At-fault evictions, where the tenant is in violation of a lease due to non-payment of rent or disruptive behavior, can be prosecuted by landlords in court without filing a "Declaration of Intent to Evict" with the LA Housing Department. In cases of no-fault eviction concerning an RSO-regulated unit, the landlord must file a "Declaration of Intent to Evict." Thus, LAHD data on landlord's declarations to evict is a good measure of trends in no-fault evictions, but not in the overall number of evictions.

[33] Supporting data for Figure 2-20, evictions by type and year purchased by present owners, are as follows:

| Year Pur-chased | Owner/ Family Intent to Occupy | Demolition of Apart-ments | Perm. Removal from Rental Use | Compliance w/Government Order | Resident Manager Occupied | Property Downsizing | Major Reha-bilitation | HUD Property to be Sold | Drug/Gang Related | All Other Eviction Types | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1976 | 34 | 3 | 14 | 7 | 5 | | | | | 4 | 67 |
| 1977 | 33 | 4 | 16 | 10 | 3 | 3 | | | 5 | 8 | 82 |
| 1978 | 42 | 9 | 31 | 16 | 5 | | 7 | | 6 | 5 | 121 |
| 1979 | 35 | 4 | 9 | 1 | 2 | | 1 | | 1 | 1 | 54 |
| 1980 | 20 | 9 | 6 | 4 | 1 | | 2 | | 2 | 3 | 47 |
| 1981 | 17 | 24 | 4 | 3 | | 1 | | | 1 | 2 | 52 |
| 1982 | 14 | 3 | 3 | 3 | 2 | | 1 | | 3 | 2 | 31 |
| 1983 | 29 | 17 | 14 | 3 | 5 | | | | | 5 | 73 |
| 1984 | 35 | 12 | 5 | 15 | 1 | 3 | 1 | | 2 | 8 | 82 |
| 1985 | 25 | 53 | 6 | 10 | 4 | 2 | | | | 4 | 104 |
| 1986 | 28 | 12 | 15 | 16 | 2 | 2 | | | 1 | 3 | 79 |
| 1987 | 44 | 7 | 14 | 24 | 6 | | 1 | | | 15 | 111 |
| 1988 | 30 | 1 | 4 | 9 | | 1 | | | 1 | 4 | 50 |
| 1989 | 31 | 31 | 10 | 7 | 1 | 1 | | | 2 | 21 | 104 |
| 1990 | 28 | 79 | 2 | 7 | 2 | | | | 4 | 3 | 125 |
| 1991 | 25 | 15 | 14 | 3 | 2 | 1 | 1 | | 1 | 7 | 69 |
| 1992 | 22 | 11 | 3 | 6 | | 1 | 1 | | 7 | 3 | 54 |
| 1993 | 28 | 14 | 9 | 4 | 2 | 3 | 3 | | 3 | 0 | 66 |
| 1994 | 62 | 43 | 12 | 8 | 10 | 3 | 5 | 1 | 3 | 49 | 196 |
| 1995 | 55 | 19 | 3 | 8 | 4 | | 6 | | 7 | 10 | 112 |
| 1996 | 50 | 11 | 33 | 13 | 4 | 3 | 4 | | 9 | 11 | 138 |
| 1997 | 82 | 43 | 12 | 5 | 9 | 2 | 5 | | 8 | 13 | 179 |
| 1998 | 98 | 120 | 36 | 18 | 5 | 32 | 11 | | 7 | 15 | 342 |
| 1999 | 110 | 55 | 56 | 19 | 13 | 8 | 10 | | 8 | 14 | 293 |
| 2000 | 228 | 33 | 42 | 10 | 17 | 12 | 17 | | 5 | 61 | 425 |
| 2001 | 259 | 115 | 96 | 17 | 18 | 7 | 35 | 1 | 5 | 26 | 579 |
| 2002 | 377 | 140 | 120 | 31 | 31 | | 25 | 19 | 7 | 44 | 794 |
| 2003 | 495 | 112 | 188 | 41 | 63 | 24 | 12 | 22 | 12 | 49 | 1,018 |
| 2004 | 743 | 268 | 833 | 65 | 63 | 33 | 32 | 48 | 15 | 47 | 2,147 |
| 2005 | 805 | 628 | 309 | 80 | 64 | 40 | 15 | 51 | 20 | 69 | 2,081 |
| 2006 | 941 | 1,289 | 519 | 72 | 79 | 48 | 11 | 29 | 21 | 75 | 3,084 |
| 2007 | 805 | 933 | 562 | 92 | 74 | 48 | 9 | 40 | 24 | 191 | 2,778 |
| 2008 | 232 | 160 | 256 | 37 | 21 | 4 | 6 | 8 | 6 | 38 | 768 |
| Total | 6,202 | 4,548 | 3,403 | 749 | 550 | 290 | 229 | 219 | 213 | 892 | 17,295 |

[34] Most landlord declarations of intent to evict for administrative processes involve removal of tenants from government-owned properties, other administrative reasons include properties for which there is a non-rental affidavit and vacant properties.

[35] Los Angeles Housing Department, 2008. Cases Opened for Landlord Declarations of Intent to Evict, by Month. Administrative Dataset (6); Relocation Services Contractor. 2008. LAHD - Determinations Tracking Report. (Obtained May 17, 2008). Records are those referred by LAHD, determined to be eligible for replacement housing search services. Eviction 'cases' refer to a rental housing property, which can have one or more units affected.

[36] Los Angeles Housing Department, 2008. Cases Opened for Landlord Declarations of Intent to Evict, by Month. Administrative Dataset (6); Relocation Services Contractor. 2008. LAHD - Determinations Tracking Report. (Obtained May 17, 2008). Records are those referred by LAHD, determined to be eligible for replacement housing search services. Eviction 'cases' refer to a rental housing property, which can have one or more units affected.

[37] Supporting data for Figure 2-30, complete plumbing facilities for renter-occupied units in 1990, 2000 and 2006, are as follows:

| APC | 1990 | 2000 | 2006 |
|---|---|---|---|
| East LA | 95.8% | 95.1% | 98.9% |
| South LA | 98.2% | 98.3% | 99.5% |
| Central LA | 98.4% | 98.0% | 99.6% |
| Harbor | 98.9% | 98.4% | 99.2% |
| North Valley | 99.2% | 98.5% | 99.2% |
| West LA | 99.4% | 99.3% | 99.4% |
| South Valley | 99.5% | 99.2% | 99.9% |
| City of LA | 98.6% | 98.2% | 99.5% |

Supporting data for Figure 2-31, complete kitchen facilities for renter-occupied units in 1990, 2000 and 2006, are as follows:

| APC | 1990 | 2000 | 2006 |
|---|---|---|---|
| East LA | 92.8% | 92.4% | 96.0% |
| South LA | 96.5% | 96.5% | 97.9% |
| Central LA | 97.3% | 97.5% | 97.3% |
| Harbor | 97.7% | 97.5% | 99.2% |
| North Valley | 98.0% | 98.5% | 97.6% |
| West LA | 98.3% | 98.0% | 98.7% |
| South Valley | 98.5% | 97.8% | 98.6% |
| City of LA | 97.1% | 96.9% | 98.1% |

[38] Eighty-seven percent of renters report that they pay for their electricity, but owners report that almost 50 percent of tenants pay additional costs for electricity. The variation in responses may well be the result of the different questions used on each survey to obtain this data. The questions appear to have been interpreted differently by owners and renters. DWP data indicates that renter responses are most accurate; it shows that approximately 90 percent of rental units have individual electricity meters, indicating that this share of renters would likely pay their own electricity.

[39] Rents from the 2006 Census reported in this section are monthly contract rents, which differ from gross rents reported in Chapter 1 of the study. Gross rent is the amount of the contract rent plus the estimated average monthly cost of utilities and fuels if these are paid for by the renter.

[40] Supporting data for Figure 2-34, monthly rent by APCs, are as follows:

| | Monthly Rent | | | | | | |
|---|---|---|---|---|---|---|---|
| Area | Less than $600 | $600-$799 | $800-$999 | $1,000-$1,199 | $1,200-$1,399 | $1,400-$1,599 | $1,600 or More |
| North Valley | 18% | 19% | 25% | 15% | 13% | 3% | 7% |
| South Valley | 9% | 20% | 27% | 16% | 12% | 7% | 10% |
| West LA | 5% | 12% | 15% | 14% | 14% | 13% | 27% |
| Central LA | 24% | 23% | 24% | 10% | 7% | 5% | 7% |
| East LA | 20% | 34% | 23% | 10% | 6% | 3% | 4% |
| South LA | 30% | 26% | 20% | 10% | 7% | 4% | 3% |
| Harbor | 11% | 27% | 29% | 12% | 13% | 4% | 4% |
| OUTSIDE LA | 20% | 25% | 18% | 11% | 10% | 6% | 10% |
| CITY OF LA | 20% | 23% | 23% | 12% | 9% | 5% | 7% |

[41] Thirty-seven percent of renters in RSO units report that their rents were either never increased or increased intermittently during their tenancy, and roughly 40 percent of owners of RSO properties report that they do not usually increase rent by the annual amount.

[42] Supporting data for Figure 2-47, percent increase in median rent by years living in unit, are as follows:

| Length of Occupancy (move-in year) | RSO: Actual Increase | Non-RSO: Actual Increase | Compounded RSO Allowable Increase | Compounded CPI Increase |
|---|---|---|---|---|
| 2 (2006) | 5.07% | 9.52% | 9.20% | 10.91% |
| 3 (2005) | 9.68% | 12.63% | 12.48% | 17.53% |
| 4 (2004) | 11.11% | 18.58% | 15.85% | 25.57% |
| 5 (2003) | 15.78% | 18.75% | 19.33% | 32.85% |
| 6 (2002) | 19.60% | 23.08% | 22.91% | 39.41% |
| 7 (2001) | 27.43% | 28.00% | 26.59% | 48.04% |
| 8 (2000) | 30.00% | 42.43% | 30.39% | 54.79% |
| 9 (1999) | 33.33% | 51.16% | 34.30% | 60.59% |
| 10 (1998) | 34.81% | 61.90% | 38.33% | 66.01% |
| 11 (1997) | 40.00% | 58.47% | 42.48% | 69.26% |

[43] Supporting data for Figure 2-55, affordable housing initiatives, are as follows:

| Important that LA: | Don't Know | Not important at all | Somewhat unimportant | Somewhat important | Very important |
|---|---|---|---|---|---|
| Let private market solve | 17% | 20% | 9% | 18% | 36% |
| More public funding | 4% | 4% | 3% | 16% | 73% |
| Help renters become homeowners | 4% | 4% | 4% | 14% | 74% |
| Inclusionary Zoning | 3% | 4% | 3% | 13% | 78% |
| Build affordable family units | 2% | 2% | 1% | 11% | 84% |
| Save existing affordable housing | 3% | 1% | 1% | 11% | 84% |
| Stop big rent increases | 2% | 3% | 2% | 8% | 84% |
| Prevent unfair evictions | 4% | 2% | 1% | 9% | 85% |
| Prevent discrimination | 3% | 2% | 1% | 7% | 86% |
| Inform renters about rights | 2% | 1% | 1% | 8% | 89% |
| Build affordable senior units | 1% | 1% | 1% | 7% | 90% |

# *ENDNOTES – CHAPTER 3*

[1] Appendix B provides detailed information about survey methodology.

[2] The survey was mailed to a random sample of 7,043 owners of rental properties in the City of Los Angeles that are subject to the Rent Stabilization Ordinance.

- 384 survey recipients had undeliverable addresses and their surveys were returned, reducing the effective sample size to 6,659;
- 124 owners placed telephone calls to the Economic Roundtable to inform the research team that they no longer had housing units that were for rent, reducing the effective sample size to 6,535;
- 14 owners were found to have no units in the RSO inventory, reducing the effective sample size to 6,521;
- 2,148 property owners and managers returned the survey by July 31, 2008
- 24 returned surveys were duplicate responses from the same owners, reducing the total number of unduplicated eligible responses to 2,124
- The response rate from the unduplicated eligible sample was 33%
- 88 returned surveys could not be used for the following reasons:
    - 33 responses received after the May 7, 2008 cut-off date;
    - 42 returned surveys were excluded from the analysis because they lacked sufficient information to make them useable;
    - 13 owners returned blank or torn-up survey forms
- 2,036 or 96 percent of unduplicated returned surveys, were used in the analysis.

[3] Initial questions for the survey were drawn from three sources:

- Property Owners and Managers Survey: Multi-housing Unit Properties, U.S. Census Bureau, 1996
- Questions developed by the Economic Roundtable to support planned analysis
- Questions addressing issues specified in the scope of work for this study

The questions were modified to apply to owners under the Rent Stabilization Ordinance and to meet the goals of the Economic Study of the Rent Stabilization Ordinance and the Local Housing Market for the City of Los Angeles. The survey was reviewed by focus groups in each of the City's seven Area Planning Commission regions. One of the seven groups was conducted in Spanish, one was made up of mobile home park owners, and one was made up of large property owners (40 or more units). Drafts of the survey questions were modified after each focus group. A total of 60 owners participated in the seven pre-survey focus groups.

[4] The 2,037 respondents who returned surveys used in the analysis own 105,039 rent-stabilized units. This sum is obtained by using the data source that shows the highest number of units shown for each owner: a) the survey or b) the unduplicated list of property owners and rental properties that the Economic Roundtable created by rolling up multiple listings for the same owner shown in the Housing Department database. The units owned by survey respondents represent 16 percent of the 638,116 rent-stabilized units shown in the Housing Department database.

[5] Supporting data for Figure 3-2, ownership role based on size (unweighted data), are as follows:

| | Respondents-Unweighted | Respondents-Owner Weight | Respondents-Unit Weight |
|---|---|---|---|
| APC REGION | | | |
| North Valley | 4% | 4% | 5% |
| South Valley | 15% | 8% | 12% |
| Western | 11% | 10% | 10% |
| Central | 27% | 21% | 26% |
| East | 15% | 18% | 14% |
| South | 22% | 33% | 27% |
| Harbor | 5% | 6% | 5% |
| SIZE | | | |
| 1-4 units | 27% | 73% | 44% |
| 5-10 units | 19% | 17% | 18% |
| 11-39 units | 29% | 7% | 15% |
| 40+ units | 25% | 2% | 23% |

[6] Records of the City of Los Angeles Housing Department list 118,254 properties that are regulated by the Rent Stabilization Ordinance, some of which are owned by the same person or entity. To avoid sending multiple surveys to the same respondent, the properties under common ownership were identified and linked to the extent possible. This process consolidated the list of properties into a list of 86,174 unduplicated owners that was randomly sampled to identify owners who would receive the survey.

[7] The geographic classification of property owners is based on the area where the greatest number of their units are located. Geographic classifications were determined for the entire universe of 86,174 unduplicated list of RSO property owners, identifying a Community Planning Area (CPA) and Regional Planning Commission (RPC) designation for each owner.

[8] The breakout of RSO properties by size and geography, based on data in the Housing Department's database, is as follows:

| | 1-4 units | | 5-10 units | | 11-39 units | | 40+ units | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| Area Planning Commission | Number Properties | Number Units | Number Properties | Number Units | Number Properties | Number Units | Number Properties | Number Units | Number Properties | Number Units |
| North Valley | 2,412 | 5,581 | 492 | 3,389 | 535 | 11,959 | 217 | 17,581 | 3,656 | 38,510 |
| South Valley | 3,874 | 10,753 | 2,564 | 17,603 | 1,648 | 33,899 | 401 | 29,718 | 8,487 | 91,973 |
| Western | 5,586 | 14,776 | 3,049 | 22,665 | 1,216 | 22,036 | 139 | 11,555 | 9,990 | 71,032 |
| Central | 12,194 | 32,562 | 5,313 | 38,474 | 3,273 | 64,474 | 743 | 56,337 | 21,523 | 191,847 |
| East | 15,742 | 39,049 | 2,228 | 14,586 | 587 | 10,271 | 53 | 4,716 | 18,610 | 68,622 |
| South | 26,728 | 68,479 | 4,384 | 30,057 | 1,416 | 24,546 | 60 | 4,602 | 32,588 | 127,684 |
| Harbor | 4,857 | 12,973 | 830 | 5,711 | 264 | 4,580 | 40 | 3,230 | 5,991 | 26,494 |
| Not Geocoded | 101 | 280 | 50 | 352 | 31 | 650 | 8 | 701 | 190 | 1,983 |
| Total | 71,494 | 184,453 | 18,910 | 132,837 | 8,970 | 172,415 | 1,661 | 128,440 | 101,035 | 618,145 |

[9] The weights were calculated using a logistic regression procedure that adjusted the universe of survey responses to match the total universe of RSO properties and property owners and based on three factors:

a. Distribution by community planning area
b. Distribution by ownership size
c. Nonresponse rates by CPA and ownership category

[10] Supporting data for Figure 3-4, years experience owning rRental property (owner weights), are as follows:

| | ≤ 2 Years | 3-4 Years | 5-9 Years |
|---|---|---|---|
| SIZE | | | |
| 1-4 Units | 7% | 12% | 17% |
| 5-10 Units | 6% | 13% | 15% |
| 11-39 Units | 1% | 7% | 15% |
| 40+ Units | 2% | 8% | 13% |
| All RSO Owners | 7% | 12% | 16% |
| APC REGION | | | |
| North Valley | 20% | 10% | 22% |
| South Valley | 5% | 8% | 29% |
| Western | 3% | 3% | 18% |
| Central | 9% | 9% | 18% |
| East | 5% | 12% | 13% |
| South | 7% | 17% | 14% |
| Harbor | 3% | 10% | 10% |
| LA CITY | 7% | 12% | 16% |

[11] U.S. Census Bureau, American Community Survey, 2006, tables B25003 and B25004.

[12] Natalia Siniavskaia, "Local Vacancy Rates in Government Databases," National Association of Home Builders, October 13, 2007, http://www.nahb.org/generic.aspx?genericContentID=83461

[13] Responses about turnover rates were calculated using unit-weighted data, which partially offset the low response rates among small owners, who appear to skew the aggregated data for all owners toward higher turnover rates. Comparisons of turnover rates for non-RSO and RSO units, and of turnover rates in past year to previous years were calculated using unit weights. The use of unit weights makes the comparisons within size categories more accurate but the under-representation of small owners among respondents to these questions affects the reliability of citywide aggregation of responses.

[14] Supporting data for Figures 3-7 and 3-8 are as follows:

Figure 3-7: Comparison of RSO turnover to non-RSO turnover (unit weights)

| | More | Less | The same | Don't know |
|---|---|---|---|---|
| 1-4 units | 7% | 12% | 36% | 45% |
| 5-10 units | 14% | 23% | 33% | 29% |
| 11-39 units | 18% | 38% | 33% | 11% |
| 40+ units | 21% | 43% | 26% | 11% |
| LA CITY | 10% | 18% | 35% | 37% |

Figure 3-8: Comparison of turnover last year to previous years (unit weights)

| | Increased | Decreased | The same | Don't know |
|---|---|---|---|---|
| 1-4 units | 14% | 10% | 53% | 23% |
| 5-10 units | 18% | 14% | 56% | 11% |
| 11-39 units | 20% | 24% | 40% | 17% |
| 40+ units | 14% | 28% | 50% | 7% |
| LA CITY | 16% | 14% | 52% | 18% |

[15] Data from the owners' survey shows a larger share (26 percent owner survey vs. 13 percent renter survey) of short-term renters who have lived in their units for less than 2 years and a smaller share (8 percent vs. 15 percent) of long-term renters who have lived in their units for 15 or more years.

[16] The Bureau of Labor Statistics in the U.S. Department of Labor produces monthly Consumer Price Index data for the Los Angeles region, which includes the 5-county Los Angeles-Riverside-Orange County CMSA. One of the price factors is "rent of primary residence," which is broken out separately. The data series showing monthly change in rent of primary residence was downloaded from: http://www.bls.gov/cpi/

[17] Supporting data for Figures 3-9 and 3-10, rent changes for unit that was $262 (median LA City rent) in 1980 based on changes in Renter CPI for the LA region and RSO rent ceiling changes, are as follows:

| | Scenario #1 - 29 years in same unit | | | | | Scenario #2 - 20 years in same unit | | Scenario #3 - 15 years in same unit | | Scenario #4 - 10 years in same unit | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Fiscal Year | Percent Change in Renter CPI | Allow-able RSO Rent In-crease | Rent for unit that was $262 in 1980 based on changes in Renter CPI for the LA region | Rent for unit that was $262 in 1980 based on allowable RSO rent increases | RSO as % of CPI market-rate rent in 29-year scenario | Rent for unit that was $262 in 1980 based on allowable RSO rent increases | RSO as % of CPI market-rate rent in 20-year scenario | Rent for unit that was $262 in 1980 based on allowable RSO rent increases | RSO as % of CPI market-rate rent in 15-year scenario | Rent for unit that was $262 in 1980 based on allowable RSO rent increases | RSO as % of CPI market-rate rent in 10-year scenario |
| 1979-1980 | 11% | 0% | $262 | $262 | 100% | | | | | | |
| 1980-1981 | 12% | 0% | $292 | $262 | 90% | | | | | | |
| 1981-1982 | 11% | 0% | $325 | $262 | 81% | | | | | | |
| 1982-1983 | 8% | 0% | $350 | $262 | 75% | | | | | | |
| 1983-1984 | 6% | 0% | $372 | $262 | 70% | | | | | | |
| 1984-1985 | 8% | 7% | $402 | $280 | 70% | | | | | | |
| 1985-1986 | 8% | 4% | $434 | $292 | 67% | | | | | | |
| 1986-1987 | 6% | 5% | $461 | $306 | 66% | | | | | | |
| 1987-1988 | 5% | 4% | $484 | $318 | 66% | | | | | | |
| 1988-1989 | 4% | 4% | $505 | $331 | 66% | $505 | 100% | | | | |
| 1989-1990 | 5% | 5% | $531 | $348 | 65% | $530 | 100% | | | | |

*Supporting data for Figures 3-9 and 3-10 continued*

| Fiscal Year | Scenario #1 - 29 years in same unit | | | | | Scenario #2 - 20 years in same unit | | Scenario #3 - 15 years in same unit | | Scenario #4 - 10 years in same unit | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Percent Change in Renter CPI | Allow-able RSO Rent In-crease | Rent for unit that was $262 in 1980 based on changes in Renter CPI for the LA region | Rent for unit that was $262 in 1980 based on allowable RSO rent increases | RSO as % of CPI market-rate rent in 29-year scenario | Rent for unit that was $262 in 1980 based on allowable RSO rent increases | RSO as % of CPI market-rate rent in 20-year scenario | Rent for unit that was $262 in 1980 based on allowable RSO rent increases | RSO as % of CPI market-rate rent in 15-year scenario | Rent for unit that was $262 in 1980 based on allowable RSO rent increases | RSO as % of CPI market-rate rent in 10-year scenario |
| 1990-1991 | 4% | 5% | $551 | $365 | 66% | $557 | 101% | | | | |
| 1991-1992 | 2% | 5% | $561 | $383 | 68% | $584 | 104% | | | | |
| 1992-1993 | 1% | 5% | $565 | $402 | 71% | $614 | 109% | | | | |
| 1993-1994 | 0% | 3% | $565 | $415 | 73% | $632 | 112% | $565 | 100% | | |
| 1994-1995 | 0% | 3% | $565 | $427 | 76% | $651 | 115% | $582 | 103% | | |
| 1995-1996 | 0% | 3% | $566 | $440 | 78% | $671 | 119% | $600 | 106% | | |
| 1996-1997 | 1% | 3% | $573 | $453 | 79% | $691 | 121% | $618 | 108% | | |
| 1997-1998 | 2% | 3% | $584 | $467 | 80% | $711 | 122% | $636 | 109% | | |
| 1998-1999 | 3% | 3% | $604 | $481 | 80% | $733 | 121% | $655 | 108% | $604 | 100% |
| 1999-2000 | 4% | 3% | $627 | $495 | 79% | $755 | 120% | $675 | 108% | $622 | 99% |
| 2000-2001 | 5% | 3% | $655 | $510 | 78% | $777 | 119% | $695 | 106% | $641 | 98% |
| 2001-2002 | 6% | 3% | $696 | $525 | 75% | $801 | 115% | $716 | 103% | $660 | 95% |
| 2002-2003 | 5% | 3% | $730 | $541 | 74% | $825 | 113% | $738 | 101% | $680 | 93% |
| 2003-2004 | 6% | 3% | $773 | $557 | 72% | $849 | 110% | $760 | 98% | $700 | 91% |
| 2004-2005 | 7% | 3% | $825 | $574 | 70% | $875 | 106% | $783 | 95% | $721 | 87% |
| 2005-2006 | 6% | 3% | $875 | $591 | 68% | $901 | 103% | $806 | 92% | $743 | 85% |
| 2006-2007 | 6% | 4% | $927 | $615 | 66% | $937 | 101% | $838 | 90% | $773 | 83% |
| 2007-2008 | 5% | 5% | $970 | $645 | 67% | $984 | 101% | $880 | 91% | $811 | 84% |

[18] Supporting data for Figure 3-10 is shown in scenarios 2, 3 and 4 of the table in endnote 17, immediately above.

[19] Supporting data for Figure 3-11, advertising methods for finding RSO tenants (owner weights), are as follows:

| | 1-4 units | 5-10 units | 11-39 units | 40+ units | All Owners |
|---|---|---|---|---|---|
| Word of mouth | 45% | 50% | 50% | 51% | 47% |
| Signs on property | 35% | 51% | 64% | 71% | 41% |
| Print advertising | 19% | 26% | 24% | 44% | 21% |
| Internet | 16% | 29% | 45% | 35% | 21% |
| Listing agency | 10% | 12% | 15% | 6% | 11% |
| Neighborhood boards | 4% | 5% | 2% | 4% | 4% |

[20] The Capital Improvement Pass-through program amortizes 50 percent of the cost of the approved improvement over a period of 60 months, but this rate of monthly rent increase continues for 72 months, with the final 12 months of payment offsetting interest costs. The total amount paid over 72 months is equivalent to 60 percent of the approved cost.

[21] Supporting data for Figure 3-16, outcomes for capital improvement claims, are as follows:

| Amount | Approved | Approved with Reduction | Denied | Voided |
|---|---|---|---|---|
| $1 to $5,000 | 60% | 24% | 14% | 2% |
| $5,001 to $10,000 | 53% | 33% | 14% | 0% |
| $10,001 to $20,000 | 46% | 42% | 11% | 1% |
| $20,001 to $40,000 | 37% | 51% | 11% | 1% |
| $40,001+ | 31% | 59% | 10% | 1% |

[22] There have been 1,905 approved applications for Capital Improvement Pass-through rent increases for tenants. Multiple applications have been submitted for some properties. The total number of properties (as identified by Assessor Parcel Number) for which applications have been approved is 1,469. It is possible that approval of multiple applications for some properties has resulted in rent increases exceeding the ceiling amount of $55 that is

allowed under this program. There are 48 properties for which 2 or more applications have been submitted with the total amount of approved rent increases exceeding $55 per month.

[23] Supporting data for Figure 3-19, capital improvement pass-through applications approved 1985-2007, are as follows:

| Year | Value of Capital Improvement Upgrades Approved - 2007$ | Number of Units Approved for Upgrading |
|---|---|---|
| 1985 | 34,516,448 | 26,486 |
| 1986 | 44,481,224 | 26,331 |
| 1987 | 62,197,768 | 29,895 |
| 1988 | 65,329,485 | 24,967 |
| 1989 | 72,733,654 | 32,666 |
| 1990 | 24,147,267 | 9,643 |
| 1991 | 18,101,851 | 5,570 |
| 1992 | 8,381,620 | 3,209 |
| 1993 | 2,388,747 | 1,247 |
| 1994 | 2,809,854 | 1,650 |
| 1995 | 8,230,468 | 2,483 |
| 1996 | 3,424,861 | 1,777 |
| 1997 | 1,430,372 | 1,050 |
| 1998 | 1,860,918 | 1,585 |
| 1999 | 2,481,040 | 2,658 |
| 2000 | 9,838,801 | 2,504 |
| 2001 | 5,865,065 | 3,828 |
| 2002 | 899,650 | 1,033 |
| 2003 | 2,651,049 | 1,093 |
| 2004 | 12,999,717 | 6,303 |
| 2005 | 13,155,982 | 5,617 |
| 2006 | 17,279,763 | 7,006 |
| 2007 | 12,117,809 | 6,054 |

[24] The statistical tests conducted produced r-square values for the correlation between the percent of properties in each CPA with SCEP investigations, the average year properties were built ($r^2 = 0.26$), and the total number of units in the CPA ($r^2 = 0.01$). Data for the year in which properties were built is from County Assessor files.

[25] Supporting data for Figure 3-23, assessment of how the Housing Department balances landlord-tenant interests (owner weights), are as follows:

| | Honest broker | Favors landlords | Favors tenants | Unpredictable | Don't know |
|---|---|---|---|---|---|
| 1-4 Units | 14% | 0% | 42% | 10% | 33% |
| 5-10 Units | 10% | 1% | 63% | 10% | 17% |
| 11-39 Units | 5% | 0% | 75% | 8% | 12% |
| 40+ Units | 6% | 0% | 70% | 16% | 7% |
| No Tenant Complaint | 12% | 1% | 44% | 10% | 34% |
| Tenant Complaint | 12% | 0.1% | 66% | 12% | 10% |
| All Owners | 12% | 1% | 49% | 10% | 28% |

[26] Tenants can file complaints for any of five reasons: 1) illegal rent increase, 32 percent of complaints; 2) eviction, 31 percent; 3) reduction of services, 14 percent; 4) rental units that are covered by the Rent Stabilization Ordinance but have not been registered, 13 percent; or 5) non-payment of relocation assistance, 10 percent.

[27] Supporting data for Figure 3-24, desire to change the RSO program (owner weights), are as follows:

| | Yes | No | Not sure |
|---|---|---|---|
| 1-4 Units | 60% | 12% | 28% |
| 5-10 Units | 83% | 5% | 12% |
| 11-39 Units | 92% | 3% | 5% |
| 40+ Units | 94% | 2% | 4% |
| All Owners | 67% | 10% | 23% |

[28] Supporting data for Figure 3-26, experience with holding tenants accountable (owner weights), are as follows:

| | 1-4 units | 5-10 units | 11-39 units | 40+ units | West | Harbor | South | North Valley | Central | East | South Valley | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Never an issue | 37% | 23% | 18% | 10% | 42% | 29% | 36% | 27% | 36% | 30% | 26% | 24% |
| Rarely a problem | 21% | 16% | 13% | 12% | 23% | 26% | 18% | 26% | 16% | 21% | 19% | 23% |
| Sometimes a problem | 22% | 28% | 30% | 29% | 19% | 24% | 23% | 34% | 24% | 19% | 29% | 19% |
| Often a problem | 22% | 33% | 39% | 50% | 18% | 21% | 25% | 15% | 25% | 30% | 26% | 34% |

[29] Analysis was done on Systat 12.0. Logistic regression was used to predict differences between owners of 1 to 4 units versus owners of 5 or more units using unit weighting on question 38. Reference groups: "Often a problem" and owners of 5 or more units. Odds Ratio = 3.5, 95%; CI = 2.7,4.6

[30] Out of the 1,882 respondents to the owner survey who responded to question 38, about tenant accountability is a problem, complaints had been filed against 836, alleging violations of the Rent Stabilization Ordinance.

[31] Among renters who responded to the renter survey, 964 renters met the following two criteria: 1) they responded to question 8 on the renter survey, which asked: "How would you describe the way the owner or manager of your building treats tenants?" and, 2) they are tenants of owners who responded to the owner survey and provided an answer to question 38 on the owner survey, which asked: "38. How would you describe your experience with holding tenants in rent-stabilized units accountable for maintenance and repairs that should be their responsibility?" Renter responses were broken out for each category of owner response, using household weights from the renter survey. The supporting data for Figure 3-28, (renter household weights), are as follows:

| Response Q38 owner survey, Experience holding RSO tenants accountable for maintenance and repairs that should be their responsibility: | Q8 renter survey: Treatment by owner/manager, Very poorly, renter survey, sum of household weights for owner ID | | | |
|---|---|---|---|---|
| | Very Poorly | Somewhat Poorly | Somewhat Well | Very Well |
| Never an issue | 4% | 9% | 29% | 58% |
| Rarely a problem | 5% | 10% | 34% | 51% |
| Sometimes a problem | 7% | 9% | 34% | 49% |
| Often a problem | 11% | 9% | 39% | 41% |

[32] The number of tenants delinquent in their rent was then divided by the total number of units owned to create the percentage of tenants delinquent in rent to the number of units owned.

[33] Stratified descriptive statistics were run on question 3 "How long have you (the owner) owned residential rental property?" with number of units owned or managed and tenant rent delinquency.

[34] Twenty-seven percent of survey respondents, i.e., 548 owners and managers, responded to this follow-up question comparing rent delinquency rates for RSO and non-RSO properties.

[35] LAHD Landlord-tenant handbook. V. Evictions, #3 (LAMC 151.09).

[36] The ratio of unreported to reported evictions for disruptive behavior increases 15:1 to 35:1 when we apply owners weights to the data rather than using a raw count of records. The likely reason for this is that unreported evictions are more frequent in small rental properties than in large rental properties. Because small owners are under-represented in the survey sample, they are more heavily weighted. This makes small owners more prominent in the weighted results and increases the proportion both of nonrespondents to the survey question about evictions for disruptive behavior and of respondents who say they have evicted tenants but do not show up in Housing Department records as having filed a declaration of intent to evict. A counterpart to Table 4, showing weighted results rather than a raw count of records is shown below.

| Table 4a | | |
|---|---|---|
| Reports in Owner Survey of Evictions for Disruptive Behavior in Past Two Years, and Filings of Declarations of Intent to Evict with Housing Department 2006-2008 (owner weights) | | |
| Survey Response about Evictions for Disruptive Behavior in Past 2 Years | Notice of Intent to Evict Filed with LAHD 2006 to 2008 | |
| | No Eviction Notice Filed | Eviction Notice Filed |
| No Response | 85.8% | 2.0% |
| No Evictions Reported | 0.3% | 0.0% |
| Evictions Reported | 11.6% | 0.3% |

[37] Supporting data for Figure 3-33, owners' description of the annual rental unit fee (owner weights), are as follows:

| | Low | Affordable | A significant cost | A burden |
|---|---|---|---|---|
| LA CITY | 2% | 41% | 28% | 30% |
| 40+ Units | 0% | 20% | 42% | 38% |
| 11-39 Units | 1% | 28% | 37% | 35% |
| 5-10 Units | 2% | 30% | 33% | 36% |
| 1-4 Units | 2% | 44% | 26% | 28% |

[38] Supporting data for Figure 3-34, passing on rental unit fees to tenants (owner weights), are as follows:

| | Yes, pass through both | Yes, SCEP fee but not registration | Yes, registration fee but not SCEP fee | No, pass through neither |
|---|---|---|---|---|
| LA CITY | 13% | 3% | 5% | 80% |
| 40+ Units | 45% | 7% | 12% | 36% |
| 11-39 Units | 31% | 7% | 9% | 53% |
| 5-10 Units | 24% | 5% | 7% | 64% |
| 1-4 Units | 9% | 2% | 4% | 85% |

[39] Owners report that almost 50 percent of tenants pay additional costs for electricity, but 87 percent of renters report paying for their electricity. The variation in responses may well be the result of the different questions used on each survey to obtain this data. The questions appear to have been interpreted differently by owners and renters. DWP data indicates that renter responses are most accurate; it shows that approximately 90 percent of rental units have individual electricity meters, indicating that this share of renters would likely pay their own electricity.

[40] Supporting data for Figure 3-36, increasing rents by the annual amount allowed under the RSO (unit weights), are as follows:

| | Yes | Depends on Tenant | No |
|---|---|---|---|
| LA CITY | 38% | 22% | 39% |
| 40+ Units | 77% | 18% | 5% |
| 11-39 Units | 61% | 28% | 10% |
| 5-10 Units | 55% | 24% | 20% |
| 1-4 Units | 31% | 21% | 48% |
| Central | 52% | 21% | 27% |
| South Valley | 44% | 28% | 28% |
| West | 42% | 32% | 26% |
| East | 36% | 22% | 42% |
| Harbor | 33% | 18% | 49% |
| South | 31% | 19% | 50% |
| North Valley | 29% | 29% | 42% |

[41] Roughly 40 percent of owners of RSO properties report that they do not usually increase rent by the annual amount and 37 percent of renters in RSO units report that their rents were either never increased or increased intermittently during their tenancy.

[42] All graphics and analysis for reasons why owners acquired RSO property were calculated using owner weights.

[43] Owner weighting used for produce the frequency of selected reasons for acquiring RSO property.

[44] Odds ratio = 1.63, 95% Confidence Interval (1.32, 2.00) Owners of 1 to 4 units are 1.63 times more likely to have acquired their RSO units without knowing about the program.

[45] Calculated using unit weights.

[46] Odds ratio = 5.02, 95% Confidence Interval (3.06, 1.64). Using unit weights, owners of 1 to 4 units are five times more likely to have purchased their RSO property as a residence for themselves or family members than owners of 5 or more units.

[47]Supporting data for Figure 3-40, debt on rent-stabilized inventory (unit weights), are as follows:

| Mortgage on property | 1-4 units | 5-10 units | 11-39 units | 40+ units | All Owners |
|---|---|---|---|---|---|
| Yes | 60% | 60% | 74% | 80% | 56% |
| No | 31% | 36% | 23% | 14% | 29% |
| Don't know | 9% | 4% | 3% | 6% | 7% |

[48] There is debt on 65 percent of units, and 85 percent of the debt was assumed in 2000 or later; this means that 55 percent of units have debt (65% x 85% = 55%).

[49] Supporting data for Figure 3-43, "did you make a profit last year (unit weights)?" are as follows:

| | 1-4 units | 5-10 units | 11-39 units | ALL OWNERS |
|---|---|---|---|---|
| Yes | 16% | 29% | 42% | 28% |
| No, broke even | 26% | 26% | 25% | 25% |
| No, had a loss | 41% | 34% | 23% | 33% |
| Don't know | 17% | 11% | 11% | 14% |

[50] Odds Ratio = 1.5, Confidence Interval = 1.2, 1.9

[51] Odds Ratio = 1.3, Confidence Interval = 1.0, 1.8

[52] The sample is restricted to owners who have both RSO and non-RSO properties. As shown in Figure 3, the likelihood of owning non-RSO properties increases with ownership size. Respondents own an average of 77 units. If owner weights are applied to the sample (reducing the effective representation of larger owners), the average number of units owned shrinks to 11. If unit weights are applied (reflecting the share of the total RSO inventory held by each respondent), the average increases to 73. By any measure, this sample includes above-average representation of larger owners.

[53] The annual allowable rent increase is based on the Consumer Price Index (CPI) average for the Los Angeles - Long Beach - Anaheim areas for a twelve (12) month period ending September 30 of each year (LAMC 151.07 A6). Under the RSO, the percentage can be no lower than three percent (3%) and no higher than eight percent (8%). The percentage is published on or before May 30 of each year for the following twelve (12) month period beginning on July 1st and ending on June 30. *Landlord-Tenant Handbook for Rental Units subject to the Rent Stabilization Ordinance*, City of Los Angeles Housing Department, November 2006, p. 19.

[54] Supporting data for Figure 3-44, "do you get a reasonable return from rent increases (unit weights)?" are as follows:

| | 1-4 units | 5-10 units | 11-39 units | 40+ units | ALL OWNERS |
|---|---|---|---|---|---|
| No | 64% | 75% | 79% | 78% | 71% |
| Yes | 10% | 12% | 14% | 13% | 12% |
| Don't know | 26% | 13% | 7% | 8% | 17% |

[55] Questions 17 and 18 were analyzed using unit weighting. Cochran's test for linear trend in Systat 12.0 was used. Linear trend for responding "No" to question 17 in comparison to responding "Yes" or "Don't Know" (p<.00). Linear trend for responding "Don't Know" to question 17 in comparison to responding "Yes" or "No" (p<.00). The

large sample assumption is not satisfied in the two-way table of question 17 "Yes" to "No" or "Don't Know" and the four-level ordinal variable of ownership class.

[56] Logistic regression was run using APC on dichotomous forms of question 17 "Does the allowable yearly rent increase for rent-stabilized units enable you to get a reasonable return on the investment in your property?" The reference category is the North Valley. In comparison to the North Valley, none of the regions are predictors of responding "Yes," "No" or "Don't Know" to question 17. Analysis was run in Systat 12.0.

[57] Supporting data for Figure 3-45, "have rent increases kept up with increases in operating costs (unit weights)?" are as follows:

| | 1-4 units | 5-10 units | 11-39 units | 40+ units | ALL OWNERS |
|---|---|---|---|---|---|
| No | 69% | 84% | 89% | 85% | 79% |
| Yes | 7% | 10% | 7% | 6% | 8% |
| Don't know | 23% | 6% | 4% | 9% | 14% |

[58] Dummy coding of question 18 "Have rent increases kept up with increases in operating costs?" were run with the four-level ordinal variable of ownership size. Using Cochran's test of linear trend, trends were found in respondents who answered "Don't know" versus "No" or "Yes" and in respondents who answered "No" versus "Yes" or "Don't know." The large-sample assumption is violated in the analysis of respondents who answered "Yes" versus "No" or "Don't know."

[59] *Landlord-Tenant Handbook for Rental Units subject to the Rent Stabilization Ordinance*, City of Los Angeles Housing Department, November 2006, p. 18. This section reads: "A Just and Reasonable rent increase . . . may be authorized by a hearing officer in situations where the landlord may have incurred reasonable operating expenses which have exceeded the rent increases allowed by the Ordinance (RAC Regulations 240.03). Landlords should be able to maintain the same level of net operating income as they experienced in 1977, prior to the adoption of the Rent Stabilization Ordinance, with a price level percentage adjustment. A landlord is required to submit a completed application with copies of all supporting documentation and a $25 filing fee (LAMC 151.07 B3). LAHD staff reviews the application and documentation and prepares an analysis for the hearing officer. A public hearing is held after which the hearing officer renders a decision to grant, modify or deny a requested rental increase (LAMC 151.07 B and Rent Adjustment Commission regulations 240.00).

[60] The following information about the Just and Reasonable rent increase guidelines is excerpted from the *Application for Rent Increase Under Just and Reasonable Guidelines*, City of Los Angeles Housing Department, September 2007, p.1:

The Just and Reasonable rent increase procedure is based on maintenance of profitability, a principle that has been upheld as one of the ways to demonstrate a landlord is receiving a Just and Reasonable (J&R) return. The Los Angeles J&R guidelines allow an increase in rent when a landlord's current year's Net Operating Income (NOU) is less than his/her base year's NOI adjusted for inflation.

The base year for a J&R rent increase is 1977. If the financial information for 1977 is not available, a landlord may substitute the base year with the first year following 1977 for which records are available. Landlords who did not own the rental property in 1977 must use the 1977 NOI of the landlord of record in 1977. If the information is not available, a landlord may substitute as base year, the first year following 1977 for which records are available. If no financial records are available from a previous landlord, the current landlord is eligible to apply for a J&R rent increase only when the landlord has two complete years of operating income and expenses. The first year's NOI for such landlords is the base year and the current year is the year prior to the year in which the J&R applications is filed.

Mortgage payments, depreciation expenses and interest expenses are not considered part of Operating Expenses.

A landlord is eligible for a J&R rent increase only if the current year NOI is less than the base year NOI adjusted for inflation. However, to ensure that no landlord suffers a net operating loss because of the RSO, a rent increase can be granted for a landlord to reach a break-even NOI (excluding depreciation and interest).

[61] The logistic regression modeling employed a stepwise procedure to remove candidate predictors that didn't have significant predictive effect (alpha=.05). The choice of predictors was confirmed by running the stepwise procedure both forwards and backwards. The final model correctly predicts profit for 75.4 percent of the sample.

[62] When determining how to categorize owners in the model based on how they reported their profit outcome for last year, several groupings of respondents were tested for similarity. After excluding owners who said they did not know the answer to this question, the remaining possible answers are "Yes," "Broke even" or "Had a loss." Two dichotomous combinations of these three possible answers were tested. First, owners that reported a profit in the last year and breaking even were tested as being similar to each other. Then, owners that reported a loss and breaking even were tested. Both resulted as dissimilar groups. This showed that the question captured four distinct populations of rental property owners that respond to the questionnaire in different ways. A follow-on test using a multinomial logistic model showed that owners who reported breaking even were unevenly differentiated from owners who reported having a loss but different in magnitude and direction from owners who reported a profit. Consequently, only two groups of respondents were included in the model: owners who reported a profit and owners who reported a loss.

[63] Some owners have more than one property, in which case the average purchase year for all of their properties was used in the model.

[64] Odds ratios are a product of the logistic regression procedure, expressing the odds of owner profit associated with a particular predictor value as a ratio to the odds associated with a reference value for that predictor.

[65] Supporting data for Figure 3-46, "still acquire RSO units (owner weights)?" are as follows:

| | Yes | No | Not sure |
|---|---|---|---|
| ALL OWNERS | 32% | 41% | 27% |
| 40+ units | 35% | 52% | 13% |
| 11-39 units | 24% | 59% | 18% |
| 5-10 units | 23% | 52% | 25% |
| 1-4 units | 35% | 37% | 28% |

[66] Supporting data for Figure 3-47, importance of affordable housing (owner weights), are as follows:

| | Very important | Somewhat important | Somewhat unimportant | Not important at all | Don't know |
|---|---|---|---|---|---|
| ALL OWNERS | 36% | 25% | 6% | 11% | 22% |
| 40+ units | 30% | 16% | 4% | 8% | 42% |
| 11-39 units | 27% | 26% | 13% | 18% | 16% |
| 5-10 units | 29% | 28% | 7% | 14% | 21% |
| 1-4 units | 38% | 25% | 5% | 10% | 22% |

[67] Logistic regression: Question 24: How important is it for the City of Los Angeles to implement policies and programs that provide affordable housing for renters?" on dichotomous version of number of units (1 to 4 units and 5 or more units owned) Reference groups: 5 or more units and "Very important" Analysis conducted in SPSS 11.5. Interpretation: When holding all else equal and adjusting for responses to question 24, owners of 1 to 4 units are half as likely to say that affordable housing is not important at all. (Odds Ratio = .52)

[68] Supporting data for Figure 3-48, importance of actions to provide affordable housing (owner weights), are as follows:

| | Not important at all | Somewhat unimportant | Somewhat important | Very important | Not important | Somewhat unimportant | Somewhat important | Very important |
|---|---|---|---|---|---|---|---|---|
| Build affordable senior units | 120 | 120 | 516 | 1049 | 6% | 6% | 26% | 54% |
| Capital improvement financing | 136 | 141 | 662 | 862 | 7% | 7% | 34% | 44% |

| *Ssupporting data for Figure 3-48 continued* | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Not important at all | Somewhat unimportant | Somewhat important | Very important | Not important | Somewhat unimportant | Somewhat important | Very important |
| Expedite building permits | 139 | 154 | 678 | 825 | 7% | 8% | 35% | 42% |
| Redevelop RSO properties | 284 | 180 | 576 | 791 | 15% | 9% | 29% | 40% |
| Build affordable family units | 237 | 259 | 699 | 598 | 12% | 13% | 36% | 31% |
| Save existing affordable units | 236 | 263 | 627 | 591 | 12% | 13% | 32% | 30% |
| Help renters become owners | 309 | 257 | 664 | 592 | 16% | 13% | 34% | 30% |
| More public funding | 374 | 188 | 582 | 629 | 19% | 10% | 30% | 32% |
| Let private market solve | 332 | 343 | 476 | 579 | 17% | 18% | 24% | 30% |
| Subsidize low-income renters | 342 | 366 | 662 | 376 | 17% | 19% | 34% | 19% |
| Inclusionary zoning | 507 | 275 | 540 | 476 | 26% | 14% | 28% | 24% |
| Reduce parking requirements | 448 | 390 | 497 | 420 | 23% | 20% | 25% | 21% |
| Citywide tax | 616 | 278 | 543 | 326 | 32% | 14% | 28% | 17% |

[69] Factor analysis was run on all 13 questions and a Varimax rotation was used. A score of 1 to 4 was assigned to each question. The range is 1 – Not important at all, 2 – Somewhat unimportant, 3 – somewhat important and 4 – Very important. Cut-off correlations for each question to be included in a factor is at .50 or greater. Because the questions are opinion-based, landlord weighting was used for generating the factors and analysis was completed in Systat 12.0. Cronbach's alpha was run on each factor, Factor 1: renter assisted = .79, Factor 2: owner assisted = .59, Factor 3: city-wide subsidized affordable housing = .72. The average was taken from all responses and referenced to the original scale. Oneway ANOVA testing was conducted in SPSS 11.5. Scheffe's pairwise comparison was used to determine differences in means and homogeneity of variances was tested across ownership size and conclusions were drawn from that analysis. Owners of 1 to 4 units were used as the reference in Scheffe's pairwise comparison. Homogeneity of variances was used to determine differences in the range of responses for each factor and to draw conclusions about the opinions of each ownership size.

[70] The composite score is the weighted average of the ratings given to each possible public sector actions, based on the following assignment of values to each rating and calculating the average using owner weights:

1 – Not important at all
2 – Somewhat unimportant
3 – Somewhat important
4 – Very Important

Composite scores of 2.5 of higher indicate a preponderance of owners rating the action as important; scores less than 2.5 indicate a preponderance of owners rating the action as unimportant.

[71] Scheffe pairwise comparison, 1 to 4 units (reference), 5 to 10 units p=.07, 11 to 39 units p=.00, 40 or more units p=.1. When 40 or more units is the reference group for 5 to 10 and 11 to 39, p=.61 and p = 1.00 respectively. The test of homogeneity resulted in a subset of owners of 40 or more units, 11 to 39 units and 5 to 10 units are homogenous, p=.42.

[72] Supporting data for Figure 3-52, interest in redeveloping RSO property at higher density, are as follows:

| | Yes | No | Not sure |
|---|---|---|---|
| LA CITY | 34% | 34% | 32% |
| 40+ units | 46% | 31% | 23% |
| 11-39 units | 50% | 25% | 25% |
| 5-10 units | 45% | 26% | 29% |
| 1-4 units | 29% | 37% | 34% |

[73] Not all of the RSO policies apply to MHP. There are also state laws that regulate mobile homes and mobile home parks. For example, mobile home parks do not have SCEP inspections because they are under the State Mobile Home Parks Act. Also, the procedure for rent increases for mobile home parks differ slightly from other housing types.

[74] One-hundred-five residential hotel owners were surveyed, 28 responded for a response rate of 27%. Forty-four mobile home park owners were surveyed, 10 responded for a response rate of 23%. Mobile home park owners that responded own parks that accommodate 1,263 mobile homes and represent 21 percent of the mobile home park spaces in the City of Los Angeles.

[75] Because of the small size of these two respondent cohorts, no weights are used when presenting mobile home park and residential hotel data.

[76] Supporting data for Figure 3-54, Priorities of mobile home park owners for changing the RSO, are as follows:

| | Mobile Home Park Owners | ALL OWNERS |
|---|---|---|
| Code of responsibility | 20% | 36% |
| Low income tenants only | 20% | 22% |
| Penalize unnecessary complaints | 20% | 35% |
| Penalize anti-social renters | 30% | 60% |
| Bank rent increases | 30% | 54% |
| Update leases | 40% | 36% |
| Increase tenant accountability | 40% | 60% |
| Larger rent increases | 50% | 58% |
| Bigger cap imp pass-through | 60% | 28% |
| Easier to evict tenants | 70% | 76% |

[77] Supporting data for Figure 3-55, did mobile home park owners make a profit last year, are as follows:

| | MHP Owners Unweighted | All Owners Unit Weights | All Owners Owner Weights |
|---|---|---|---|
| Yes | 30% | 28% | 19% |
| No, broke even | 30% | 25% | 26% |
| No, had a loss | 0% | 33% | 39% |
| Don't know or not sure | 10% | 14% | 15% |

[78] Supporting data for Figure 3-56, priorities of residential hotel owners for changing the RSO, are as follows:

| | ALL OWNERS | Residential Hotel Owners |
|---|---|---|
| Code of responsibility | 36% | 27% |
| Low income tenants only | 22% | 27% |
| Penalize unnecessary complaints | 35% | 33% |
| Penalize anti-social renters | 60% | 40% |
| Update leases | 36% | 40% |
| Bigger cap imp pass-through | 28% | 40% |
| Increase tenant accountability | 60% | 53% |
| Larger rent increases | 58% | 53% |
| SCEP complaint driven | 47% | 60% |
| Bank rent increases | 54% | 67% |

[79] Supporting data for Figure 3-57, did residential hotel owners make a profit last year, are as follows

| | Residential Hotel Owners (unweighted) | ALL OWNERS (owner weights) |
|---|---|---|
| Very important | 27% | 36% |
| Somewhat important | 27% | 25% |
| Somewhat unimportant | 0% | 6% |
| Not important at all | 33% | 11% |
| Don't know | 0% | 22% |

[80] Supporting data for Figure 3-58, interest in discussing the results of the survey, are as follows:

| | Yes | No | No Response |
|---|---|---|---|
| ALL OWNERS | 41% | 53% | 6% |
| Harbor | 37% | 61% | 3% |
| South | 46% | 49% | 6% |
| East | 40% | 55% | 5% |
| Central | 40% | 54% | 6% |
| Western | 38% | 56% | 5% |

| *Supporting data for Figure 3-58 continued* | | | |
|---|---|---|---|
| | Yes | No | No Response |
| South Valley | 42% | 51% | 7% |
| North Valley | 38% | 57% | 4% |
| 40+ units | 50% | 45% | 5% |
| 11-39 units | 45% | 49% | 5% |
| 5-10 units | 39% | 56% | 5% |

# *ENDNOTES – CHAPTER 4*

[1] The vacancy decontrol provision is also applicable if the tenant is evicted for a just cause related to the tenants' failure to fulfill the obligations of the tenancy.

[2] 2Information on the age, size, and location of units subject to the RSO was provided through the combination of the RSO database and assessors data on the properties subject to the RSO. The census uses five year increments in classifying buildings by age. From October 1978 through 1979 approximately 12,000 multifamily units were constructed. Therefore, about 2% of the census sample would consist of pre-1980 construction which is not covered by the RSO and part of the sample would consist of buildings that are exempt for some other reason (such as non-profit housing).

[3] Chapter 1 of this report.

[4] Supporting data for Figure 1 is as follows:

Units Covered by RSO by Age and Size of Building

| Year Built | Number of rental units | Size of Building - Percentage of Units | | | | | |
|---|---|---|---|---|---|---|---|
| | | 1 unit | 2-4 units | 4-9 units | 10-19 units | 20-49 units | 50+ units |
| Before 1920 | 70,445 | 0.4% | 66% | 16% | 7% | 7% | 4% |
| 1920-1939 | 164,893 | 0.4% | 50% | 15% | 11% | 16% | 8% |
| 1940-1959 | 146,423 | 0.8% | 26% | 28% | 22% | 17% | 6% |
| 1960-1978 | 217,027 | 7% | 5% | 14% | 17% | 30% | 27% |

[5] Supporting data for Figure 2 is as follows:

**Distribution of RSO Rental Units by Location and Age of Built**

| Planning Region | Number of Rental Units | Year of Construction | | | |
|---|---|---|---|---|---|
| | | Before 1920 | 1920-1939 | 1940-1959 | 1960-1978 |
| **North Valley** | **38,457** | 0.7% | 4% | 22% | 73% |
| **South Valley** | **95,805** | 0.3% | 4% | 28% | 68% |
| **West LA** | **76,409** | 3% | 7% | 35% | 55% |
| **Central LA** | **176,621** | 9% | 41% | 24% | 26% |
| **East LA** | **66,331** | 27% | 45% | 12% | 17% |
| **South LA** | **119,807** | 26% | 38% | 23% | 13% |
| **Harbor** | **25,633** | 8% | 28% | 27% | 37% |

*Source: County Assessor's and LAHD Data base, Author's analysis. Note: some records do not have a construction date or geographic information and are left out of this table.*

[6] Source: Census Bureau 2006 American Community Survey (ACS) data for the City of Los Angeles, Public Use Microdata Sample. Economic Roundtable analysis. The totals in this section do not add up to 100% due to rounding.

[7] Source of comparisons of turnover rates in this Section: American Community Survey PUMS, Economic Roundtable analysis.

[8] CPI all items all urban consumers - Los Angeles-Riverside-Orange County: 2000 - 171.6, 2006 - 210.4; CPI rent all urban consumers - Los Angeles-Riverside-Orange County: 1990 annual average - 149.6, 2000 - 176.8

[9] Supporting data for Figure 3 is as follows:

Increases in Median Rents for Units Constructed 1979 or Earlier Compared with Units Constructed 1980 or Later

| Year | Units Constructed 1979 or earlier | Units constructed 1980 or later |
|---|---|---|
| | **Median Rent** | |
| 1990 | $579 | $697 |
| 2000 | $657 | $730 |
| 2006 | $922 | $1,010 |

[10] CPI all urban consumers rent index, Los Angeles-Riverside-Orange County; 2006 annual average - 248.5; May 2008 - 273.3. Since January 2008, the CPI rent index has increased by less than one percent (273.3 in May versus 271.8 in January).

[11] CPI all urban consumers all-items, Los Angeles-Riverside-Orange County; 2006 annual average - 210.4; May 2008 - 226.7.

[12] Supporting data for Figure 4 is as follows:

| | Average Gross Rent | | |
|---|---|---|---|
| **Length of Tenancy** | **2000** | **2005** | **2006** |
| 12 months or less | $717 | $1,043 | $1,154 |
| 13 to 23 months | $695 | $1,054 | $1,143 |
| 2 to 4 years | *$668* | $926 | $991 |
| 5 to 9 years | $668 | $794 | $875 |
| 10 to 19 years | $604 | $776 | $826 |
| 20 to 29 years | $583 | $751 | $763 |
| 30 years or more | $590 | $644 | $743 |
| Difference between 12 months or less and 5 to 9 years | $49 | $249 | $279 |

*Sources: U.S. Census, Decennial Census 2000 and ACS 2006 PUMS. Economic Roundtable. Author's analysis. Rent is shown in current-year dollars. Rent for households with 2-4 years tenancy in 2000 is estimated based on an interpolation of the bracketing rent intervals.*

[13] Supporting data for Figure 5 is as follows:

**Comparison of Annual Increases under the RSO with increases in Los Angeles Area and U.S. CPI Rent Indexes - Annual Data 1979-2008**

| Time Period | Allowable Annual Increase Under RSO | Increase in Los Angeles region CPI Rent Index | Increase in U.S. CPI Rent Index |
|---|---|---|---|
| 5/1/79 - 6/30/80 | 7% | 11.80% | 8.00% |
| 7/1/80 - 6/30/81 | 7% | 12.70% | 9.10% |
| 7/1/81 - 6/30/82 | 7% | 10.40% | 8.50% |
| 7/1/82 - 6/30/83 | 7% | 8.50% | 6.60% |
| 7/1/83 - 6/30/84 | 7% | 5.70% | 4.80% |
| 7/1/84 - 6/30/85 | 7% | 7.90% | 5.90% |
| 7/1/85 - 6/30/86 | 4% | 8.50% | 6.40% |
| 7/1/86 - 6/30/87 | *5%* | *5.70%* | *5.00%* |
| 7/1/87 - 6/30/88 | *4%* | *5.50%* | *4.00%* |
| 7/1/88 - 6/30/89 | 4% | 5.00% | 3.60% |
| 7/1/89 - 6/30/90 | *4%* | *4.10%* | *4.20%* |
| 7/1/90 - 6/30/91 | 5% | 4.10% | 4.10% |
| 7/1/91 - 6/30/92 | 5% | 1.90% | 2.90% |
| 7/1/92 - 6/30/93 | 5% | 1.00% | 2.20% |
| 7/1/93 - 6/30/94 | 3% | -0.40% | 2.50% |
| 7/1/94 - 6/30/95 | 3% | -0.30% | 2.50% |
| 7/1/95 - 6/30/96 | 3% | 0.50% | 2.50% |
| 7/1/96 - 6/30/97 | 3% | 1.20% | 2.80% |
| 7/1/97 - 6/30/98 | *3%* | *2.00%* | *3.10%* |
| 7/1/98 - 6/30/99 | *3%* | *3.60%* | *3.40%* |
| 7/1/99 - 6/30/00 | *3%* | *3.40%* | *3.10%* |
| 7/1/00 - 6/30/01 | 3% | 4.60% | 4.00% |
| 7/1/01 - 6/30/02 | 3% | 6.20% | 4.70% |
| 7/1/02 - 6/30/03 | *3%* | *4.80%* | *3.10%* |
| 7/1/03 - 6/30/04 | 3% | 5.80% | 2.70% |
| 7/1/04 - 6/30/05 | 3% | 6.90% | 2.90% |
| 7/1/05 - 6/30/06 | *3%* | *6.00%* | *3.10%* |
| 7/1/06 - 6/30/07 | *4%* | *5.80%* | *4.30%* |
| 7/1/07 - 6/30/08 | 5% | 6.10% | 4.00% |

*Each column shows the percentage increase in the CPI from December of the prior year to December of the year the rent increase was authorized. (For example, in the row 7/1/01 - 6/30/02, the CPI increase is measured by the increase in the CPI from Dec. 2000 to Dec. 2001.)*

[14] Murray, Rydell, Barnett, Hillestad, and Neels, "Analyzing Rent Control: The Case of Los Angeles", Economic

Inquiry, Vol. XXIX, 601, 606 (October 1991, Western Economic Association.)

[15] 1994 RSO Study, p.192, Chart 72. The annual average "Expense per unit" for "All CIPA's" was $2,119.

[16] Apartment Building Appraisers & Analysts, Inc., 2006 Apartment Building Operating Expense Guideline (p. 9. Annual costs increased from $2,750/unit to $3,000 unit.

[17] For a discussion of these issues see Goodman, "Determinants of operating costs of multifamily housing", Journal of Housing Economics, Vol. 13, 226-244 (2004).

[18] The sale price is generally used as the measure of value. If the price does not reasonably reflect market value the assessor will make a determination of market value for assessment purposes.

[19] Supporting data for Figure 6 is as follows:

Average Assessed Value of Apartment Units Buildings with 5 or more units constructed before 1979

| Year | Average Assessed Value per Apartment Unit |
|---|---|
| 1999 | $31,945 |
| 2000 | $33,974 |
| 2001 | $36,317 |
| 2002 | $38,721 |
| 2003 | $41,768 |
| 2004 | $45,355 |
| 2005 | $49,962 |
| 2006 | $55,730 |
| 2007 | $60,477 |

*Source: Author's tabulation based on data on overall assessed values of apartment buildings supplied by Los Angeles County Assessor's office*

[20] Property tax bills for the San Fernando Valley were not included in this computation because the data vendor, Real Quest, was unable to provide data for this area of the City.

[21] Source: Water Rates Division, LA Dept. of Water and Power (LA DWP).

[22] Sewer use is measured as 90% of water consumption, resulting in an effective rate equal to 90% of the published rate.

[23] 90% of $2.26.

[24] This estimate is based on an increase of $0.71/HCF in sewer rates and $1.10/HCF in water rates. The composite increase is ($.71 + $1.10) x 7.4 HCF = $13.39.

[25] Information about delivery of refuse collection services provided by staff of the City of Los Angeles.

[26] S.M. Rent Control Board, 2002 Annual Adjustment Report.

[27] The therm is a unit of heat energy equal to 100,000 British thermal units (BTU). It is approximately the energy equivalent of burning 100 cubic feet of natural gas.

[28] Hamilton, Rabinovitz & Alschuler, The 1994 Los Angeles Rental Housing Study: Technical Report on Issues and Policy Options, pp. 183-218. (December 1994, Prepared for the Rent Stabilization Division); 1988 Rental Housing Review, pp. 202-224.

[29] Supporting data for Figure 8 is as follows:

Estimate of Increases in Operating Costs per Apartment per Month 1999 to 2006

| Type of Expense | Increase in Cost per Apt. per Month 1999-2006 |
|---|---|
| Property Taxes | $25 (+ up to $50 or - $10) |
| Compliance with SCEP | $43 |
| Insurance | $15 |
| Water & Sewer | $14 |
| Gas (Common Areas) | $4 |
| Electricity (Common Areas) | $0 |
| Management and Maintenance | $60 |
| Total | $161 |

[30] Hamilton, Rabinovitz & Alschuler, The 1994 Los Angeles Rental Housing Study: Technical Report on Issues and Policy Options, pp. 183-218. (December 1994, Prepared for the Rent Stabilization Division); 1988 Rental Housing Review, pp. 202-224.

[31] See e.g. Berger Foundation v. City of Escondido, 127 Cal.App.4th. 1 (2005) California Court of Appeal.

[32] Hamilton, Rabinovitz & Alschuler, The 1994 Los Angeles Rental Housing Study: Technical Report on Issues and Policy Options, p. 245 (December 1994, Prepared for the Rent Stabilization Division)

[33] Los Angeles Community Development Dept., 1988 Rent Stabilization Review, 204 (Chart 4.2). Net operating income/sq.ft./year increased from $2.04 to $4.40.

[34] The all urban consumers CPI-all items Los Angeles increased from 65.5 to 111.9

[35] Hamilton, Rabinovitz & Alschuler, The 1994 Los Angeles Rental Housing Study: Technical Report on Issues and Policy Options, pp. 190-191 (December 1994, Prepared for the Rent Stabilization Division). This analysis converted the "real" (inflation adjusted) dollars set forth in the table in the 1994 study into actual dollars.

[36] $150/month x 12 mos. = $1,800/year. $1,800 /yr / .06 capitalization rate = $30,000.$200/month x 12 mos. = $2,400/year. $2,400 /yr / .06 capitalization rate = $40,000.

[37] Operating cost increases from 1999 to 2006 are compared with rent increases from 2000 to 2007, so that the substantial operating cost increases in 1999 are included and because there is a lag between cost increases and rent increases implemented in response to operating cost increases and increases in the CPI.

[38] This conclusion is based on an analysis of the base date of land value assessments in the Assessor's data base.

[39] City of Los Angeles Rent Stabilization Division, "Housing Production and Performance Under Rent Stabilization" in Rental Housing Study, 1984, April 1985, p.20. (A 5% vacancy rate is a U.S. HUD benchmark used in rental housing analysis as a threshold above which the forces of supply and demand can interact efficiently.")

[40] Gabriel, Stuart A. & Frank E. Nothaft, "Rental Housing Markets, the Incidence and Duration of Vacancy and the Natural Vacancy Rate", Journal of Urban Economics, v.49, 2001, pp.121-149. John I. Gilderbloom & Richard P. Appelbaum, Rethinking Rental Housing, Temple University Press, Philadelphia, 1988, pp.52-56.

[41] See U.S. Bureau of Census, Census Population Survey/Housing Vacancies and Homeownership, Series H-111.

[42] See John Gilderbloom and Richard Applebaum, Rethinking Rental Housing, Philadelphia, PA: Temple University Press, 1988, pp.52-54.

[43] "Landlords face an optimizing problem in which they seek to maximize net rents through setting the gross rents and accepting the level of vacancies that rent implies." Rosen and Smith, "The Price Adjustment Process for Rental Housing and the Natural Vacancy Rate", American Economic Review, Vol. 73, No. 4, p.782 (Sept. 1983). Another

expert states: "With given demand and cost curves, each landlord will set his rent so as to maximize the difference between his total costs and total rent receipts. These rents may be such that only a portion of his apartments will be occupied." Blank and Winnick, "The Structure of the Housing Market", Quarterly Journal of Economics, Vol. 67, No. 2, 188 (May 1953).

[44] Eric Belsky, "Rental Vacancy Rates: A Policy Primer", Housing Policy Debate, V.3#3, 1992, pp.793-813, http://www.fanniemaefoundation.org/programs/hpd/pdf/hpd_0303_belsky.pdf

[45] A primary source of information about trends in property values is the County Assessor's database, which provides extensive data on apartment sales in Los Angeles from 1997 through 2006. A private service, CoStar Comps, which is widely used by the real estate industry, has collected and marketed data on apartment price trends since 1990.

[46] This analysis measure trends in the value of apartments constructed before 1979. This data set substantially matches the buildings covered by the RSO, which does not cover buildings for which a certificate of occupancy was first issued on or after October 1, 1978.

[47] In buildings with four or less units owner-occupancy potential may play a significant role in overall value, apart from income potential.

[48] CPI All-items Los Angeles

[49] A capitalization rate is the ratio of net operating income to the purchase price of a property. Prevailing capitalization rates are a measure of the rates of return that investors are commanding in order to invest in income producing property.

[50] Sales prices which were not consistent with assessed values (e.g. consistent with the current assessed value discounted by 2%/year since the sale date) were excluded on the basis that the assessor's office did not consider it appropriate to use these prices in order to determine assessed value. The overall city averages that were derived from the use of the Assessor's database varied by about 5 percent from the averages that provided by CoStar.

[51] Some of the difference may simply be the outcome of standard statistical error.

[52] Market Area" data: Annual "National Apartment Report" (2004-2008 annual issues) published by Marcus & Millichap, Real Estate Investment Brokerage Company. Data supplied to Marcus & Millichap by CoStar Comps. The current (2008) issue of this publication is available on line.

[53] City of Los Angele Rent Stabilization Division, "Housing Production and Performance Under Rent Stabilization" in Rental Housing Study, 1984, p. ix (April 1985).

## *ENDNOTES – CHAPTER 5*

[1] This chapter does not discuss and compare eviction protections and relocation mitigation requirements and it does not discuss the rehabilitation standard that was the subject of detailed analysis by the Housing Department in recent years. For discussion of the rehabilitation and capital improvement standards see David Paul Rosen & Associates, Analysis of City of Los Angeles Rent Stabilization Ordinance Major Rehabilitation Program (2003, prepared for Los Angeles Housing Department)

[2] Los Gatos has a "rental dispute" ordinance that does not place a ceiling on allowable rent increases, but authorizes a tenant to contest a rent increase on the ground that it is unreasonable. Under the Hayward ordinance, if an owner expends on $1,000 to $2,000 on improvements (depending on the size of the unit) on a unit when it becomes vacant, the unit is exempted from future rent controls. Also, its ordinance exempts units if the owner owns less than five units in the City.

[3] These percentages are for buildings constructed before 1980. The RSO covers buildings constructed before 1978. From a statistical point of view, for the purposes of measuring overall turnover rates, the differences between these data sets is insignificant.

[4] These percentages are calculated in accordance with the methodology that is used under the RSO for calculating the annual increase in the CPI for the purposes of setting the allowable annual rent increase. The calculation is based on a comparison of the average monthly CPI for the twelve-month period ending in September with the average for the prior twelve-month period. (See Ordinance Section 151.07.A.6. "The annual rent increase adjustment shall be based on the Consumer Price Index – All Urban Consumers for the Los Angeles-Long Beach-Anaheim-SMSA averaged for the previous twelve (12) month period ending September 30 of each year. It shall reflect the change in the Consumer Price Index over the previous consecutive twelve (12) month period...")

[5] California Civil Code Sec. 1954.2. Until 1999, rents could be increased upon vacancy by 15% or up to 70% of "prevailing market rent" (as defined by HUD), whichever was greater. No more than two vacancy increases were permitted during this period.

[6] Dwellings that have been continuously occupied by the same tenant since Dec. 31, 1995 are excepted from this exemption.

[7] Oakland Municipal Code Sec. 8.22.070.B.3.

[8] One year in the 1980's in Berkeley there was a debate over which CPI index should be used for estimating cost increases in Berkeley's annual apartment operating cost study. Each side was armed with its respective set of rationale for the index it favored. In the middle of the debate, a new monthly index came out which reversed which index was most favorable to each side in the debate. Suddenly the debate on this issue was replaced by silence.

[9] CPI All items - Urban Wage Earners and Clerical Workers - Annual Averages - 1978-65.1; 2007-209.67; CPI All items - All Urban Consumers - Annual Averages - 1978-65.3; 2007-217.3.

[10] "Rent of primary residence (rent) and Owners' equivalent rent of primary residence (rental equivalence) are the two main shelter components of the Consumer Price Index .... Rental equivalence measures the change in implicit rent, which is the amount of a homeowner would pay to rent, or would earn from renting, his or home in a competitive market." (Bureau of Labor Statistics web page, www.bls.gov , Consumer Price Indexes for Rent and Rental Equivalence.

[11] The authors of 1994 Report on the RSO reached a similar conclusion. See Hamilton, Rabinovitz, and Alschuler, The 1994 Los Angeles Rental Housing Study: Technical Report on Issues and Policy Options, p. 247 (Dec. 1994).

[12] Bureau of Labor Statistics website (www.bls.gov/cpi/tables.htm), Relative Importance of Components in the Consumer Price Index, all areas, p. 11 (Table 3 (2005-2006 Weights).

[13] E.g. in 2002, the all items index increased by 2.8% while the all items less shelter index increased by 1.3%, a difference of 1.5%. However, this difference had no impact because the 3% minimum was permitted under the annual rent increase standard.

[14] Supporting data for Figure 5-1, Consumer Price Index - All Items and All Items Less Shelter, are as follows:

| Year | All Consumer Costs Less Shelter | Consumer Price Index - All Items |
|---|---|---|
| 1979 | 74.3 | 72.3 |
| 1980 | 83.5 | 83.7 |
| 1981 | 90.9 | 91.9 |
| 1982 | 96.6 | 97.3 |
| 1983 | 99.8 | 99.1 |
| 1984 | 103.6 | 103.6 |
| 1985 | 107.5 | 108.4 |
| 1986 | 109.4 | 111.9 |
| 1987 | 113.3 | 116.7 |
| 1988 | 118.1 | 122.1 |
| 1989 | 124.1 | 128.3 |
| 1990 | 131.1 | 135.9 |
| 1991 | 136.7 | 141.4 |
| 1992 | 142.4 | 146.5 |
| 1993 | 147.1 | 150.3 |
| 1994 | 149.8 | 152.3 |
| 1995 | 152.9 | 154.6 |
| 1996 | 155.9 | 157.5 |
| 1997 | 158.2 | 160.0 |
| 1998 | 159.3 | 162.3 |
| 1999 | 162.0 | 166.1 |
| 2000 | 167.0 | 171.6 |
| 2001 | 171.5 | 177.3 |
| 2002 | 173.8 | 182.2 |
| 2003 | 176.9 | 187.0 |
| 2004 | 181 | 193.2 |
| 2005 | 187.4 | 201.8 |
| 2006 | 193.7 | 210.4 |
| 2007 | 196.6 | 217.3 |

*Source: U.S. Dept. of Labor, Bureau of Labor Statistics. Consumer Price Index - All Urban Consumers, Los Angeles-Riverside-Orange County, CA.*

[15] From a theoretical perspective, a further step to "rationalizing" fixed dollar increases would be to authorize differing dollar increases based on the size of units. However, this step would introduce an inordinate level of complexity into the process.

[16] Hamilton, Rabinovitz, Szanton, and Alschuler, The Rent Stabilization System: Impacts and Alternatives, pp. 90-94 (April 1985, Prepared for Rent Stabilization Division).

[17] While the foregoing tables are simple, complex calculations are often required to measure average cost increases because rate schedules are often composed of a collection of factors that vary among buildings. The determination of which CPI should be used to measure cost increases that cannot be measured by regulated rate increases is discretionary.

[18] Section 151.06.D. of the ordinance states: "...If the landlord pays all the costs of electricity and/or gas services for a rental unit then the maximum rent or maximum adjusted rent may be increased an additional one percent (1%) for each such service paid by the landlord, not to exceed a total of two percent (2%)... "

[19] Apartment Building Appraisers & Analysts, Inc. (Long Beach), Apartment Building Operating Expense Guideline - Year 2006, pp. 31-34.

[20] Baar, "The 2001 Master-Metered Adjustment" (report prepared for the Santa Monica Rent Control Board).

[21] Property Owners Assn. v. North Bergen, 74 N. J. 327, 339, 378 A. 2d 25, 31 (1977).

[22] 485 U.S. 1 (1985).

[23] The applicable provision states: "Hardship to Tenants. In the case of a rent increase or any portion thereof which exceeds the standard set in Section 5703.28(a) or (b), then with respect to such excess and whether or not to allow same to be part of the increase allowed under this Chapter, the Hearing Officer shall consider the economic and financial hardship imposed on the present tenant or tenants of the unit or units to which such increases apply. If, on balance, the Hearing Officer determines that the proposed increase constitutes an unreasonably severe financial or economic hardship on a particular tenant, he may order that the excess of the increase which is subject to consideration under subparagraph (c) of Section 5703.28, or any portion thereof, be disallowed. Any tenant whose household income and monthly housing expense meets [certain income requirements] shall be deemed to be suffering under financial and economic hardship which must be weighed in the Hearing Officer's determination. The burden of proof in establishing any other economic hardship shall be on the tenant." (San Jose Municipal Code Sec. 5703.29).

[24] In reviewing a "facial" challenge the Court only considers the language of the ordinance, rather than its implementation or outcome under a particular set of circumstances.

[25] 458 U.S. at 15.

[26] 458 U.S. at 22.

# *ENDNOTES – CHAPTER 6*

[1] *2008 Multifamily Market Report*, Casden Real Estate Economic Forecast, University of Southern California.

[2] U.S. Census. Supporting data for Figure 6-1, Permits for large structure buildings (5+ units) are as follows:

| Year | Permits for buildings with 5+ units |
|---|---|
| 1980 | 17,182 |
| 1981 | 12,044 |
| 1982 | 8,382 |
| 1983 | 15,063 |
| 1984 | 20,494 |
| 1985 | 36,081 |
| 1986 | 49,795 |
| 1987 | 35,421 |
| 1988 | 29,052 |
| 1989 | 21,907 |
| 1990 | 13,883 |
| 1991 | 7,190 |
| 1992 | 4,030 |
| 1993 | 2,347 |
| 1994 | 2,386 |
| 1995 | 2,581 |
| 1996 | 2,647 |
| 1997 | 2,978 |
| 1998 | 4,243 |
| 1999 | 5,641 |
| 2000 | 7,808 |
| 2001 | 9,464 |
| 2002 | 7,694 |
| 2003 | 12,381 |
| 2004 | 16,929 |
| 2005 | 12,292 |
| 2006 | 18,343 |
| 2007 | 15,960 |

[3] Livable Places report, Jackie Koenig, Tomohiro Kamiya, and Quinn Ryan

[4] "C.A.R. reports entry-level housing affordability at 33 percent in California," California Association of Realtors, press release, February 19, 2008, accessed from http://www.car.org/index.php?id=MzgyODA=.

[5] This abstracts from other revenue sources, such as parking, laundry services, and other amenity charges.

[6] Source: http://www.calpers.ca.gov/index.jsp?bc=/investments/assets/assetallocation.xml, accessed 5/1/2008.

[7] Cap rate reductions were also driven by economic projections suggesting significant rent growth over time.

[8] Supporting data for Figure 6-2, Construction and building cost trends compared to the Consumer Price Index, are as follows:

| Year | LA Construction Cost Index | LA Building Cost Index | US Construction Cost Index | US Building Cost Index | US Consumer Price Index |
|---|---|---|---|---|---|
| 1987 | 0.739473844 | 0.743574038 | 0.673906393 | 0.70135247 | 0.635863586 |
| 1988 | 0.779553544 | 0.75286449 | 0.691189966 | 0.717085288 | 0.663916392 |
| 1989 | 0.782110702 | 0.75381228 | 0.705873356 | 0.727021805 | 0.694719472 |
| 1990 | 0.809773395 | 0.797439648 | 0.723768737 | 0.745790781 | 0.738173817 |
| 1991 | 0.822683462 | 0.817852768 | 0.73952279 | 0.759315484 | 0.760176018 |
| 1992 | 0.857593462 | 0.844472723 | 0.762465586 | 0.782224676 | 0.782728273 |
| 1993 | 0.875058593 | 0.880317127 | 0.79687978 | 0.826939001 | 0.804730473 |
| 1994 | 0.882503124 | 0.903019199 | 0.82716427 | 0.858680651 | 0.825632563 |
| 1995 | 0.881594002 | 0.904825015 | 0.836800245 | 0.858956666 | 0.846534653 |
| 1996 | 0.885946439 | 0.904677171 | 0.859590089 | 0.884073972 | 0.875137514 |
| 1997 | 0.900145216 | 0.940009399 | 0.891098195 | 0.928512283 | 0.889988999 |

| *Supporting data for Figure 6-2 continued* | | | | | |
|---|---|---|---|---|---|
| Year | LA Construction Cost Index | LA Building Cost Index | US Construction Cost Index | US Building Cost Index | US Consumer Price Index |
| 1998 | 0.925595218 | 0.954917946 | 0.905475681 | 0.93596467 | 0.904290429 |
| 1999 | 0.922085711 | 0.948056371 | 0.926736005 | 0.953905603 | 0.928492849 |
| 2000 | 0.954785722 | 0.97161911 | 0.951514225 | 0.976814794 | 0.96039604 |
| 2001 | 0.976248016 | 0.975309946 | 0.970174365 | 0.986475297 | 0.97579758 |
| 2002 | 1 | 1 | 1 | 1 | 1 |
| 2003 | 1.017428658 | 1.015719053 | 1.023860508 | 1.019321005 | 1.020352035 |
| 2004 | 1.106634697 | 1.097007202 | 1.088253288 | 1.099641181 | 1.054455446 |
| 2005 | 1.157329371 | 1.166087609 | 1.138880392 | 1.160640353 | 1.090209021 |
| 2006 | 1.199415082 | 1.248323547 | 1.185530743 | 1.205906707 | 1.118261826 |
| 2007 | 1.228601388 | 1.289583602 | 1.240392917 | 1.260269267 | 1.164356436 |

[9] This assumes a 25 percent escalation in construction and building costs, a 44 percent escalation in land costs [corresponding to a cap rate decline from 8.5 percent to 6.0 percent], and a 16 percent escalation in rent and all other costs. The result holds independent of the definition of "affordable rent" one were to use.

[10] United Stated Department of Commerce, Census Bureau, and Department of Housing and Urban Development, Mortgage Bankers Association.

[11] United Stated Department of Commerce, Census Bureau, and Department of Housing and Urban Development.

[12] United States Bureau of Labor Statistics, *Employment situation summary*, April 2008, December 2007, July 2007.

[13] "Citi leads the pack," Jerry Ascierto, Affordable Housing Finance, February 2008, accessed from http://www.housingfinance.com/ahf/articles/2008/feb/CITI0208.htm.

[14] "What HFAs see in the LIHTC market," Donna Kimura, Affordable Housing Finance, April 2008, accessed from http://www.housingfinance.com/ahf/articles/2008/apr/FINANCETAXCREDITEQUITY0408.htm.

[15] See, for example, "Inclusionary Zoning: the California Experience," National Housing Conference Affordable Housing Policy Review, 3 (1), February ,2004; and Benjamin Powell and Edward Stringham, "Housing Supply and Affordability: Do Affordable Housing Mandates Work?" Reason Public Policy Institute, Policy Study Number 320, 2004.

[16] Vinit Mukhija, "Can Inclusionary Zoning be a Successful Policy? Evidence from Los Angeles and Orange Counties," UCLA working paper; Vicki Been, "The Effects of Inclusionary Zoning on Local Housing Markets: Evidence from the San Francisco and Suburban Boston areas, NYU working paper.

[17] Under the program, families are able to rent units costing up to a federally-determined fair market rent. Voucher holders are required to pay 30 percent of their income toward the housing, with a federal subsidy payment made to cover the difference between this amount and the fair market rent. The program thus increases the number and quality of units for which it is feasible for lower-income families to occupy.

[18] See, for example, Bill Christopher, "An industrial-strength conundrum for L.A.," Los Angeles Times, May 4, 2008, page M7.

[19] City of Los Angeles Draft Housing Element 2006 -2014 - Citywide Affordable Housing Database, LAHD Policy Planning Unit (July 2007).

[20] This is one reason that many developers opt to specialize in a particular land use.

[21] For more information on SCAG's 2 Percent solution, see "Post-2010 Compass 2% Strategy Opportunity Areas," accessed from http://www.compassblueprint.org/files/opportunity_report.pdf and regional maps at http://www.compassblueprint.org/2percent/maps.

# *ENDNOTES – CHAPTER 7*

[1] The Public Use Microdata Sample of the 2006 American Community Survey shows that the average household income of renters paying cash rent and living in units built 1979 or earlier was $42,821, and the average gross rent they paid was $1,016. In comparison, the average household income of renters paying cash rent and living in units built 1980 or later was $46,464 and the average gross rent they paid was $1,118.

[2] The breakout of RSO units by ownership size presented in Chapter 1 looks at properties on a stand-alone basis, without taking into account ownership of multiple properties, and finds that 34 percent of all units are on *properties* with 1-4 units. When we draw on work done for the owner survey that identified owners of multiple properties, 24 percent of all RSO units are held by *owners* of 1 to 4 units.

[3] David Paul Rosen & Associates, *Analysis of City of Los Angeles Rent Stabilization Ordinance Major Rehabilitation Program*, March 1, 2003, City of Los Angeles Housing Department, p.40.

[4] A breakout of all RSO properties and RSO properties approved for capital improvement passthroughs from January 2003 through May 2008 is shown below.

| Number Units on Property | Percent of All RSO Properties | Percent of Properties Approved for Capital Improvement Passthrough |
|---|---|---|
| 1-4 units | 75% | 22% |
| 5-10 units | 16% | 36% |
| 11-39 units | 8% | 31% |
| 40+ units | 1% | 11% |

[5] The Primary Renovation Program requires preparation of a tenant habitability plan that may entail relocating tenants to other housing units while construction work is done. This plan can be challenged by tenants through an appeal process. After the renovation work is successfully completed, the owner may apply for a permanent rent increase to recover costs for the work. This rent increase cannot exceed 10 percent of tenants' rent, but within that constraint can allow recovery of all costs for primary renovation work.

[6] This definition of small owners is intended to be consistent with the definition adopted by the Los Angeles City Council on December 17, 2007, that a small owner "owns a single family home and/or any combination of multiple units adding up to four units."

[7] The California Housing Finance Agency and the City of West Hollywood are examples of public agencies that have developed model leases. The Internet addresses for downloading these leases, respectively, are: http://www.calhfa.ca.gov/sitemap.htm (click on link for "Model Form of Lease"), and http://www.weho.org/download/index.cfm/fuseaction/download/cid/5656/

[8] A precedent for this recommendations is the "Resident Bill of Rights" that has been prepared and disseminated by The California Apartment Association provides a that articulates a Housing Code of Ethics for tenants and landlords.

[9] City of Los Angeles Controller, "Follow-up Audit of the Housing Department's Systematic Code Enforcement Program, July 16, 2007, p. 8.

[10] California Health and Safety Code, §13113.7 (a).

[11] LA-DWP reported 68,360 units in 7,767 mater-metered multi-dwelling buildings, and 774,286 units in individually-metered multi-dwelling buildings. City of Los Angeles, Department of Water and Power. March 2008. Report Number: RP91a - Residential Meter Activity by Census Tract. http://lahd.lacity.org/VacancyData/tabid/145/Default.aspx

[12] The Demographic Research Unit of the California Department of Finance is designated as the single official source of demographic data for state planning and budgeting.

[13] U.S. Census Bureau, 2006 American Community Survey, Table B19013, median household income in the past 12 months in Los Angeles County.

[14] California Employment Development Department, Labor Market Information Division, "Los Angeles County Industry Employment Projections 2004-2014," http://www.calmis.ca.gov/htmlfile/msa/lalb.htm

[15] Los Angeles Homeless Services Authority, "2007 Greater Los Angeles Homeless Count," and Economic Roundtable, "10-Year Strategy to End Homelessness," 2004. The 2007 homeless count shows an estimated point-in-time population of 40,144 homeless residents in the City of Los Angeles. The ratio of point-in-time to annual homeless shown in the 2007 count is 1 to 2.066; based on this the City's annual homeless count is 82,933. Based on research by the Economic Roundtable for the 10-Year Plan to End Homelessness, homeless families are estimated to have an average of 2.69 persons per household, indicating that an estimated 65,677 households in the City of Los Angeles experienced homelessness in 2007.

[16] Unpublished research by the Economic Roundtable: Table 1, "Methodology for Estimating Homeless Population by Major Category," Population Services Population Matrix, 2004.

[17] Economic Roundtable, Homeless in LA, 2004, p. 49.

[18] Economic Roundtable, 10-Year Strategy to End Homelessness, 2004, p. 46.

[19] Los Angeles Homeless Services Authority, 2007 Continuum of Care, June 13, 2007, p.80.