



*"Great Apartments Start Here!"*

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July 14, 2020  
**Via Electronic Mail**

Hon. Mayor Goran Eriksson, and  
Members of the Culver City Council  
Culver City Hall  
9770 Culver Boulevard  
Culver City, California 90232

Re: Adoption of an Urgency Ordinance Extending Ordinance No. 2019-011 (Interim Rent Control and Tenant Protection Measures), In Its Entirety, Without Amendment or Modification of its Terms, Through October 31, 2020; and Discussion of Rent Control and Tenant Protection Policies For Inclusion in a Permanent Program; and Direction to the City Manager as Deemed Appropriate (Agenda Item A-1)

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Dear Hon. Mayor Eriksson and Members of the Culver City Council:

The Apartment Association of Greater Los Angeles (AAGLA or the Association) remains strongly opposed to the extension of the Interim Rent Control Ordinance (IRCO) and the advancement of a permanent rent control ordinance.

Over the past year, the City has adopted an IRCO, contracted with a consultant, Bae Urban Economics, who conducted two studies on rent control and received reports from City staff related to the implementation and administration of the IRCO. The totality of which has produced minimal data or information relative to the benefits or shortcomings of the IRCO and the value to be gained through the establishment of a permanent rent control measure.

During a time of immense economic uncertainty, City resources should be allocated towards solutions that facilitate economic development and stability and not draconian housing policies that economists have characterized as destructive. No data has been provided in either the BAE studies or Staff reports that is indicative of a widespread rent gouging issue or related concerns warranting the City's adoption of its own costly rent control ordinance. Moreover, the State has intervened on this matter, following extensive negotiations with key stakeholders inclusive of renter advocates and has enacted Assembly Bill 1482, which affords the majority of City renters with rent control and renter protections.

The BAE Study and the City's own Staff report provide no basis for the adoption of a rent control ordinance. One can, however, find a multitude of arguments reflective of the detrimental impacts of rent control on the rental market and the unintended and often severe ramifications to housing quality and supply, and to affordable housing. In the most recent Staff report, the Regional Housing Needs Assessment (RHNA) was referenced and it was noted that "to date, the City has produced less than 50% of the required number of affordable housing units." Advancement of a permanent rent control measure will not produce a single new unit and will likely hinder essential housing production.

AAGLA urges the City Council to redirect its focus and attention to innovative housing solutions. Nevertheless, if the City Council continues along the rent control path, we urge the Council to advance a measured approach that provides for equity and minimizes the negative consequences of such an ordinance. As the Council deliberates the elements of a permanent rent control and renter protections initiative, the Association urges the Council to consider the concerns and recommendations set forth in this letter.

#### Rent Control Program

- **Exempt Units**

Expanding upon the exemptions currently provided under the IRCO, we ask that the Council include exemptions for single family residences that share a property with an Accessory Dwelling Unit (ADU), luxury units and for small "mom and pop" owners of properties with six or fewer units.

The initial Bae Urban Economics' study stated that "in buildings with six units or fewer, rents have risen by 2.5 percent over the past three years", a period in which the study also noted that overall market rents were increasing at a faster rate. Further, the study noted that "small multifamily prototypes have smaller profit margins due to higher operating expense ratios." **Based upon the study's findings, we urge the City Council to exempt buildings that have six or fewer units as these small owners would be detrimentally impacted by a permanent rent control ordinance and likely to be forced out of business due to the loss of financial flexibility which has allowed them to operate with such low rental increases.**

- **Permissible Rent Increases**

The IRCO sets forth rent limitations of "no more than 3% above the monthly rent in effect on June 11, 2019 or the initial rent charged for tenancies that began after June 11, 2019". Rent increases should be based on the full CPI with a guaranteed minimum to provide housing providers with essential financial flexibility and a fair and reasonable return on their investment. In furtherance of much needed financial flexibility under these rent increase limitations, we recommend the inclusion of rent banking. Moreover, allowance of an additional percentage increase for additional occupants added to the lease serves to account for the increased water and maintenance costs associated with having more occupants within a unit.

Rent banking is a practice that is beneficial to renters and owners, as it allows the owner to defer a rent increase and apply it later. This practice reflects the importance of financial flexibility, where a housing provider may determine that they do not need to increase the rent during a specific year and knows that by foregoing the rent increase one year, it is not going to result in a "use it or lose it" scenario. With rent banking, a housing provider does not feel compelled to consistently increase rent by the allowable maximum, and results in better relationships between housing providers and their renters. This practice is permissible in cities such as Santa Monica.

Under the IRCO, the definition of Material Rental Agreement Term states that "adding additional occupants in an existing tenancy is not a breach of a material rental agreement term...". This would allow renters to have numerous occupants in the unit without the knowledge or consent of the property owner, which would lead to increased water and maintenance costs. While we believe that the addition of occupants without prior approval should be grounds for a tenancy termination, at minimum, the housing provider should be permitted to institute a one-time rent increase of up to 10% per additional occupant, similar to the City of Los Angeles' rent stabilization ordinance.

- **Allowable Pass-Throughs / Cost Recovery**

The IRCO allows housing providers to apply for a pass through utilizing the Net Operating Income (NIO) methodology. This is a complicated process and as a result is often underutilized. We request that the Council establish a cost recovery process that is directly tied to the actual cost of capital improvements, that is applicable to all capital improvements, inclusive of voter approved taxes, allows for a 50% pass through to renters through a temporary rent surcharge and as currently part of the IRCO for the reasonable life of the improvement. The Association also urges the City Council to institute a simple streamlined process that facilitates and encourages housing providers to submit applications and not one that is difficult to navigate and overly burdensome which will deter small owner participation.

Culver City housing stock is aging, and it is vital that housing providers subject to strict price controls have the means and incentive to rehabilitate and upgrade their buildings. Accordingly, a cost recovery process that includes these key components will help preserve the quality and integrity of the City's rental housing.

- **Rental Registry**

The IRCO requires all rental units to be registered with the City regardless of whether they are subject to the rent control provisions and to provide documentation in circumstances where the housing provider claims an exclusion from the registration provisions. AAGLA opposes the rental registry and its applicability to all rental units. The registry should be limited to units covered by the rent control ordinance and be subject to re-registration only where there has been a change in tenancy. Moreover, rental units that are only subject to the renter protection provisions should not be subject to the rental registry as any dispute related to a legally served unlawful detainer action is most likely to be addressed through the courts. In addition, as in most other jurisdictions that maintain rent regulations, registration fees should be shared equally by the housing provider and renter.

#### Renter Protections

"Just-cause" eviction requirements create additional hurdles that smaller rental housing providers must overcome when evicting problematic renters that are creating nuisances or engaging in illegal activities, and the delays caused by these requirements only further extends exposure to the nuisance or criminal activity by other residents, disturbing the other renter's quiet enjoyment of their homes. Moreover, smaller rental housing providers have very limited resources with which to engage in costly and lengthy litigation that will result when attempting to remove a problem renter under "just-cause" eviction rules.

The Association urges the City Council to establish a one-year vesting period, similar to the provisions set forth in Assembly Bill 1482, the statewide rent control and renter protection law, which would require that the renter reside in the unit for a period of one year in order to be eligible for the "just-cause" termination protections and associated relocation assistance. Generally, any issues that may arise related to a tenancy occur during the first year. Providing for this grace period, would allow housing providers to terminate the tenancy of a problematic renter without the added costs and hurdles. It would also likely result in housing providers affording renters who may not meet the eligibility requirements such as due to poor credit scores and who would otherwise be rejected to be approved for a lease.

- **Tenancy Terminations**

As the Council deliberated the "Just-cause" tenancy termination provisions for the permanent rent control ordinance, we urge the Council to limit the applicability of these provisions to rent controlled units only and expand on the grounds for the "For Cause" and "No-Fault" tenancy terminations.

AAGLA recommends that the "For Cause" grounds include: unauthorized subletting, adding additional occupants without permission and failure to comply with habitability or relocation plan. Unauthorized subletting and additional occupants serve to by-pass an important factor of the rental application process, by preventing a housing provider from conducting legitimate renter screening, maintain knowledge of building occupants and facilitate overall building safety. Moreover, as stated previously in this letter, it also often results in additional utility and maintenance costs to the provider. Housing providers should be permitted to prohibit subletting of their properties and should have the right to approve and properly screen building occupants. This would also serve to prevent overcrowding in units and potential nuisance issues which would impact other renters. As discussed in greater detail below, failure to comply with habitability or relocation plans should also be grounds for eviction. If the housing provider has issued a "no-fault" eviction and has complied with the ordinance provisions, the renter's failure to timely vacate the unit pursuant to the tenancy termination notice should be grounds for a "for cause" eviction.

Under the "no-fault" eviction provisions, housing providers should be permitted to recover the unit or units for the purpose of conducting substantial renovations. Rent control by its very nature perpetuates reductions in investment in existing housing as housing providers subject to significant decreases in rental revenue are forced to substantially reduce their investment and maintenance of their buildings. Preclusion of "no-fault" terminations for substantial renovations will only serve to exacerbate the situation and result in further deterioration of the City's limited and aging affordable rental housing supply. It is vital that substantial renovations be a permissible ground for a "no-fault" termination which will allow for much needed reinvestment in the City's older buildings.

The IRCO also precludes a protected group of renters from the provisions of "no-fault" terminations. This prohibition serves to grant these renters a life estate in the property and allows for no option under which the property owner may regain possession of the rental unit. AAGLA is opposed to this blanket protection and urges the City Council to consider other equitable solutions such as allowing owners/owner's relatives who are similarly situated to the protected renter to be able to reside in the unit or the provision of enhanced rental assistance in limited circumstances where the protected renter is in financial need.

- **Relocation Assistance**

The IRCO establishes a relocation allowance in the amount of three times the renter's current rent plus \$1,000.00. The payment of the relocation allowance is triggered by a "no-fault" tenancy termination and requires that 50% be paid no later than five business days following the service of notice to the renter and the remaining 50% to be paid no later than five business days after the renter vacates the unit.

This assistance is afforded to all renters regardless of need and with no set parameters. Renters, who may have no need for such assistance will be provided with a significant amount of money which they can use in any manner they choose regardless of whether it is related to moving expenses. Moreover, the lack of means testing to assess a renter's actual need for such relocation benefit **places a financial burden on small owners who do not have the financial resources to make lump sum payments to renters who may be better financially situated than the owner.** In place of broad-based relocation fees, the



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Council should limit relocation assistance to those renters in actual financial need. The threshold for assessing need should include household income of either 200% Federal Poverty Level or 80% Average Median Income (AMI). The amount of relocation assistance provided should be limited to two times the monthly rent. “Mom and Pop” owners should be considered for reduced relocation assistance or exempt from such payment dependent on the circumstances. Moreover, in situations where the renter fails to voluntarily vacate the unit after a partial payment has been made, the renter should be required to reimburse the housing provider.

As evidenced by the City Council deliberations at the June 11<sup>th</sup> Council meeting, rent control and renter protections present a multitude of issues that must be thoughtfully considered. These issues are further magnified by the COVID-19 pandemic and economic instability.

In light of the adverse impacts COVID-19 has had on our economy and the changes that have taken place under work-at-home arrangements, the demand for rental housing in large metropolitan areas such as San Francisco and Los Angeles have steeply declined, and market conditions have drastically changed. Today, rental housing providers are experiencing high vacancy rates and lower rental pricing, and in some areas, rental rates have dropped by low double digits. Recent national studies have shown there is now a migration underway of city residents leaving large urban areas for smaller city and other suburban areas, and it is predicted these trends will continue and likely become permanent. Accordingly, the need for drastic, decades-old housing measures such as rent control will merely place even greater burdens upon property owners already significantly financially impacted by eviction moratoriums and the resulting inability to collect rent.

AAGLA urges the Council to contemplate the matters set forth in this letter and continue to seek key stakeholder feedback prior to the adoption of a permanent ordinance. Thank you for your time and consideration of these matters. If you have any questions, please call me at (213) 384-4131; Ext. 309 or contact me via electronic mail at [danielle@aagla.org](mailto:danielle@aagla.org).

Very truly yours,

*Danielle Leidner-Peretz*

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