



Rent Control Board

Study Session: Seismic Safety Retrofit Program-- Tenant Protections and Cost Considerations

Background

March 2017 – City Council adopted a comprehensive seismic retrofit ordinance to increase safety of earthquake-vulnerable buildings.

~2,000 commercial and multifamily residential buildings to be evaluated for possible structural improvement.

August 2017 – August 2018 – Building and Safety Division will notify affected property owners of:

- Retrofitting requirements;
- Compliance deadlines;
- Appeal procedures.

November 13, 2017 – Building and Safety will hold the first of four seismic retrofit information sessions for owners and tenants of impacted properties.

Building and Safety Division Noticing Schedule (updated June 2017)

Building Type Categories	Start Date of Notices	Quantity (Approx)	Controlled Properties	Compliance Date Eval Report Due	Compliance Date Retrofit Complete
Concrete Tilt-Up	August 14, 2017	30	0	Dec 2017 (4 months)	Dec 2020 (3 years)
URM	August 28, 2017	200	6	Nov 2017 (3 months)	Aug - Sept 2019 (2 years)
Soft Story > 2 Stories	September 25, 2017	400	338	Sept - Oct 2019 (2 Years)	Sept - Oct 2023 (6 Years)
Soft Story - 16 or more units	October 23, 2017	60	26	Oct - Nov 2019 (2 Years)	Aug - Oct 2023 (6 Years)
Non-Ductile Concrete	October 23, 2017	70	5	Oct 2020 (3 Years)	Oct 2027 (10 Years)
Steel Moment Frame	October 23, 2017	80	1	Oct 2020 (3 Years)	Oct 2037 (20 Years)
Soft Story - 2 stories, 7 to 15 units	November 27, 2017	300	297	Nov - Feb 2019 (2 Years)	Nov 2023 - Feb 2024 (6 Years)
Soft Story - 2 stories, <7 units	Feb - Aug 2018	900	611	Feb - Oct 2020 (2 years)	February - August 2028 (10 Years)

Rent-Controlled Properties Subject to Evaluation

Building Type	Properties	Units
Soft Story > 2 Stories	338	4,577
Soft Story > 16 or more units	26	516
Soft Story - 7 to 15 units	297	2,773
Soft Story - <7 units	611	2,988
Total Soft Story	1,272	10,854
Unreinforced Masonry	6	217
Non-Ductile Concrete	5	960
Steel Moment Frame	1	84
Total Other Types	12	1,261
Notice/Evaluation Universe	1,284	12,115

Categorized according to the Noticing Schedule established by the Building and Safety Division.

Soft Story Building: Ground floor includes parking or other similar open floor space below one or more stories of apartments.

City Council-Enacted Tenant Protections

Chapter 8.100—Tenant Protection During Construction

- Required Means & Methods Plan for occupied buildings
 - Description and timeframe of work
 - Potential impacts on tenants
 - Mitigation plan to limit each impact
 - Temporary relocation plan, if necessary
- Special requirements to ensure hazardous materials are properly handled
- Owner to provide monthly notices to tenants for projects of more than 30 days

Chapter 4.36—Tenant Relocation Assistance

- If tenant is displaced due to seismic retrofit, they will be entitled to temporary relocation benefits.
- Building Official to determine length of relocation based on condition
- If estimated time is exceeded, investigation conducted to determine reason for delay
- Enforcement actions for unreasonable delays

Issues Presented to Rent Control Board for Consideration

- Will required retrofitting interfere with tenants' occupancy of controlled rental units?
- To what degree, if any, should owners be permitted to offset their retrofitting costs by passing along a portion of those costs to tenants in the form of increased rents.

Rent Control Board-Enacted Tenant Protections

Regulation 4200—Rent Decrease Petitions

- Permanent loss of amenities and/or housing services
 - If parking spaces or housing services are permanently removed, tenant may petition for a rent reduction.
 - Unlikely that retrofit work will result in permanent loss of parking spaces.

- Temporary loss of parking—City exploring possibility of free parking permits for properties in preferential parking zones.

Regulation 4400—Rent Decreases for Construction Impacts

- Court of Appeal decision limits Board's ability to grant rent reductions for necessary (mandated) construction work.
- Exceptions:
 - Work is not performed in a reasonable manner
 - Work is not completed in a reasonable time.

Cost of Seismic Retrofit Work

- City has estimated cost for a non-complex, two-story soft story retrofit to range from \$5,000 - \$10,000 per unit.
- Preliminary data from Los Angeles and San Francisco for completed retrofit work including:
 - Structural evaluation report
 - Building plans
 - Permit fees
 - Construction costs
- Los Angeles = approximately \$6,000 per unit
- San Francisco = approximately \$13,000 per unit

Other Financial Considerations

- Retrofitting a property can reduce earthquake insurance premiums by up to 20%.
- Unlikely that retrofitting would result in significant premium reductions for multi-peril insurance policies.
- Researchers at Caltech performed a cost-benefit analysis and found that for every dollar spent on retrofitting, owners could expect to save up to \$7 in repairs following an earthquake.
- Effects on income taxes would vary from owner to owner.

Soft-Story Controlled Buildings Subject to Seismic Retrofit Program

- 1,272 buildings with 10,854 units
- Date tenancy started
 - 29% -- Long-Term Tenants--moved in before 1999
(3,118 units)
 - 16% -- Mid-Term Tenants--moved in between 1999 and end of 2008
(1,740 units)
 - 54% -- Recent Tenants--moved in since beginning of 2009
(5,863 units)
 - 1% -- No registered rent (owner-occupied or non-rental)
(133 units)

Median Maximum Allowable Rent (MAR) By Tenancy Start Date and Number of Bedrooms

Soft Story Unit Details		Long-Term Tenants (Pre-1999)		Mid-Term Tenants (1999 -2008)			Recent Tenants (2009 - Present)			
		# of Units	Median MAR	# of Units	Median MAR	Above Period 1	# of Units	Median MAR	Above Period 1	Above Period 2
# of	0	166	\$735	144	\$1,101	\$366	587	\$1,479	\$744	\$378
Bedrooms	1	1,316	\$835	829	\$1,613	\$778	2,961	\$1,900	\$1,065	\$287
	2	1,238	\$1,040	640	\$2,133	\$1,093	1,969	\$2,536	\$1,496	\$403
	3+	398	\$1,292	127	\$2,668	\$1,376	346	\$3,169	\$1,877	\$501
Count of Units		3,118		1,740			5,863			
% of Total		28.73%		16.03%			54.02%			

- Median MARs for long-term tenants between \$735 - \$1,292
- Median MARs for mid-term tenants between \$1,101 - \$2,668
- Median MARs for recent tenants between \$1,479 - \$3,169
- Recent tenants are paying between \$378 - \$501 more than mid-term tenants and between \$744 - \$1,877 more than long-term tenants.

Share of Building Tenancies by Time Period

Share of Units Rented in Time Period	Count of Buildings and Percent of Total					
	Long-Term Pre-1999 Period 1		Mid-Term 1999-2008 Period 2		Recent 2009-Present Period 3	
	Properties	% of Total	Properties	% of Total	Properties	% of Total
All	43	3%	12	<1%	80	6%
Half or More	235	18%	96	8%	713	56%
Less Than Half	721	57%	707	56%	345	27%
None	273	21%	457	36%	134	11%

- 3% of properties (43) have all units occupied by long-term tenants.
- 21% of properties (273) have no units occupied by long-term tenants.
- 62% of properties (793) have half or more units occupied by recent tenants.
- 11% of properties (134) have no units occupied by recent tenants.

Current Santa Monica Rent Control Process for Necessary Capital Improvements

Net Operating Income Increase Petition

- Current net operating income is compared to net operating income in the year prior to passage of the rent control law (1978 – 1979)
- If analysis finds owner is not making a fair return, relative to the 1978 reference, reasonable and necessary improvement costs may be passed through to tenants as permanent rent increases.

What Other Cities are Doing

Direct Pass-Throughs

- Los Angeles

- 50% of costs
- 10 year amortization period
- Interest at federal 10-year securities rate approximately 2.19% + 1%
- Monthly cap of \$38
- Pass-through eliminated for unit upon re-rental
- No hardship provision for low-income tenants
- \$26 average pass-through

- San Francisco

- 100% of costs
- 20 year amortization period
- Imputed interest of 3% or actual interest up to 10% for fixed rate loans
- Monthly cap of \$30 or 10% of current rent, whichever is greater
- Pass-through eliminated for unit upon re-rental
- Hardship waiver for low-income tenants.
- \$74 average pass-through

Factors to be Determined if Pass-Through Program is Adopted

- Percentage of the retrofitting costs to be passed through to tenants;
- Amortization period and pass-through duration for the costs;
- The interest rate, if any, to be included in pass-through calculations;
- Maximum monthly pass-through or cap;
- Which tenancies should be subject to the pass-through;
- Whether there should be any type of incentives (i.e. for early completion of retrofitting work).