

EXEMPTIONS TO RENT CONTROL

Proposal. The Tenants Committee believes that no rental housing unit, duplex or above, should be permanently exempted from rent stabilization. That accords with current City policy which extends rent stabilization to most rental housing properties of 2-units and above.

Discussion. Landlords are suggesting that nearly 40% of rental housing properties be beyond the reach of our rent stabilization ordinances. They would categorically exempt all duplexes and, additionally, exempt all 3-unit and 4-unit properties if an owner resides at the property. Such a substantial carve-out would remove City tenant protections from as many as 1125 households.¹

We disagree. The principle here is clear: Beverly Hills rent stabilization protection should extend to every household that enters into a lease or rental agreement in the City. No tenant should expect, or tolerate, disparate treatment under our ordinances simply because the tenant resides in a property of a certain size; or because the owner of the property is a neighbor.

First, no rental property should be exempted from rent stabilization because every rental property is in the apartment and rental leasing business. The product is a unit for rent. Landlords, however, argue that rental properties under their proposed exemption are akin to single-family homes. Nonsense. These properties share *nothing* in common with a private home - not the zoning nor the parking regulations nor development standards in general. They are by definition commercial enterprises and should be regulated differently than a private home.

Second, there is no sound basis to regulate rental property differently because of size. The landlords' reasoning? Duplexes, 3-unit and 4-unit properties are old and incur higher maintenance cost. Also that those costs disproportionately impact owners who are ill-prepared for major maintenance expenditures. In fact much of Beverly Hills rental housing stock is old; 4-unit and smaller structures appear to be no older than many properties that include ten or more units.

As to higher maintenance costs spread over fewer units, we counter that smaller structures should have a lower cost of maintenance relative to larger rental properties. Moreover we remind landlords that they believe these properties to be like single-family homes. In their view, then, not only would the cost of maintenance be *lower* than rental properties generally; the owners of properties with four or fewer units enjoy an advantage relative to single-family homeowners: one to three income-producing units will subsidize their maintenance while homeowners simply go out-of-pocket for expenses.

And if smaller operators are indeed less efficient, then our Committee suggests that each duplex and above be operated more like a business – because each is a business! That means funding capital costs not out of operations but through a capital reserve account (a buffer for unexpected expenditures). If business savvy is in short supply, there are companies that specialize in smaller property management.

The one vulnerability that a small property operator does face is a proportionally greater affect on operating income should a vacancy arise. But exempting small operators from

¹ According to the City's Rental Housing Initial Data Survey (April 2017).

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rent stabilization does this owner no service; indeed exempting the property from a cap on annual increases, for example, may only add to tenant churn and reduce gross revenues.

Third, there is no sound basis for excluding from tenant protections any household simply because its occupants live next door to the owner. An owner enjoys no greater privilege to choose his tenants than any other apartment renting and leasing business. That is, the owner must abide by fair housing laws. That makes better screening standards all the more important to the small owner. By the same token, an exemption from rent stabilization will not help that owner find better tenants. On the contrary, an informed tenant may choose an apartment based on the availability of tenant protections.

Fourth, the variety of ownership structures underscores the extent to which even small rental properties are, fundamentally, apartment rental and leasing businesses. So it is not clear what is meant when landlords say 'owner-occupied.' Many properties are controlled by limited liability corporations. Others may be controlled by partnerships of two or more, each with an ownership interest. We see evidence of investment vehicles moving into into the small rental property market. Because we've heard no distinction among ownership structures, the Committee cannot consider 'owner-occupied' as warranting special status.

Fifth, the City should exercise particular caution when it comes to any proposal that would disproportionately and negatively affect households with children. If duplexes, 3-unit and 4-unit properties are indeed categorically different than other rental properties, it is because they are more likely than are intermediate-sized rental properties to provide the 2-BR and 3-BR units that house families. (By comparison, the City's mid-size rental housing stock tends to provide 0-BR and 1-BR units.) Often families in larger units include children in our schools. The Committee sees no reason to exempt from tenant protections any family with children in the schools.

Finally, the landlords' proposed rent stabilization exemption would affect as many as 1125 tenant households. That is a considerable proportion of all City households in rental housing. The Committee did the math: 210 duplexes would be categorically exempt and as many as 420 tenant households might be beyond tenant protections. Add the proposed exemption for 'owner-occupied' 3-unit properties and as many as 132 more tenant households (66 properties x 2 tenant households in each) may be affected. Finally the proposed exemption for 'owner-occupied' 4-unit properties puts another 573 tenant households (191 x 3 tenant households) beyond protection. The total number of affected tenant households could reach 1125 which is over 13% of all households.

Summation. The landlords' proposal to exempt all duplexes, and all 3-unit and 4-unit properties if an 'owner' resides on the property, may sound reasonable. But on further examination that proposal would actually *undermine* City Council's objectives where rent stabilization is concerned. It would increase residential instability because fewer households would benefit from tenant protections. That is, each would face annual increases limited only by the state's 10% cap. Moreover no exempted household would not benefit from relocation fees (currently a key disincentive to no-just-cause eviction). As Beverly Hills prides itself on protecting residents, no household should find itself beyond the reach of forty years of City rent stabilization policy.