PREPARED FOR THE CITY OF BEVERLY HILLS

RENT STABILIZATION ANALYSIS

DRAFT DATA BRIEF

JULY 26, 2018

HR&A Analyze. Advise. Act.

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INTRODUCTION

BACKGROUND

The City of Beverly Hills (the "City" or "Beverly Hills") adopted Chapter 5 of Title 4 of the City's Municipal Code ("Chapter 5") in 1978, implementing a Rent Stabilization Ordinance ("RSO") that caps the amount by which housing providers can increase rents annually for tenants with original rent contracts of $600 or less per month and who live in buildings constructed prior to September 21, 1978. For tenancies that are covered by Chapter 5, housing providers may increase rents by the lesser of eight percent or the annual percent change in the Consumer Price Index ("CPI") for the Los Angeles area.

In 1986, the City adopted Chapter 6 of Title 4 of the City's Municipal Code ("Chapter 6"), establishing a second RSO provision that applies to tenants with original rent contracts that exceed $600 per month and live in residential buildings with two or more units built prior to February 1, 1995. Under the original provisions of Chapter 6, housing providers were permitted to increase rents by up to 10 percent annually.

In 1995, the State of California adopted the Costa Hawkins Rental Housing Act ("Costa Hawkins"), precluding the ability for California cities to impose rent control on single-family residential buildings and condominiums, and any building built after February 1995. Costa Hawkins also enables housing providers to raise rents to market rate levels once a tenant voluntarily moves out of a unit, although rent increases may be capped annually thereafter until the next tenant moves out, a regulatory mechanism known as "vacancy decontrol." However, Costa Hawkins does not prevent cities from imposing requirements for the payment of relocation fees or "just cause" eviction requirements.

In light of Costa Hawkins, the City's RSO only practically applies to rental residential buildings with two or more units built prior to March 1995. However, at the time of this writing, Proposition 10 on the November 2018 statewide ballot seeks to repeal Costa Hawkins.[1] Passage would enable cities throughout California with rent regulations to reconsider the limitations imposed by Costa Hawkins.

The Beverly Hills City Council modified certain provisions of the RSO in 2017, in response to concerns raised by City residents that the existing regulations were ineffective and that rapid rent increases were leading to resident displacement. The changes made pursuant to ordinances 17-0-2729 and 17-0-2745 (the "RSO Amendments") include:

- Limiting rent increases to the greater of three percent per year or the annual percent change in the CPI for the Los Angeles area under Chapter 6, a shift from the previously allowable 10 percent per year;
- Imposing new relocation fees for "no just-cause" evictions (any eviction besides those due to tenant failure to pay rent, maintenance of a nuisance, illegal uses, failure to execute a lease, refusal to provide unit access to housing provider, or presence of unapproved subtenants) for Chapter 6 tenants;
- Setting uniform relocation fees for Chapter 5 and Chapter 6;

[1] https://www.oag.ca.gov/system/files/initiatives/pdfs/17-0041%20%28Affordable%20Housing%29_0.pdf

- Requiring multifamily rental housing providers to register all rental units with a City database (the "RSO Registry") that may be updated annually and monitored;
- Requiring that housing providers comply with RSO Registry requirements before being permitted to increase rents;
- Exempting Chapter 5 units that are not a tenant's primary residence from the RSO;
- Defining a number of key terms for both Chapter 5 and Chapter 6; and
- Creating a rent increase application process for housing providers under Chapter 6;

PURPOSE OF THE DATA BRIEF

Following the 2017 RSO changes, the City retained HR&A Advisors, Inc. ("HR&A") to provide independent analysis of certain policy issues that emerged during professionally-facilitated dialogue sessions between housing providers and tenants, as well as public testimony before the City Council, following adoption of the RSO Amendments. These issues include:

- The formula for the maximum allowable annual rent increase;
- Amounts and beneficiaries of relocation fees that housing providers must pay in cases of no-cause evictions;
- Whether to exempt two- to four-unit buildings from RSO regulation;
- The procedures and remedies for "no just-cause" evictions not already addressed by the Beverly Hills Municipal Code;
- Whether to allow housing providers to "bank" unused portions of the annual general adjustment for use in future years;
- The process available to housing providers to seek rent increases; and
- Implications of the Ellis Act.

As part of its work to help the City consider these issues, HR&A prepared this Data Brief to assemble and analyze a variety of household, multifamily housing stock, and apartment building financial data as a factual foundation for addressing the issues listed above, and subsequent public discussion about them.

DATA BRIEF STRUCTURE AND SOURCES

This Data Brief provides a profile of the following:

1. The City's housing stock subject to the RSO ("RSO Buildings" or "RSO Units");
2. Renters and households residing in Beverly Hills and in units subject to the RSO ("RSO Tenants"); and
3. The financial characteristics of apartment buildings subject to the RSO.

HR&A used a variety of data sources to prepare these three subject area profiles. Specifically, HR&A relied on data available from the City's RSO Registry; the U.S. Census Bureau, including the decennial census and the annual American Community Survey ("ACS"); CoStar Group, Inc. ("CoStar") real estate data; and apartment building financial data assembled by the Institute of Real Estate Management ("IREM") and the National Apartment Association ("NAA").

A brief overview of each source used in this Data Brief follows.

RSO REGISTRY DATA

As required by the 2017 RSO amendments, the City created a mandatory registration system for multifamily residential buildings within Beverly Hills subject to the RSO (the "RSO Registry"). The City provided HR&A with data from the RSO Registry that offers an array of building stock, tenant, and building operations characteristics for the current year, but without linking those data to specific buildings or owners. The RSO Registry data reflects 2017 information and was provided to HR&A on March 21, 2018.

The RSO Registry file provided to HR&A has data for 1,096 buildings containing 7,698 units. However, the file includes three properties containing a total of 17 units that are recorded as having been built after 1995. Properties built after 1995 cannot legally be subject to rent restrictions pursuant to Costa Hawkins, and HR&A therefore excluded these three properties and their 17 units from the analysis contained in this report. The three properties and 17 units that were excluded represent less than one percent of all RSO properties and units, and their exclusion from the analysis is therefore assumed have a *de minimis* impact on the reported general characteristics of buildings subject to the RSO. HR&A's analysis therefore reflects data for 1,093 properties containing 7,681 units.

For ease of data presentation, HR&A grouped 2.5-bedroom unit data (four total units) with three-bedroom units, and grouped five-bedroom unit data (one total unit) with four-bedroom units into a four or more bedrooms category.

U.S. CENSUS BUREAU DATA

The U.S. Census Bureau is a federal agency that regularly collects and records various detailed data about the nation's people, housing and economy. U.S. Census Bureau data do not provide the level of customization necessary to analyze RSO Buildings and RSO Tenants exclusively, but reasonable inferences about RSO Buildings and Tenants can be drawn from the more generalized categories within U.S. Census Bureau data for Beverly Hills.

For selected housing stock information, HR&A separated out applicable RSO building data by evaluating census data on tenure by units in structure by year built corresponding to rental multifamily buildings constructed prior to 2000 in Beverly Hills. Based on a review of CoStar (see below) data, HR&A determined that no new multifamily buildings were built in the City between 1995 and 2000, indicating that it can be assumed that multifamily rental units built prior to 2000 are equivalent to RSO Units. Using this method, HR&A determined that the U.S. Census Bureau's 2012-2016 5-Year ACS data (the most recent year for which data are available) for Beverly Hills counted 7,580 RSO Units.

Furthermore, the ACS shows a total of 8,563 renter households in all building types in Beverly Hills. Because the RSO Registry documents that there are 7,580 RSO Units, and this number accounts for 88 percent of all renter households in the City (and is equal to 99 percent of the adjusted RSO Registry inventory), HR&A assumed that census data available for all rental households in Beverly Hills can reasonably be relied on to describe the general characteristics of RSO tenants and their households.

HR&A drew comparisons between Beverly Hills and other nearby cities including Los Angeles, Santa Monica, and West Hollywood, as well as Los Angeles County (the "County") as a whole, for select data points, but it should be noted that the data for these comparative areas includes all renter households and is not limited to those subject to rent stabilization within their respective jurisdictions (i.e., there are greater differences between the number of rent-stabilized units and all rental units in these other areas than is the case for Beverly Hills).

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT DATA

The U.S. Department of Housing and Urban Development ("HUD") is a federal agency that, among its many responsibilities, records and prepares data related housing. In particular, HR&A assessed HUD's Comprehensive Housing Affordability Strategy ("CHAS") data, which documents jurisdiction-specific housing problems and housing needs based on custom tabulations of ACS data received from the U.S. Census Bureau. HR&A used CHAS data to assemble information on the physical condition of the City's rental building stock relative to comparative surrounding areas. As with the HR&A's application of the ACS, Beverly Hills data is based on all renters and multifamily buildings in the City, the majority of which are subject to the RSO; data for comparative areas also include all renter households.

COSTAR GROUP, INC. DATA

CoStar is a well-respected and regularly cited third-party real estate data source. CoStar generates and maintains its data by researching individual property records and conducting interviews with property owners and real estate brokers. CoStar's multifamily rental data is detailed for buildings with more than four units, although data for buildings with four or fewer units is more limited. Here again, CoStar data for comparative areas includes all rental housing units and not just those that are rent stabilized in other cities and the County.

INSTITUTE OF REAL ESTATE MANAGEMENT DATA

IREM is a professional real estate management organization that produces research and analysis on numerous real estate industry issues, including apartment income and expense trends. IREM does not provide data for individual properties or customized criteria. Although operating expense data are available for metro areas rather than individual cities, HR&A utilized IREM apartment building operations data for the Los Angeles Metropolitan Area as a general benchmark for trends in components of Net Operating Income ("NOI"). IREM provides NOI data for apartment properties that are low-rise (three stories or less) with 12 to 24 units, low-rise with more than 24 units, and high-rise (four or more stories with an elevator).

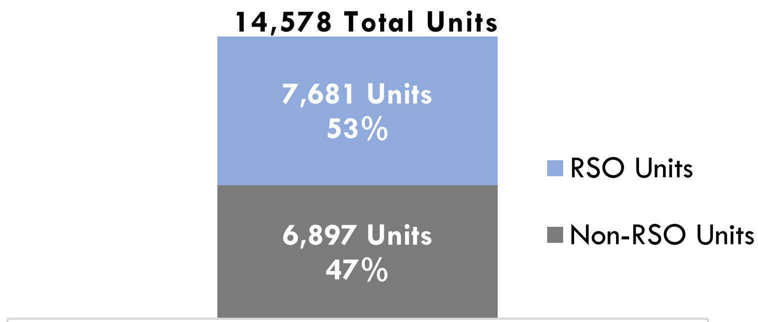
NATIONAL APARTMENT ASSOCIATION DATA

NAA is a professional apartment industry trade organization that, like IREM, assembles data, conducts research and prepares annual surveys of apartment income and operating expenses. NAA also provides data only for metro areas rather than individual cities. HR&A evaluated NAA data for the Los Angeles Metropolitan Area for 2017, again to benchmark general NOI characteristics of apartment buildings. NAA distinguishes apartment properties as garden, mid-rise and high-rise.

RSO BUILDING STOCK CHARACTERISTICS

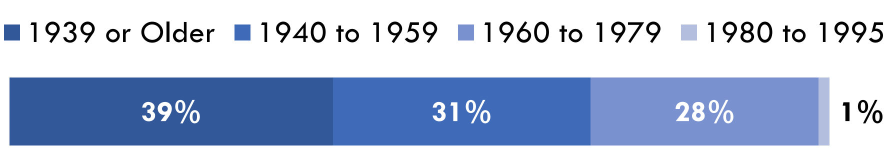
According to the RSO Registry, after removing the few properties recorded as having been built after 1995, there are 7,681 RSO Units in 1,093 RSO Buildings in the City. As shown in Figure 1, RSO Units recorded in the RSO Registry make up over half of the City's approximately 14,578 total housing units reported by the ACS. Moreover, RSO Units make up 88 percent of the nearly 8,563 rental housing units in the City reported by the ACS, which includes single-family rental units.

Figure 1: RSO Share of Total Beverly Hills Housing Units, 2017



Source: RSO Registry; 2012-2016 ACS
Note: "Non-RSO Units" include all multifamily units that are not subject to the RSO (i.e. condominiums and apartments built after February 1995) and single-family units.

Figure 2: Beverly Hills RSO Units by Year Built, 2017

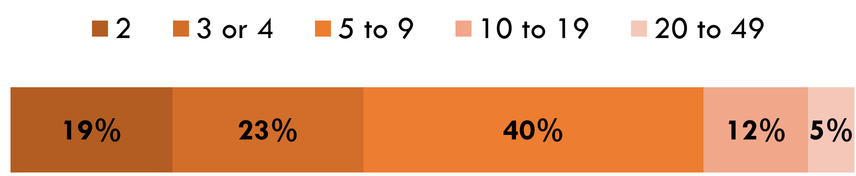


Source: RSO Registry (obtained March 21, 2018)

As shown in Figure 2, nearly all of the City's RSO Units were constructed prior to 1980. More than one-third of RSO Units were built before 1940, and more than half were built between 1940 and 1979.

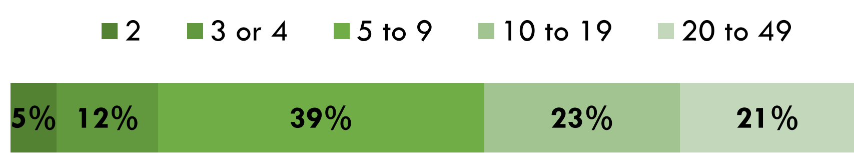
Most buildings subject to the RSO have less than 10 units, as shown in Figure 3. Slightly more than 40 percent of RSO Buildings are duplexes, triplexes, and quadplexes, and 40 percent have between five and nine units. Less than 20 percent of RSO Buildings have 10 or more units. However, as shown in Figure 4, less than 20 percent of RSO Units are contained in duplexes, triplexes, and quadplexes, and most units are contained within buildings that have five or more units.

Figure 3: Beverly Hills RSO Buildings by Number of Units in Structure, 2017



Source: RSO Registry

Figure 4: Beverly Hills RSO Units by Number of Units in Structure, 2017

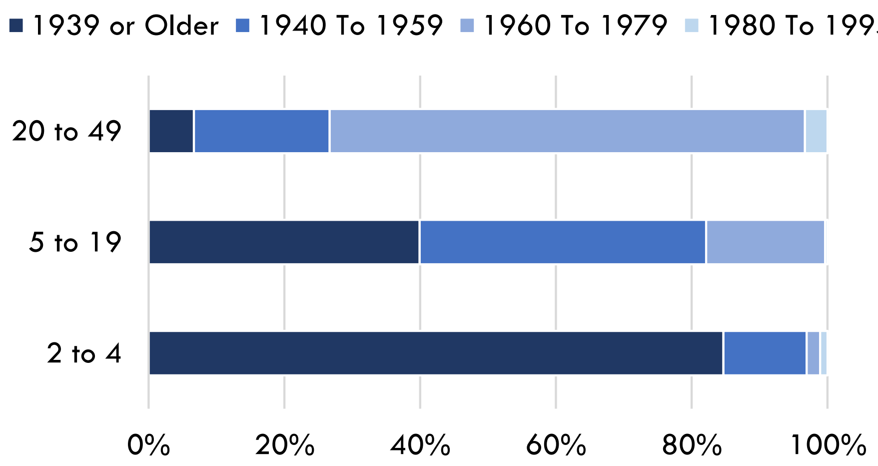


Source: RSO Registry (obtained March 21, 2018)

As shown in Figure 5, smaller RSO Buildings are generally older than larger RSO Buildings. Approximately 97 percent of buildings with two to four units were built prior to 1960, and nearly three quarters of buildings with 20 or more units were built between 1960 and 1995.

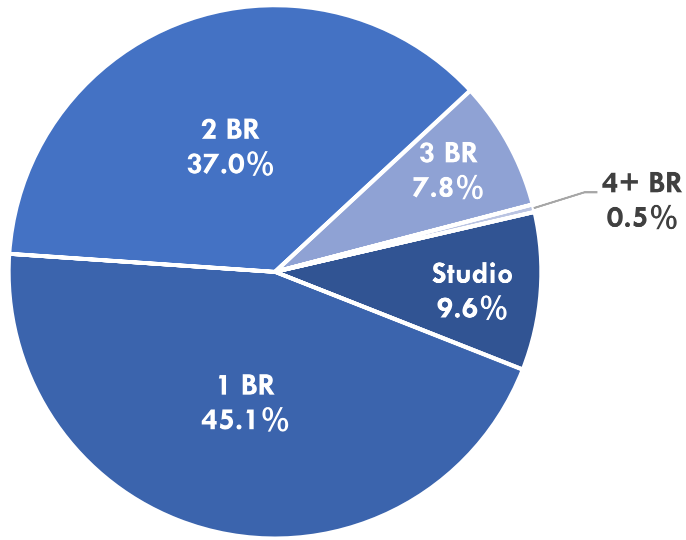
As shown in Figure 6, one- and two-bedroom units make up the majority of RSO Units, followed by a smaller share of studios and three-bedroom units, and very few units with four or more bedrooms. Smaller RSO Buildings generally have units with more bedrooms than larger buildings, as shown in Figure 7. Three-bedroom units make up more than three quarters of units within duplexes, while they account for only four percent of units within buildings of five or more units. Conversely, studio and one-bedroom units make up little more than one percent of units within duplexes, but they compose nearly two-thirds of units within building of five or more units.

Figure 5: Beverly Hills RSO Buildings by Number of Units in Structure by Year Built, 2017



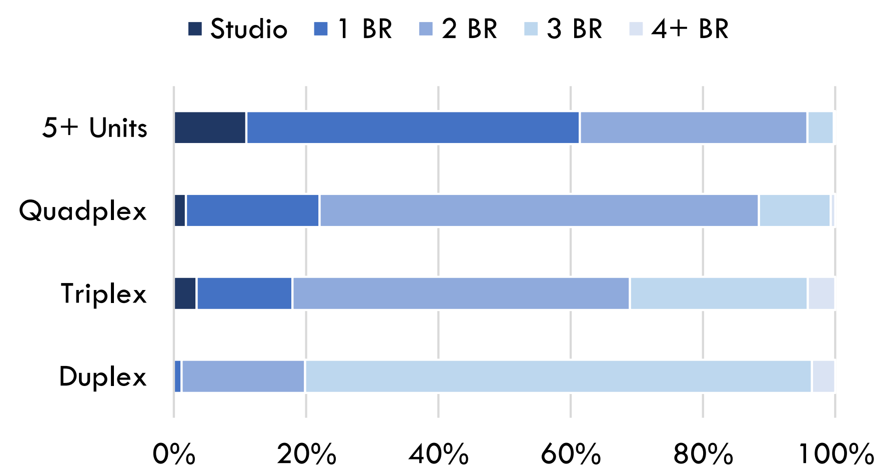
Source: RSO Registry (obtained March 21, 2018)

Figure 6: Beverly Hills RSO Unit Type Distribution, 2017



Source: RSO Registry (obtained March 21, 2018)

Figure 7: Beverly Hills RSO Unit Type Distribution by Number of Units in Structure, 2017

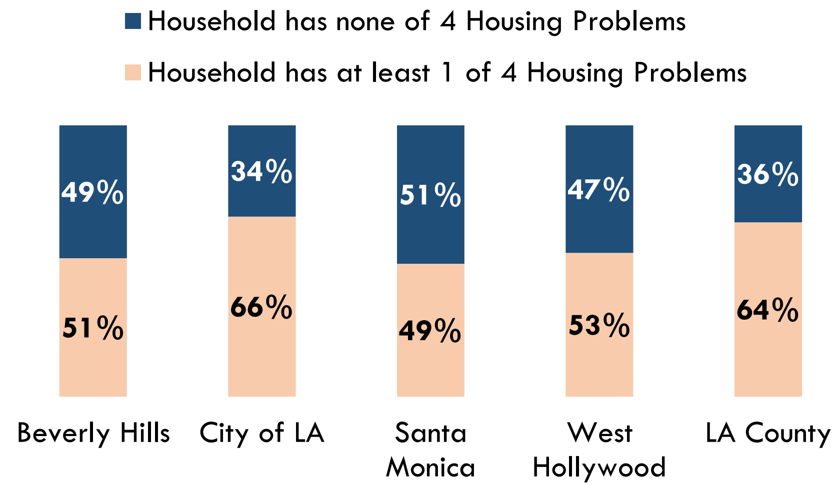


Source: RSO Registry (obtained March 21, 2018)

HUD identifies four classifications of housing problems in its CHAS data: 1) housing unit lacks complete kitchen facilities; 2) housing unit lacks complete plumbing facilities; 3) household is overcrowded; and 4) household is "rent burdened." HUD defines rent burden, or "cost burden," as households that pay more than 30 percent of household income on housing costs, and defines households that pay more than 50 percent of household income on housing costs as "severely rent burdened" or "severely cost burdened."[2] A household is said to have a housing "problem" if it has any one or more of these four problems. These data serve as an indicator of the general physical conditions of the rental housing stock, as well as the economic conditions of the tenants who live in it. The issues of overcrowding and rent burden are discussed in greater detail in the next section.

As shown in Figure 8, over half of Beverly Hills renter households have at least one of the four housing problems, according to the CHAS data. This is a low percentage compared with nearby cities and the County; only Santa Monica has a lower share of households with at least one housing problem and a correspondingly higher share of renter households without any of these housing problems.

Figure 8: Renter Household Physical and Economic Conditions, 2014



Source: HUD CHAS (based on 2010-2014 ACS data)

[2] https://www.huduser.gov/portal/datasets/cp/CHAS/bg_chas.html

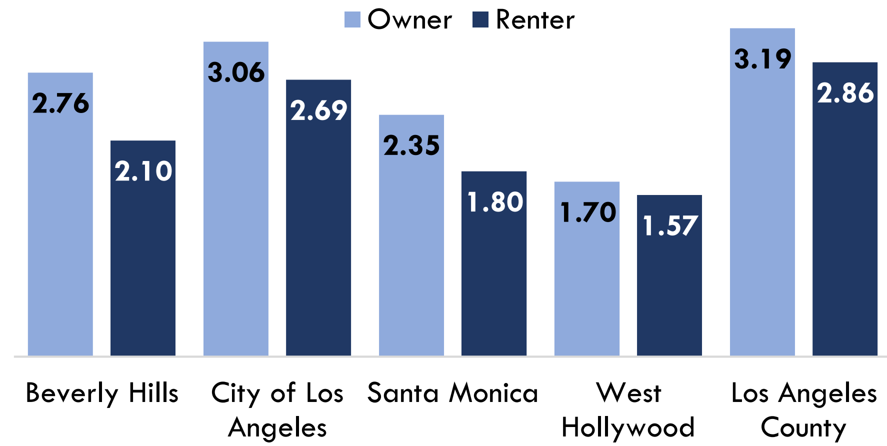
BEVERLY HILLS RENTER AND RSO TENANT HOUSEHOLD CHARACTERISTICS

HOUSEHOLD SIZE & COMPOSITION

Nearly 60 percent of all households, including apartments, condominiums, and single-family homes, in the City are renter-occupied. Renter households are smaller on average than owner-occupied households in Beverly Hills, which is consistent with the characteristics of nearby cities and the County as a whole, as shown in Figure 9. Among these comparative geographies, Beverly Hills renter households are in the middle of the household size (i.e., the number of residents per dwelling unit) range. As shown in Figure 10, a small share of Beverly Hills renter households is overcrowded[3]: two percent of Beverly Hills renter households are overcrowded (i.e. have 1.01 to 1.50 occupants per room), and one percent are severely overcrowded (i.e. have more than 1.50 occupants per room).

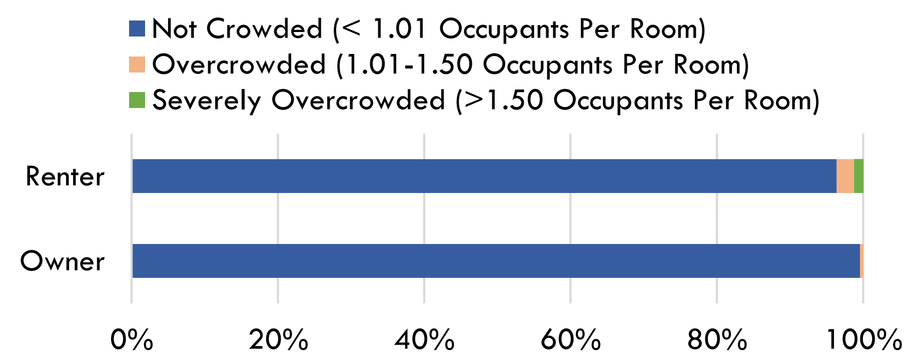
The majority of Beverly Hills renters are generally considered "working age," as over three quarters are younger than 65 years old, as shown in Figure 11. Over half of renter households are between 35 and 64 years old. As shown in Figure 12, approximately one quarter of both Beverly Hills homeowners and renters have children under the age of 18, which is lower than in the City and County of Los Angeles, but much higher than renter households in West Hollywood and Santa Monica, according to the American Community Survey 5-Year Estimates for 2012-2016.

Figure 9: Average Household Size (Residents per Dwelling Unit) by Tenure, 2016



Source: 2012-2016 ACS

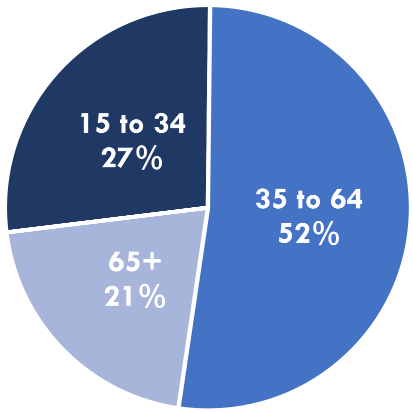
Figure 10: Beverly Hills Average Occupants per Room by Tenure, 2016



Source: 2012-2016 ACS

[3] As defined by the US Department of Housing and Urban Development: https://www.huduser.gov/portal/datasets/cp/CHAS/bg_chas.html

Figure 11: Age of Householder in All Beverly Hills Rental Households, 2016

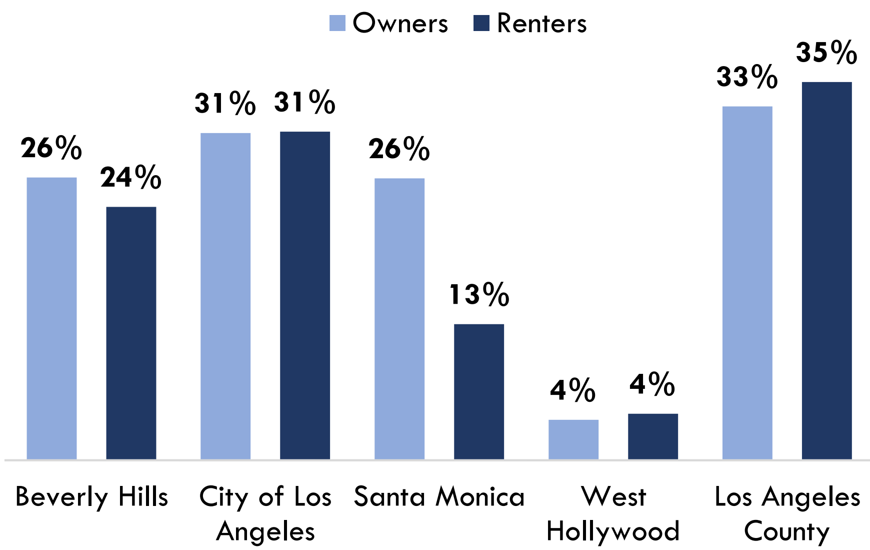


Source: 2012-2016 ACS

HOUSEHOLD INCOME

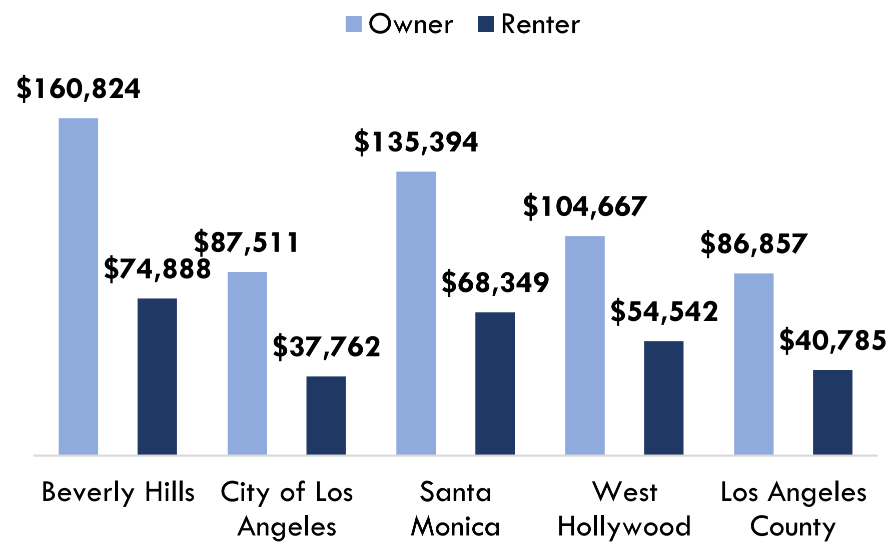
Also in line with nearby cities and the County, the median household income for City homeowners exceeds that of renter households, as shown in Figure 13. However, renter households in Beverly Hills have higher median (i.e., exact midpoint of the range) incomes than in nearby cities and the County. While median household income for homeowners in Beverly Hills is approximately $160,000 per year, and more than double that of renter households (nearly $75,000 per year), renter household incomes have risen somewhat between 2000 and 2016, while homeowner median incomes have declined (adjusted for inflation), as shown in Figure 14.

Figure 12: All Households with Children Under 18 Years Old by Tenure, 2016



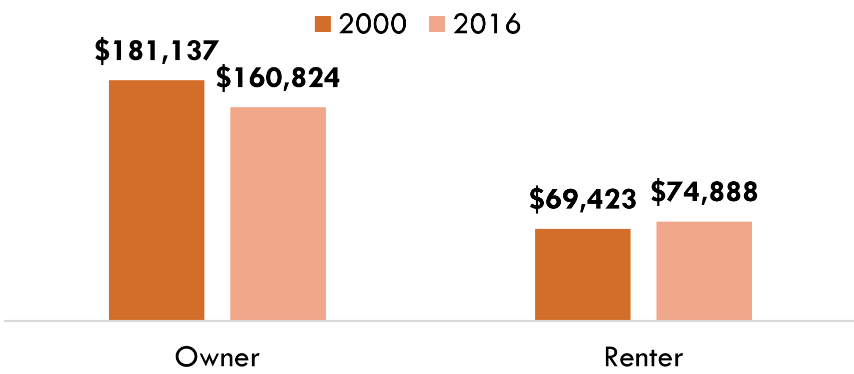
Source: 2012-2016 ACS

Figure 13: Median Household Income for All Household Types by Tenure (in 2016 $)



Source: 2012-2016 ACS

Figure 14: Beverly Hills Median Household Income by Tenure by Year for All Household Types (in 2016 $)

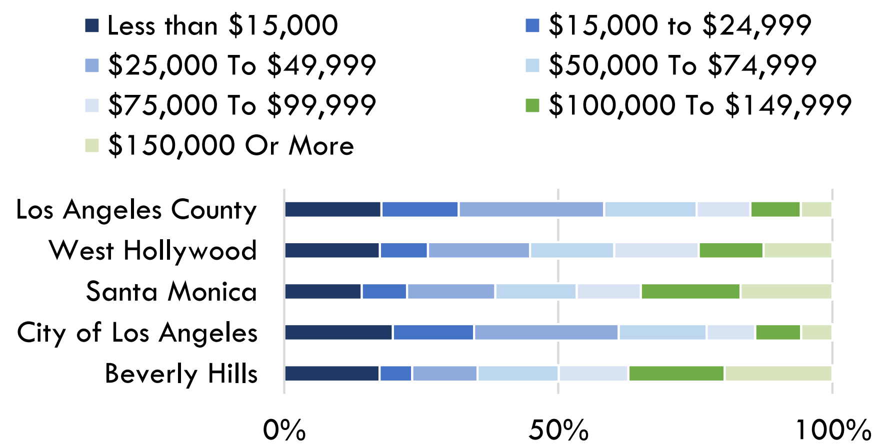


Source: 2012-2016 ACS

Among comparative areas, Beverly Hills has the highest share of renter households with median incomes of $100,000 or more per year, and the lowest share of renter households with median incomes of less than $50,000 per year, as shown in Figure 15. Half of the city's renters have median household incomes of at least $75,000 per year.

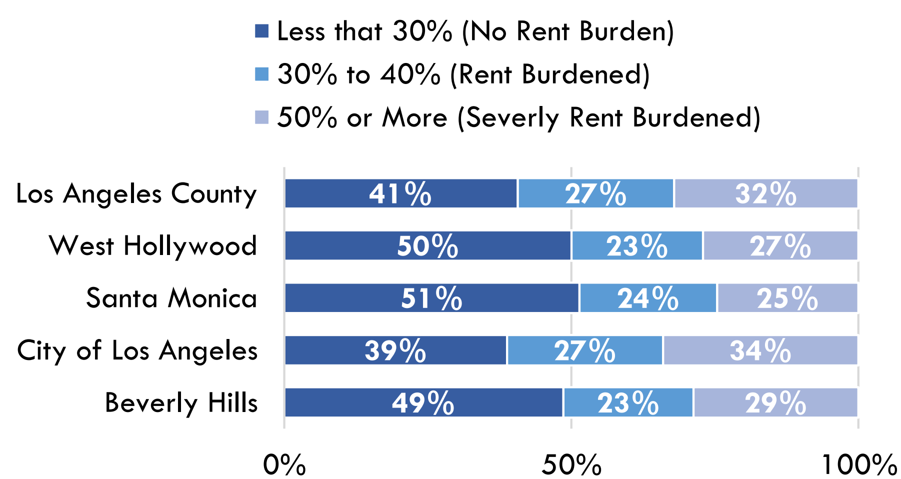
Although renter household incomes in Beverly Hills are generally higher than in nearby cities and the County, over half of the City's renter households are rent burdened, as illustrated in Figure 16. Moreover, nearly 30 percent of the City's renter households (a higher share than in both Santa Monica and West Hollywood), pay more than half of their income on housing costs and are considered severely rent burdened.

Figure 15: Distribution of Renter Median Household Income for All Household Types (in 2016 $)



Source: 2012-2016 ACS

Figure 16: Rent Share of Household Income for A Households Types, 2016

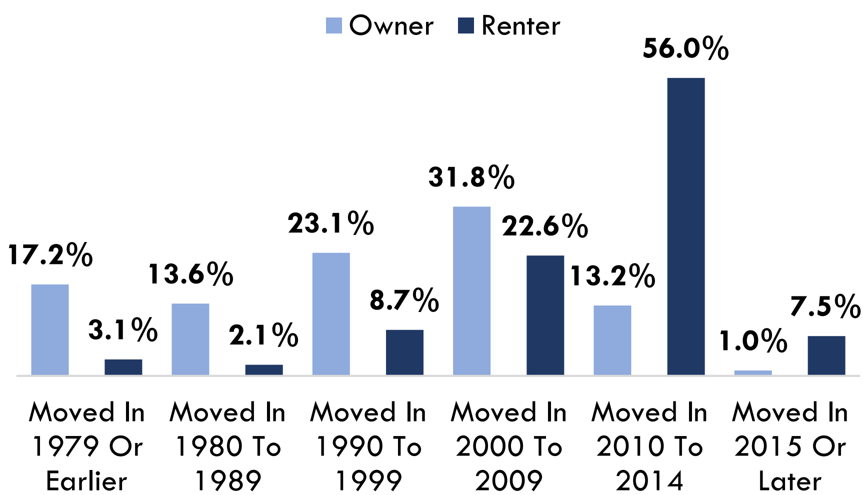


Source: 2012-2016 ACS

HOUSEHOLD TURNOVER

The frequency with which renters move out of units, or the "turnover" rate, is important in the context of the RSO because housing providers can reset rents to current market rates for new tenants when prior tenants move out voluntarily. As shown in Figure 17, Beverly Hills homeowners have largely lived in their units longer than renters. More than half of owners moved into their units prior to 2000, compared with only 14 percent of renters. Nearly two-thirds of the City's renter households moved into their units later than 2009, compared with 14 percent of owners. Among renters of multifamily units in the City, renters in smaller buildings have generally moved into their units more recently than those in larger buildings, as shown in Figure 18. However, the majority of renter households moved into their units after 1999, regardless of building size.

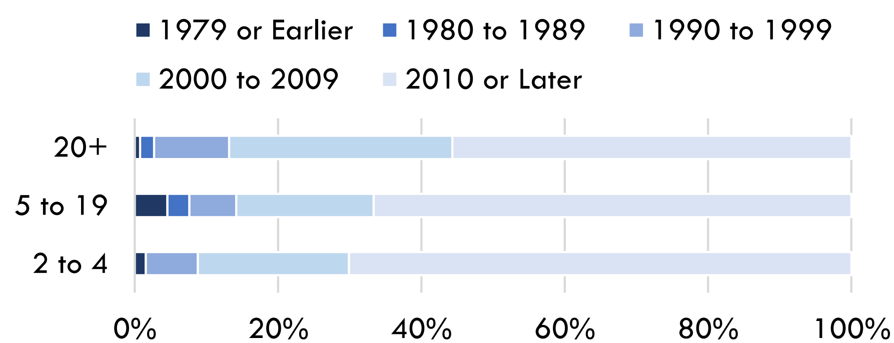
Figure 17: Year Beverly Hills Householder Moved into Unit by Tenure, 2016



Source: 2012-2016 ACS

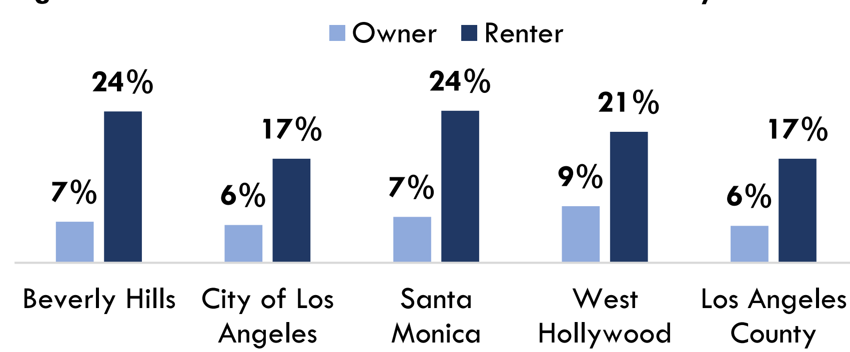
The tendency for homeowners to stay in their homes longer than renters is also reflected in resident turnover rates, or the share of the households that move in a given year. As shown in Figure 19, nearly a quarter of renter households in Beverly Hills move out of their units in a given year, as compared with seven percent of homeowners. Also illustrated in Figure 19, Beverly Hills' renter turnover rate is the highest among most comparative areas, and matches the rate in Santa Monica.

Figure 18: Year Beverly Hills Renter Householder Moved into Unit by Number of Units in Structure, 2016



Source: 2012-2016 ACS

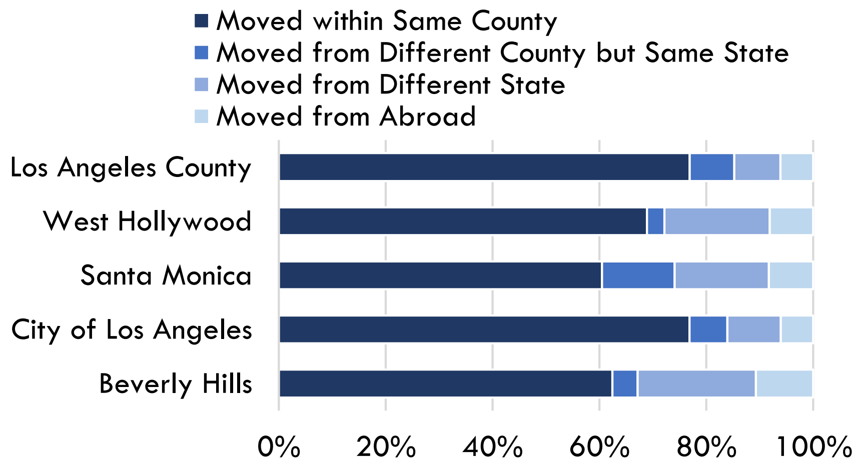
Figure 19: 2016 Household Turnover Rate by Tenure



Source: 2012-2016 ACS

As shown in Figure 20, among renter households that moved to Beverly Hills, nearly two-thirds moved from within Los Angeles County, and a comparatively high share moved from different states (22%) and internationally (11%). In fact, Beverly Hills had the highest share of both out-of-state and international newcomers among comparative areas

Figure 20: Location from Which Renters Moved, 2016



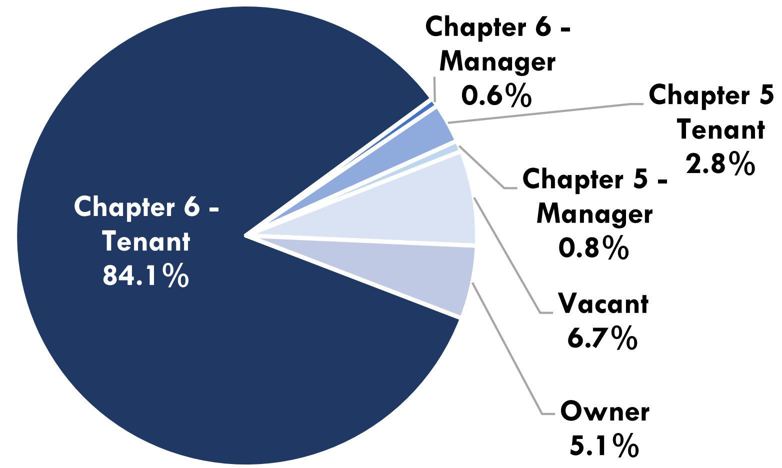
Source: 2012-2016 ACS

RSO TENANT CHARACTERISTICS

As shown in Figure 21, the majority of RSO Units are occupied by Chapter 6 tenants, and only three percent are occupied by Chapter 5 tenants. Seven percent of units in RSO Buildings are vacant, and six percent are occupied by building owners and managers.

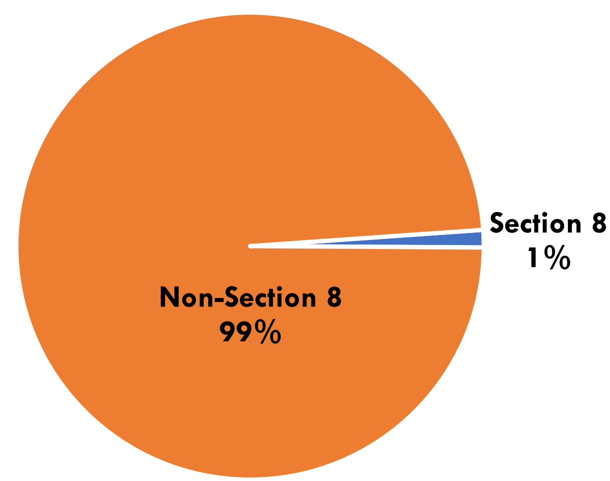
As shown in Figure 22, only one percent of RSO Tenants use Section 8 vouchers, a government housing subsidy. Almost all RSO Tenants that use Section 8 vouchers are Chapter 6 tenants, with the exception of five Chapter 5 tenants.

Figure 21: Beverly Hills RSO Units by Tenant Type, 2017



Source: RSO Registry (obtained March 21, 2018)

Figure 22: Beverly Hills RSO Tenants by Section 8 Status, 2017



Source: RSO Registry (obtained March 21, 2018)

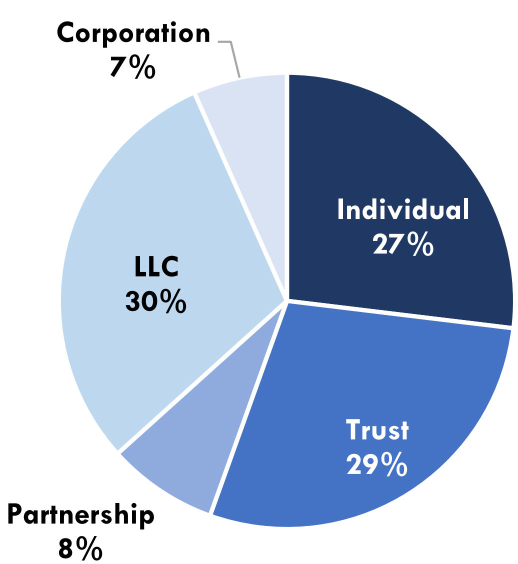
CHARACTERISTICS OF RSO BUILDING OPERATIONS

OWNERSHIP

RSO Buildings in the City are owned by a mix of professional corporate real estate companies, and individuals with personal investments. As shown in Figure 23, a little more than one quarter of RSO Buildings are owned by individuals; seven percent are owned by corporations; and approximately two-thirds are owned by trusts, partnerships, and Limited Liability Companies ("LLCs"), which may be individuals or subsidiaries of larger companies, but not discernable from the available data.

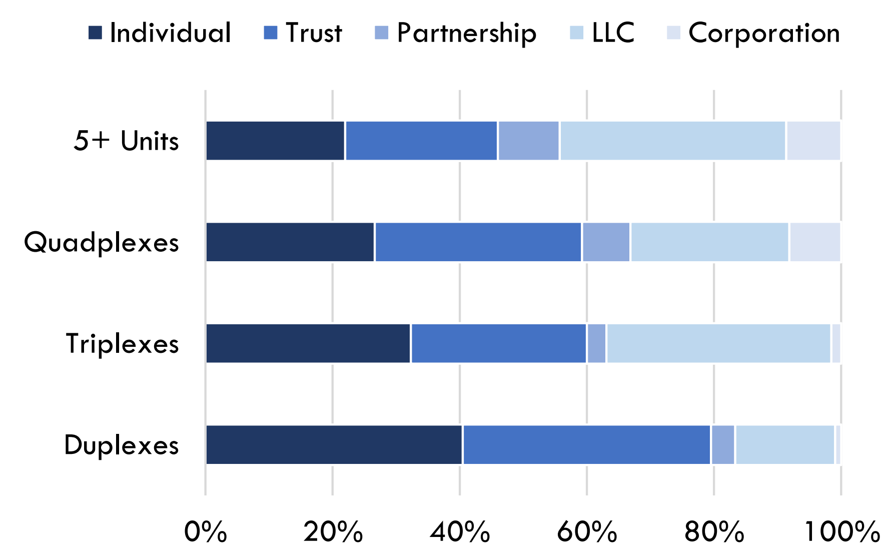
Individuals own a larger share of two- to four-unit RSO buildings than RSO Buildings with five or more units, which have a broader distribution of ownership types, as shown in Figure 24. This characteristic reflects broader real estate investment dynamics in which medium to large real estate companies and investors generally have greater access to investment capital allowing them to acquire larger apartment buildings that tend to be more expensive than smaller buildings in the same market. Conversely, individuals and small companies generally have more limited access to investment capital, and commensurately seek smaller, less expensive buildings.

Figure 23: Beverly Hills RSO Building Ownership by Type of Entity, 2017



Source: RSO Registry (obtained March 21, 2018)

Figure 24: Beverly Hills RSO Building Ownership by Type of Entity by Number of Units in Structure, 2017



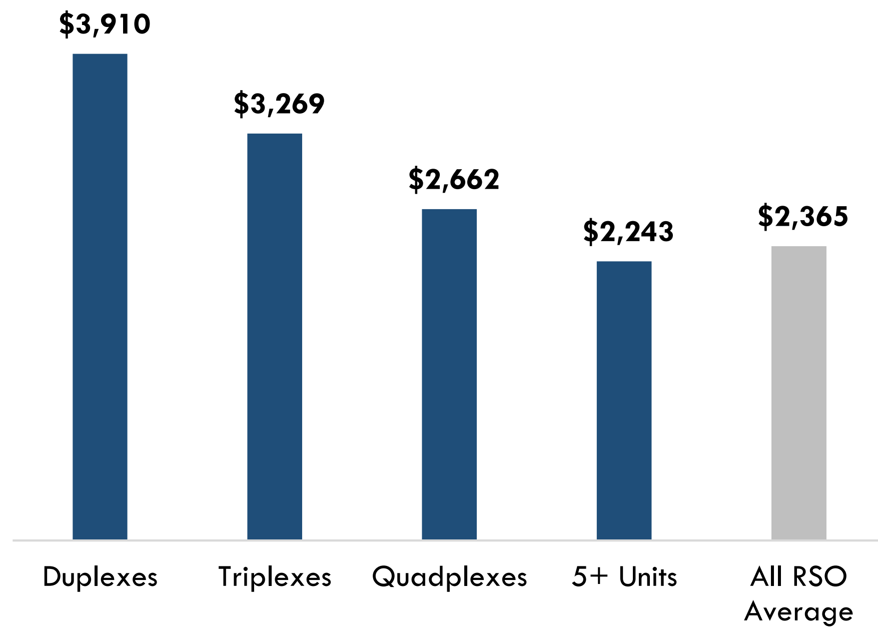
Source: RSO Registry (obtained March 21, 2018)

RENTS

As shown in Figure 25, average monthly rent for RSO Units is $2,365 per unit, and average rents inversely correlate with the number of units in a building: duplexes achieve the highest average rents of approximately $3,900 per unit per month, while buildings with five or more units achieve average rents of approximately $2,240 per unit per month. Duplexes also have higher proportions of three-bedroom units compared with other RSO Buildings types, suggesting that they tend to have larger units. As shown in Figure 26, the directional trend of average monthly rent in RSO Units has paralleled the trend for all multifamily rental units in nearby cities and the County for nearly the past two decades, but average rent in Beverly Hills has historically been higher than in those comparative areas.

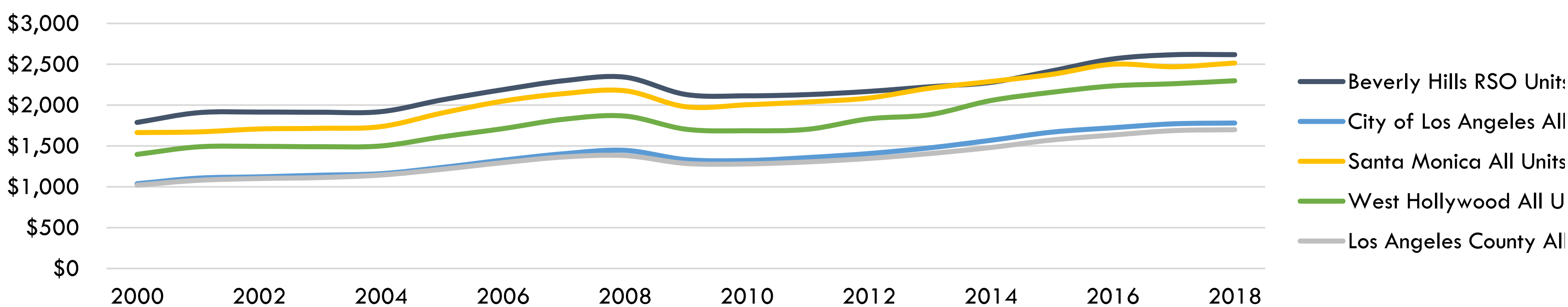
More specifically, between 2000 and 2018, average Beverly Hills RSO unit rents have fluctuated year to year, increasing as much as 7.5 percent and decreasing as much as 9.1 percent, as shown in Figure 27. On average, RSO unit rents increased a little more than two percent annually over that time.

Figure 25: Beverly Hills Average Monthly Rents per RSO Unit by Number of Units in Structure, 2017



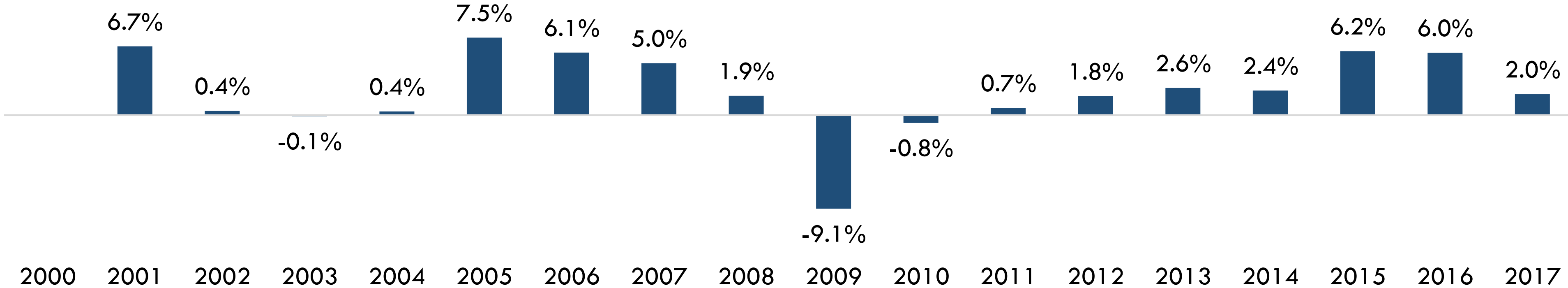
Source: RSO Registry (obtained March 21, 2018)

Figure 26: Apartment Rents per Unit, 2000-2018



Source: CoStar

Figure 27: Annual Change in Beverly Hills RSO Rents Per Unit, 2000-2017

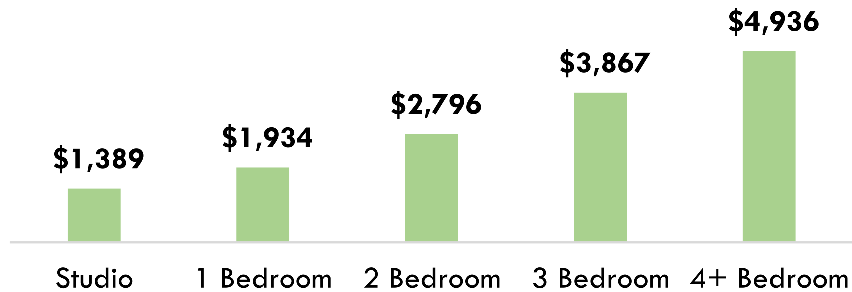


Source: CoStar

Beverly Hills RSO Units rents positively correlate with the number of bedrooms per unit, as shown in Figure 28. Studios are on the lowest end of the range and rent for $1,389 per month on average, while on the highest end of the range units with four or more bedrooms rent for an average of $4,936. As shown in Figure 29, Chapter 6 tenants pay an average of $2,427 per unit per month, which more than double the $1,017 per unit per month that Chapter 5 tenants pay on average, although Chapter 5 tenants make up only three percent of all RSO tenants, as noted previously.

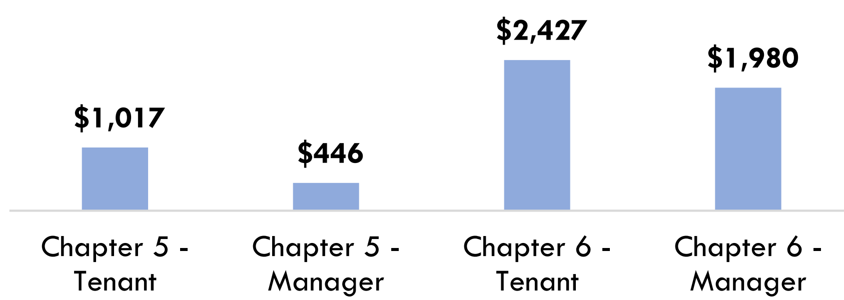
Despite Beverly Hills having historically higher rents per RSO unit among comparative areas, the City's RSO Units fall in the middle of the range among comparative areas, and very similar to West Hollywood, in terms of rents per square foot over time, as shown in Figure 30. Average rents per square foot for RSO Units in Beverly Hills are currently $2.85 and are highest in Santa Monica at $3.70, which has experienced much more new non-regulated apartment construction.

Figure 28: Beverly Hills RSO Average Monthly Rent Per Unit by Unit Type, 2017



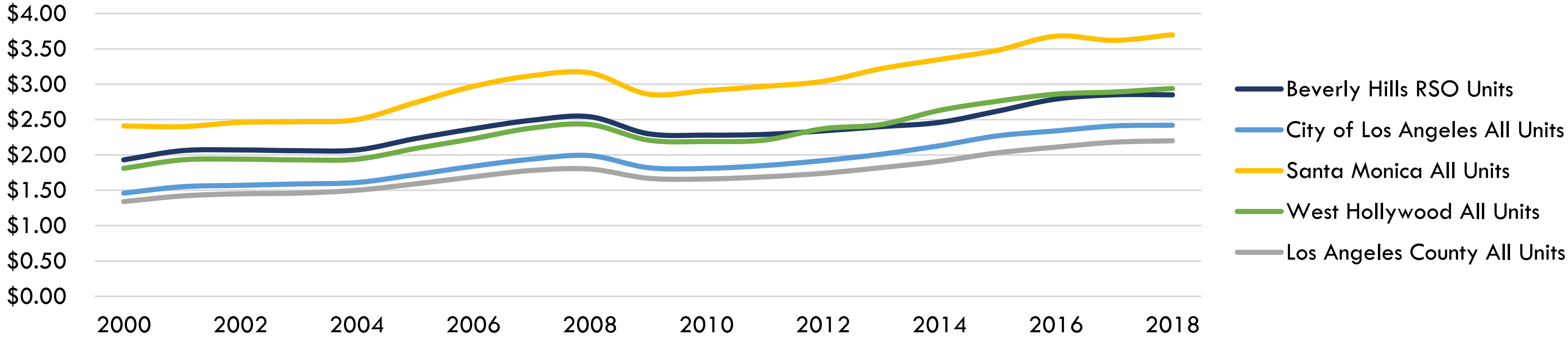
Source: RSO Registry (obtained March 21, 2018)

Figure 29: Beverly Hills RSO Average Monthly Rent Per Unit by Tenant Type, 2017



Source: RSO Registry (obtained March 21, 2018)

Figure 30: Average Monthly Apartment Rents per Square Foot, 2000-2018

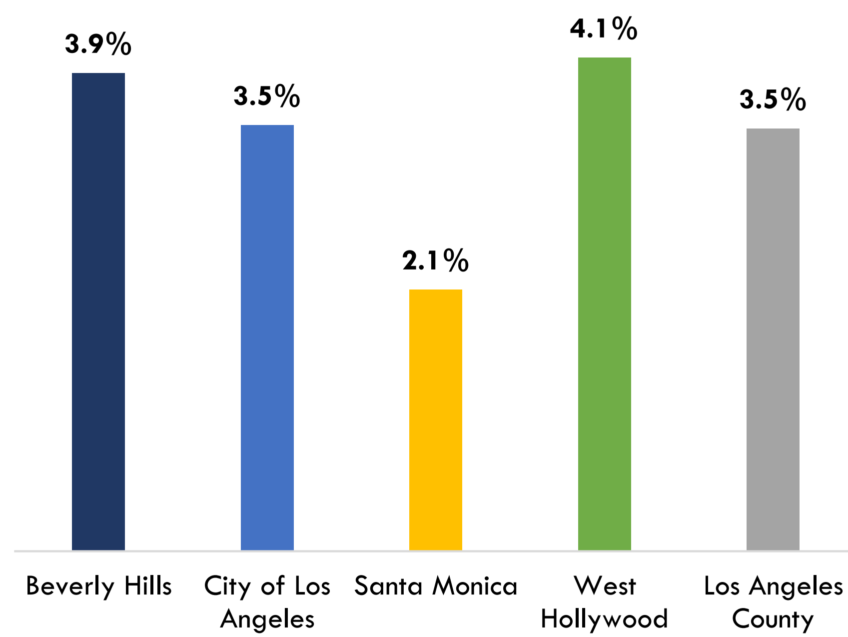


Source: CoStar

VACANCY RATES

As shown in Figure 31, the vacancy rate for all rental units in Beverly Hills is approximately 3.9 percent, which was higher than that in the County as a whole and nearby cities, except for West Hollywood, according to the 2012-2016 ACS. RSO Registry data, which reflects a snapshot at the point in time properties registered, shows that 6.6 percent of total RSO Units were vacant at the time the data were recorded. Buildings with five or more units were slightly below this average (6.4%), while buildings with less than five units were above it (7.8%). However, vacancy rates in smaller buildings are necessarily more impacted by a vacant unit than larger buildings. For example, a duplex with one vacant unit is 50 percent vacant, while a 10-unit building with one vacant unit is 10 percent vacant.

Figure 31: Vacancy Rate for All Rental Units, 2016



Source: 2012-2016 ACS

OPERATING EXPENSES

There is currently no available and authoritative source for apartment operating expense data specific to Beverly Hills. HR&A attempted to obtain operating expense data for an analytically robust and representative sample of local housing providers, but HR&A's request to the Apartment Association of Greater Los Angeles for necessary assistance in doing so was declined. In lieu of data specific to Beverly Hills apartment buildings, HR&A analyzed annual apartment income and expense data collected by the National Apartment Association ("NAA") and Institute of Real Estate Management ("IREM") for the Los Angeles Metropolitan area.

According to the NAA's 2017 income and expense profile for the Los Angeles Metropolitan Area, which includes a total of 50 properties containing 13,842 units, operating expenses for apartments are approximately one third of gross potential rent ("Gross Potential Rent"), and equal approximately $8.60 per square foot and $7,600 per unit on average, as shown in Figure 32. Taxes make up the largest share of operating expenses, followed by salaries and personnel and contract services.

While the NAA data represents the operating profile for buildings with an average of 277 units per buildings and is therefore not a strong analog for apartment buildings in Beverly Hills, which generally have between two to 44 units per building, it is useful for understanding the composition of apartment building operating budgets and provides a frame of reference for current operating expenses on a per square foot basis and in terms of the ratio of expenses to revenues.

According to IREM's expense data for apartments in the Los Angeles Metro Area[4], as shown in Figure 33, operating expenses per square foot for all apartment building types increased between 1999 and 2016, while the ratio of operating expenses to effective gross income ("EGI") has varied from year to year, but has primarily been within the range of 30 to 40 percent. Although it may vary in a given year, operating expenses are generally higher for larger buildings. Between 1999 and 2016, operating expenses per square foot averaged approximately $7.60 for high-rise buildings, $6.70 for low-rise buildings with 25 or more units, and $5.20 for low-rise buildings with 12 to 24 units. In terms of the ratio of operating expenses to EGI over the same time period, high-rise buildings had an average of 40 percent, low-rise buildings with 25 or more units had an average of 37 percent, and low-rise buildings with 12 to 24 units had an average of 33 percent.

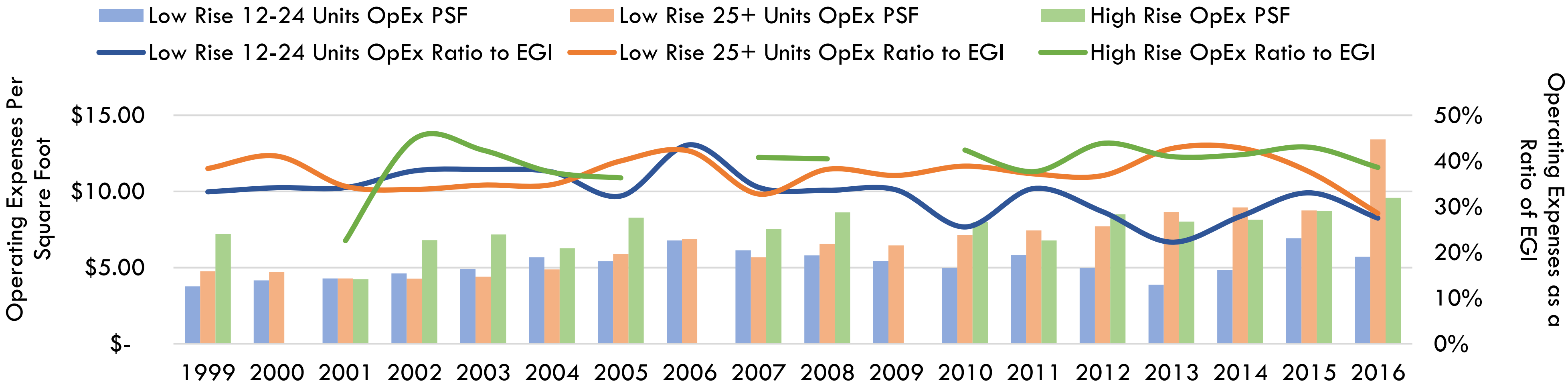
Figure 32: 2017 Los Angeles Metro Area Average Apartment Annual Income and Expense Profile, 2017

	Per Unit	Per SF	% of GPR
Revenues			
Gross Potential Rent	$23,561	$26.49	100.0%
Rent Revenue Collected	$22,277	$25.04	94.5%
Losses to Vacancy	$1,047	$1.18	4.4%
Collection Losses	$138	$0.16	0.6%
Losses to Concessions	$100	$0.11	0.4%
Other Revenue	$1,063	$1.20	4.5%
Total Revenue	**$23,340**	**$26.24**	**99.1%**
Operating Expenses			
Salaries and Personnel	$1,521	$1.71	6.5%
Insurance	$359	$0.40	1.5%
Taxes	$2,236	$2.51	9.5%
Utilities	$686	$0.77	2.9%
Management Fees	$620	$0.70	2.6%
Administrative	$411	$0.46	1.7%
Marketing	$184	$0.21	0.8%
Contract Services	$1,153	$1.30	4.9%
Repair and Maintenance	$491	$0.55	2.1%
Total Operating Expenses	**$7,662**	**$8.61**	**32.5%**

Source: NAA

[4] IREM data does not include high-rise buildings for years 2000, 2006, and 2009.

Figure 33: Los Angeles Metro Area Apartment Operating Expenses Per Square Foot and as a Ratio of Effective Gross Income ("EGI"), 1999-2016

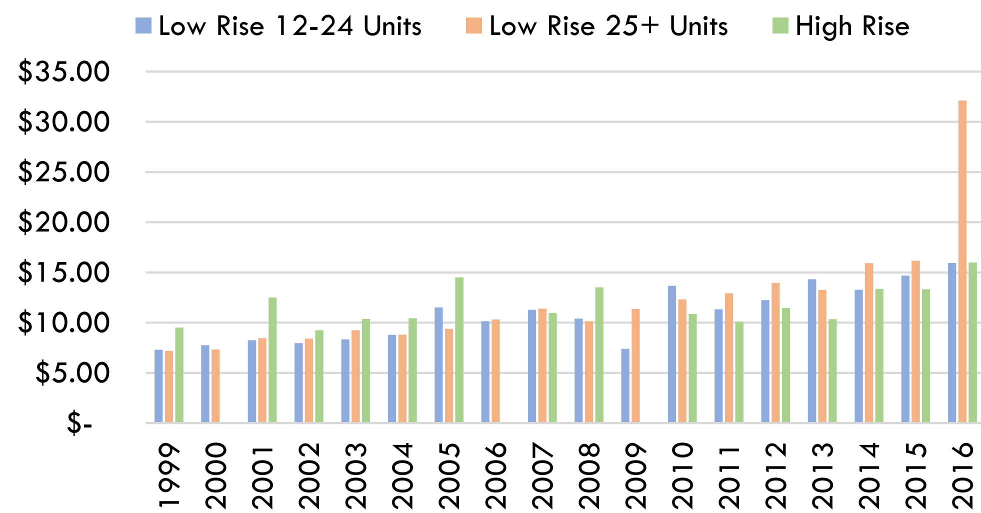


Source: IREM. Data gaps in some years reflect missing survey data.

NET OPERATING INCOME

According to IREM data, NOI has increased for all building types between 1999 and 2016, as shown in Figure 34. Similar to operating expenses, NOI tends to positively correlate with building size. Between 1999 and 2016, NOI per square foot averaged approximately $11.80 for high-rise buildings, $12.15 for low-rise buildings with 25 or more units, and $10.80 for low-rise buildings with 12 to 24 units. Low-rise buildings with 25 or more units have the highest average NOI per square foot over that time period due to a spike in 2016, but would otherwise fall in the middle of the three apartment building types. Over the same time period, year-to-year percent changes in NOI per square foot averaged 9 percent for high-rise buildings, 11 percent for low-rise buildings with 25 or more units, and 9 percent for low-rise buildings with 12 to 24 units.

Figure 34: Los Angeles Metro Area Apartment Average Net Operating Income Per Square Foot, 1999-2016



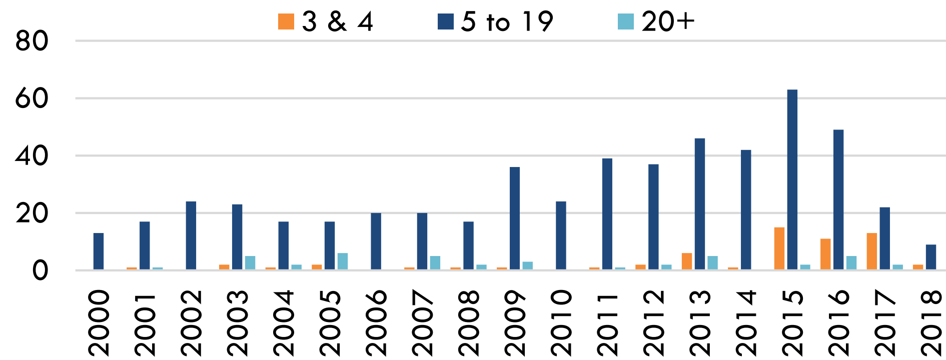
Source: IREM

APARTMENT BUILDING SALES

Despite rent restrictions, Beverly Hills RSO Buildings have historically sold for higher average prices per unit than all apartment buildings in comparative areas, according to data obtained from CoStar, as shown in Figure 35. The building sales data from CoStar for Beverly Hills include multifamily rental properties with three or more units that were built prior to 1995 (i.e., RSO Buildings) and include all multifamily rental properties for comparative cities. While prices per Beverly Hills RSO units have fluctuated over time, some years dipping below prices for all apartment buildings in Santa Monica, they have generally increased, and in 2017 (the most recent year for which data are available for Beverly Hills) sold for an average of $590,000 per unit, approximately $110,000 more than average per unit apartment prices in Santa Monica in the same year. The data suggest that the RSO has not hampered property value growth, and Beverly Hills RSO Buildings have generally sold at higher prices on average than all apartment buildings in nearby cities, which include more unregulated new construction apartment buildings.

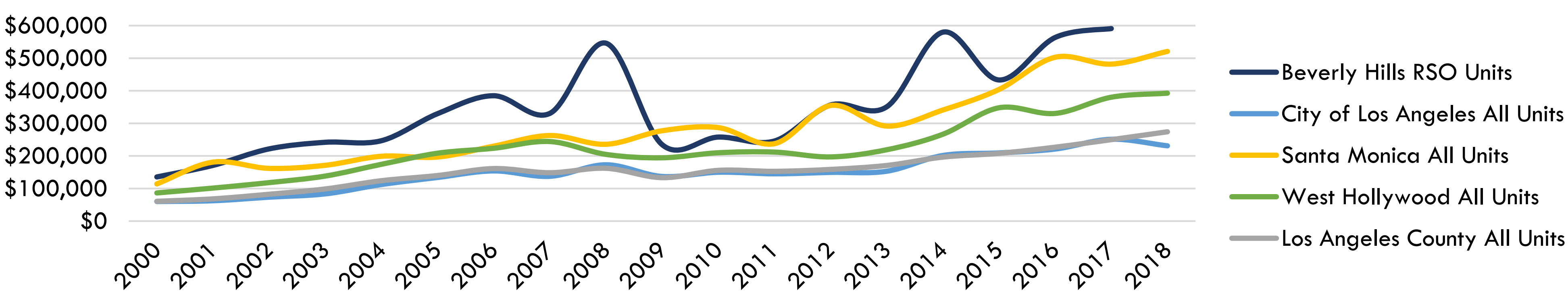
Within the City, the number of annual apartment building sales (particularly for duplexes and triplexes), remained at very modest levels between 2000 and through the Great Recession (2007-2009), as shown in Figure 36. The annual volume of multifamily sales increased for all scales of buildings beginning with the end of the recession, peaked in 2015, and has since then tailed off to levels more like the beginning of the decade. This trend also generally holds for triplexes and quadplexes, but still at much lower volumes than for buildings with more units. More specifically, there have been 535 total sales for buildings with 5 to 19 units since 2000 compared with 60 total sales for three- and four-unit buildings and 41 total sales for 20-plus unit buildings over the same period.

Figure 36: RSO Multifamily Property Sales by Number of Units in Structure in Beverly Hills, 2000-2018



Source: CoStar

Figure 35: Average Price per Apartment Unit Derived from Apartment Building Sales, 2000-2018



Source: CoStar

CONSUMER PRICE INDEX

The Consumer Price Index ("CPI") is the benchmark for allowable annual rent increases in Beverly Hills under the RSO and the RSOs of many other California cities, typically tethered to the average annual percent change within a respective metropolitan area on a year-by-year basis. The U.S. Bureau of Labor Statistics ("BLS") defines the CPI as "a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services."[5] The BLS categorizes the complete market basket that the CPI measures as "All Items" that includes subcategories for its various household cost components including "Rent of primary residence." However, the rent of primary residence subcategory necessarily only accounts for housing costs to the consumer (i.e. tenant) and does not include apartment operating costs that would be incurred by the housing provider.

All California cities that use CPI as a method for determining allowable annual rent increases refer to the CPI for Urban Consumers ("CPI-U") for All-Items for their respective metropolitan areas. According to the BLS, The CPI-U "includes expenditures by urban wage earners and clerical workers, professional, managerial, and technical workers, the self-employed, short-term workers, the unemployed, retirees and others not in the labor force."[6]

The premise for using the CPI to calibrate allowable rent increases is that it is the most widely used and accepted, most frequently updated (monthly) and most readily available measures of general price inflation.[7] Combined with the ability for housing providers to raise rents to market rates upon vacancy and income from allowed pass-throughs, maintaining rents commensurate with changes in the CPI theoretically allows for housing providers to achieve levels of net operating income that are consistent with trends in general price inflation over time, while also preserving the incentive for housing providers to maintain their properties to adequate standards.[8]

As shown in Figure 37, increases in the CPI-U for household rent have historically been higher than changes in the CPI-U for all items in the Los Angeles area, except for in 2010 and 2011 immediately following the end of the Great Recession. Between 2000 and 2017, annual percent changes in CPI-U for rent average 4.1 percent, and 2.4 percent for all items.

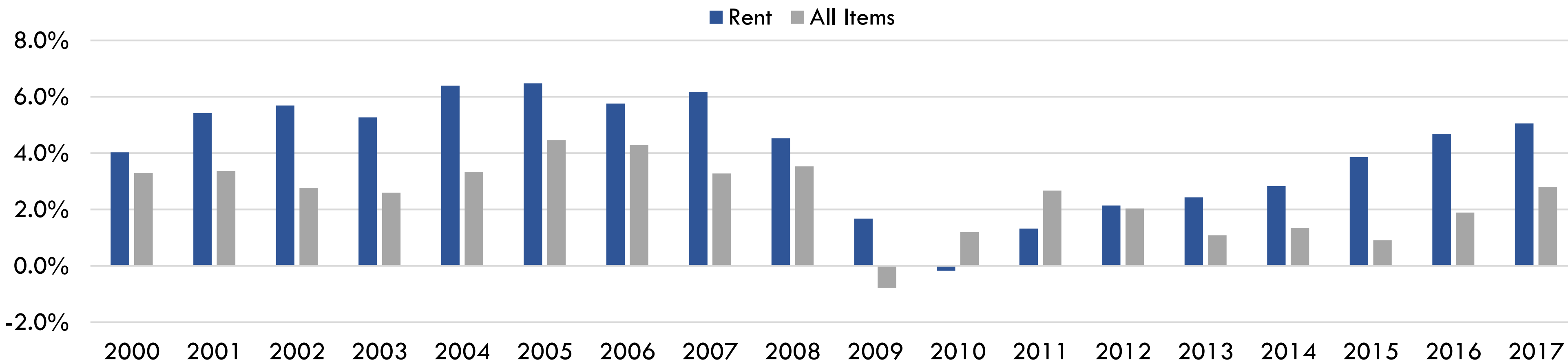
[5] United States Bureau of Labor Statistics, "Consumer Price Index," https://www.bls.gov/cpi/

[6] United States Bureau of Labor Statistics, "Consumer Price Indexes Overview," https://www.bls.gov/cpi/overview.htm

[7] Other plausible inflation indices that lack these multiple benefits include the Implicit Price Deflator, Producer Price Index and Personal Consumption Expenditure Deflator.

[8] Hamilton, Rabinovitz & Alschuler, *The 1994 Los Angeles Rental Housing Study: Technical Report on Issues and Policy Options*, p. 245.

Figure 37: Average Annual Percent Changes in the Los Angeles-Riverside-Orange County CPI-U, 2000-2017



Source: U.S. Bureau of Labor Statistics