

## **SOME QUESTIONS ABOUT RENT STABILIZATION**

### **July 24, 2018**

#### **1. What is Mobile Home Rent Stabilization?**

Generally, a local mobile home rent stabilization ordinance regulates the maximum amount of rent that a park owner can charge for a mobile home space. The maximum amount is based on a formula, often the lesser of a set percentage or the annual percentage increase in the Consumer Price Index (CPI). There is no legal requirement that obligates the park owner to impose the maximum amount allowable under a rent stabilization ordinance. In the event that the park owner feels that the maximum amount allowed under an ordinance does not provide the park owner a fair return as is constitutionally required, the park owner can petition for an individualized review process.

#### **2. Why is the St. Helena City Council considering a Mobile Home Rent Stabilization Ordinance?**

Mobile home ownership is widely acknowledged to be a less expensive single family housing option for seniors and other populations living on fixed incomes. Mobile homes are unique in that although the resident owns the home, they rent the land that the home sits on from a third party park owner. If the park owner raises space rents to a prohibitive price, mobile home owners may face eviction if they cannot pay the rent.

Although Vineyard Valley is the only mobile home park located within St. Helena, the 215 mobile home spaces account for approximately 9.5% of all the single-family housing stock in St. Helena (based on 2016-17 water rate study data). Approximately one in five households of two persons or less in Vineyard Valley lives on a gross annual income of less than \$33,900 (based on June 2018 participation in the City's St. Helena CARES program that helps low income residents pay utility bills).

In November 2017, the City Council adopted a goal to Maintain, Stabilize and Improve Access to Housing. Approximately 100 counties and cities in California have adopted rent stabilization ordinances. The City Council desired to evaluate rent stabilization to help ensure long term viability of mobile homes as an affordable housing choice in the community.

**3. Would Rent Stabilization apply to all leases in Vineyard Valley?**

Pursuant to State law, any local rent stabilization ordinance would only apply to leases that are twelve months or less in duration provided that other requirements are also met. (Civil Code section 798.18.) Thus, rent stabilization would apply to leases of twelve months or less upon adoption of such an ordinance.

A resident who currently has a lease of longer than one year would have the option to opt-in to a lease that is subject to rent stabilization at renewal. At that time, if rent stabilization is in place, the landlord is obligated to offer the option of a 12 month lease per Civil Code section 798.18.

**4. What are some key characteristics of a Rent Stabilization Ordinance?**

- a. The ordinance applies to leases of 12 months or less. Thus, individual mobile homeowners have the choice of whether to opt-in or opt-out of the ordinance. A mobile homeowner opts-in by signing a 12 month lease subject to the limits of rent adjustments prescribed by the ordinance. Any homeowner that does not want to be part of the program can choose to opt-out by signing a space lease that is longer than twelve months.
- b. Under the draft ordinance, if a lease is subject to the ordinance, , the buyer of any home upon sale will be subject to the ordinance. Without rent stabilization, the park owner can increase rent, change rent escalation provisions, or change the terms offered to the buyer.
- c. Under the draft ordinance, upon any sale of the park, the new park owner is required to maintain rent stabilization regulations for those owners that have opted in.
- d. Homeowners with longer term leases have the option to switch to a stabilized lease upon renewal under the draft ordinance.
- e. Under the State's Mobile Home Residency Law, if a mobile homeowner has an issue with a park owner, those disputes are primarily resolved through the courts. The draft ordinance requires that residents and the park owner to go through a dispute resolution process if there is a dispute based on the level of a rent increase.

**5. I have a long term lease now with a 3% rent escalation factor. What happens when my lease comes up for renewal?**

If a rent stabilization ordinance is not in place, the park owner is under no obligation to offer you a lease at the same rent, for the same term, or subject to the same rent escalation factor. Upon the expiration of the lease term, pursuant to Civil Code sections 798.55 and 798.56, the park owner cannot refuse to offer you an extension of your “tenancy” unless a specified reason exists. Tenancy means your right as the homeowner to the use of a site within a mobile home park on which to locate, maintain, and occupy a mobile home, site improvements, and accessory structures for human habitation, including the use of the services and facilities of the park. (Civil Code section 798.12.)

**6. What are the obligations of the landlord under a rent stabilization ordinance upon renewal or offering a new lease?**

Under the draft ordinance, 48 hours prior to any rental agreement in excess of 12 months being executed, the Park owner must:

- offer a homeowner the option of a rental agreement or lease of a term of 12 months or less;
- provide a copy of a city information sheet that explains the ordinance
- inform the homeowner that the mobile home park owner representative is available upon request
- inform the homeowner orally and in writing that a lease for longer than 12 months is not subject to rent stabilization.

Upon renewal, the park owner must supply each homeowner that has a rent stabilized lease with a copy of the City Information Sheet and contact information for the City’s Administrator.

**7. What is the procedure under the draft Rent Stabilization Ordinance if the landlord proposes an increase that is within the permissible cap on annual increases set forth in 9.24.070(A)?**

As provided in Civil Code section 798.30, the park owner must provide a 90 day notice prior to implementing the rent increase.

**8. Under the draft Rent Stabilization Ordinance, what is the procedure if the landlord proposes an increase that exceeds the permissible cap in 9.24.070(A)?**

- a. The park owner must provide the impacted homeowners with a notice of the rent increase, and that notice must include, among other things, documentation to support the level of rent increase desired. Verified copies of that documentation must also be delivered to the City Administrator.
- b. If the proposed increase exceeds 300 percent of the change in CPI, the park owner shall notify the affected owners that arbitration is required.
- c. The notice must include a list of the affected owners, contact information for the City Administrator and a copy of the form of petition.
- d. The park owner must set a date and time for an informational meeting between the homeowners and the park owner, which must take place on the park premises within 10 days of the notice of the rent increase.
- e. If the parties cannot agree to a resolution at the informational meeting, there must be a mediation meeting that is held within 20 days of the notice of the rent increase. In addition, any affected homeowner is entitled to file a petition with the City requesting review.
- f. If 51% of rent stabilized tenants do not agree with the results of the mediation, they can present petition to the City and the matter goes to arbitration.

**9. What Is City's involvement in administering the ordinance?**

- a. The City's Planning and Community Improvement Director will have the responsibility to administer the ordinance. Under the draft ordinance, the Administrator has responsibility over the following:
  - i. Maintain a City Information Sheet that provides information about the rent stabilization ordinance and contact information for the Administrator;
  - ii. Receive petitions from affected homeowners for rent review (9.29.090(D));
  - iii. Remit "an informational questionnaire" to the park owner that is delivered to the arbitrator after being completed by the park owner (9.24.090E));

- iv. Assign an arbitrator within 15 days upon receiving a petition (9.24.090(F));
- v. Schedule an arbitration hearing date between 10-30 days after assignment of arbitrator (Ibid.).

The City does not have a role in the day-to-day administration of the park aside from setting rent levels and facilitating the dispute process. The City itself does not act as the mediator, arbitrator or as a rent control board.

**10. What are the limits on fees that can be passed through to affected homeowners and what discretion does the City have with respect to fee pass throughs?**

Litigation costs cannot be passed through to residents under the draft ordinance (See Sec. 9.24.014(B)(4)). The draft ordinance contemplates that costs of administering the ordinance, including the mediation and arbitration of disputes, would be addressed by assessing 50% to the park owner and 50% to homeowners on a per-space basis.

However, the City Council has many legally permissible options regarding whether to pass through fees, how much, and when. For example, the City Council could:

- a. Provide that the fee only comes into effect when a certain percentage of leases are stabilized, say 50%, 66% or 75%.
- b. Eliminate the fee entirely;
- c. Adopt a CARE program to assist with fee payment.

**11. Does rent stabilization affect if and how costs for debt service and capital improvements can be passed through to affected homeowners?**

- a. Under the draft ordinance, a park owner would be required to follow a procedure before implementing a capital improvement pass through. Currently, park owners can pass these costs to residents without following any procedure.
- b. Under the draft ordinance, expenses related to the park owner's debt are regulated under rent stabilization. Debt is not an eligible operating expense under rent stabilization. Generally, the exclusion of debt from

the calculation deters owners from making unnecessary investments that would then be subsidized by park residents. Owners would also be deterred from leveraging the park and passing those costs onto tenants. However, the owner can include the increase in interest expense to the extent that increase relates to refinancing to make a balloon payment, or increased interest due to variable rate financing. Without a local rent stabilization ordinance, there are very few limits on the level of rent that a park owner can impose. Park owners, thus, could pass through debts as desired.

- c. Under the draft ordinance, depreciation is not an allowable operating expense.
- d. As a component of operating expenses, a park owner can include the cost of necessary Capital Improvements or Substantial Rehabilitation expenditures that exceed existing reserves. Capital improvement expenditures to upgrade existing facilities, along with a reasonable return on that investment, are allowable provided that:
  - i. prior to initiating the work, the park owner informs the affected homeowners of the nature, purpose and estimated cost;
  - ii. if resolved through arbitration, the park owner provides the arbitrator with verification that the costs;
  - iii. the park owner cost factors and amortized the costs over the remaining useful life of the improvements but in any case not less than five years;
  - iv. the park owner allocates the cost among affected homeowners on a per space basis and separately itemizes the cost on the rent invoice. The pass through cost is not considered part of base rent for purpose of calculating future rent increases.

**12. What are “housing services”?**

Under the ordinance, “housing services” are services or facilities provide by the park owner related to use and occupancy of the mobile home space, but that are not capital improvements of substantial rehabilitation. Housing services includes, but is not limited to items such as repairs, replacement, maintenance, landscaping, painting, lighting, utilities refuse removal, recreational and meeting facilities, parking security service and employee services.

In the event the park owner reduces or eliminates any Housing Services, a proportionate share of the cost savings due to such reduction or elimination shall be passed on in the form of a decrease in existing rent or a decrease in the amount of a rent increase otherwise proposed or permitted by the rent stabilization ordinance.

**13. What impact does rent stabilization place on a park owner's return on investment?**

Park owners are constitutionally required to receive a "fair return" on their investment. The formula provided for in the draft ordinance is a commonly acceptable method that has been upheld by Courts as providing a fair return.

**14. Can the landlord retaliate against an affected homeowner for invoking his or her rights under the law?**

No. The draft ordinance provides that a park owner cannot retaliate against a resident or prospective resident that invokes his or her rights under the law. If such conduct occurs, the impacted party would have a cause of action against the park owner.