

Attachment 3: Written Public Input received for
CSFRA Fair Return Standard
Rental Housing Committee Meeting June 19, 2017

RECEIVED

van Deursen, Anky

JUN 13 2017

From: D Offen or G Nyhan <dave@igc.apc.org>
Sent: Tuesday, June 13, 2017 7:51 AM
To: RHC
Subject: Fair Return Standard

Community Development

The online form is not working, so here are my answers.

THE RENTAL HOUSING COMMITTEE IS SEEKING INPUT FROM ALL STAKEHOLDERS As part of the implementation of the CSFRA, the Rental Housing Committee is considering the adoption of a fair return standard to be used when hearing individual landlord petitions for upward rent adjustments. One of the stated purposes of the CSFRA is to control excessive rent increases for rental units covered by the CSFRA while ensuring landlords receive a fair and reasonable return on their investment. The CSFRA identifies a number of factors that may be considered when calculating a fair return but does not identify or create a fair return methodology. A Fair Return Standard would provide clarity, transparency and understanding of what constitutes fair return by landlords, and public consistency, clear guidance to RHC and Hearing Officers when hearing petitions and consistency in the decisions. The Rental Housing Committee wants to hear from the stakeholders and consider the input of both landlords and tenants as part of their decision making process. The Rental Housing Committee heard a presentation on the concept of a fair return standard on May 22, 2017.

Q1: Should the Rental Housing Committee adopt a specific standard to calculate fair return for petitions filed by landlords for upward adjustment of rent?

Yes, adopting a fair return standard will provide the hearing officers with guidance and uniformity. Even with a standard, the CSFRA also permits flexibility for such things as “Unavoidable increases or any decreases in maintenance and operating expenses”, and “Substantial deterioration of the Rental Unit other than as a result of normal wear and tear”, so that the owners and tenants can be treated fairly within that standard.

Q2a: If no, how would a petition be adjudicated in order to achieve a fair return that accomplishes the goal of the CSFRA if there is no standard?

Q2b: If yes, which of the following options should be the standard? (An explanation of these options is available in the Agenda Report and Power Point on the CSFRA website).

- a. Maintenance of Net Operating Income – CPI Adjustment
- b. Maintenance of Net Operating Income – Ratio Adjustment
- c. Fixed Return on Investment
- d. Other?
 - a. Maintenance of Net Operating Income – CPI Adjustment

Q3: Please explain why you chose this standard.

The City staff has recommended this standard based on its ease of administration and widespread use in other rent-stabilized cities in California. This standard is considered fair to all parties and has not encountered legal problems.

Q4: Is there any other information you would like the Rental Housing Committee to consider in deciding whether to adopt a fair return standard?

Even with a graduate degree in engineering, it still took me several hours to understand the implications of my answers to these questions, so I'm not sure what, other than self-interest, will motivate most landlords or tenants who reply to this survey. I'm a homeowner with no vested interest in either party. From my understanding, ALL of the proposed "fair return" standards would preserve into the future, any windfall profits that some apartment owners were receiving in our inflated housing market during 2015. Of the available choices, the MNOI-CPI standard seems the least onerous for renters, while still retaining enough flexibility to not penalize the more conscientious apartment owners.

The citizens of Mountain View voted for the CSFRA because many apartment owners have been overly aggressive in raising the rents, driving out long term residents such as our teachers and other city workers. The Committee should adopt the widely-used MNOI-CPI standard to instill confidence in the Rental Housing Committee, and to send a message that the Committee will not succumb to pressure from apartment owners to water-down the CSFRA by letting the apartment owners raise rents more than is warranted in most other California cities with similar ordinances.

Name: David Offen

Address: 284 Barbara Ave., Mountain View

Landlord/Tenant/Other: Homeowner

Written comments can be submitted to: RHC@mountainview.gov by June 12, 2017.

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van Deursen, Anky

JUN 12 2017

From: Colleen Walsh <cwalsh@mvsd.org>
Sent: Monday, June 12, 2017 6:49 PM
To: RHC
Subject: Input from stakeholders regarding fair return

Community Development

Attention Committee Members:

I am not able to access the form online, so I am providing my input below:

Q1: Yes, the RHC should adopt a specific standard to calculate fair return for petitions filed by landlords for upward adjustment of rent.

Q2: Other — An Indexed Fixed Return on Investment

Q3: The NMOI method basically just looks at operating income and expenses and ignores the fact that owning real estate is much riskier than investing in . It is unfair to landlords. The fixed return method is a better option. In short I think there are two arguments that I want to get across. First, is risk. Real estate is a risky investment (as clearly displayed in the last recession) and as investors in real estate one must have a higher return to offset that risk. Second, a return in an investment in a property is based on two factors. 1) the operating income (rent versus expenses) and 2) appreciation in a property. As rent control has undoubtedly reduced the opportunity for appreciation, we should be allowed a higher operating margin to make up for that “taking.”

Thank for seeking input from all stakeholders.

Colleen Walsh

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Q1: Should the Rental Housing Committee adopt a specific standard to calculate fair return for petitions filed by landlords for upward adjustment of rent?

Yes. Otherwise a property's revenue may fall so far below market that not only would the owner be deprived of a fair rate of return but also be deprived of the incentive and ability to properly maintain his or her property.

Q2a: If no, how would a petition be adjudicated in order to achieve a fair return that accomplishes the goal of the CSFRA if there is no standard?

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Other: AN INDEXED FIXED RETURN ON INVESTMENT

The RHC should use a modified fixed return on investment approach in which an owner should be allowed a net operating income arrived at by multiplying the property's fair market value by the sum of a Bay Area Price Index and a fixed spread that reflects the work and risks involved in rental property ownership.

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Q3: Please explain why you chose this standard.

This method is appropriate because it is simple, transparent, can be applied consistently and will likely only be used by landlords when and if they are not getting a fair return on their investments.

The inclusion of an inflation index is necessary because inflation, while relatively low today, could return to the double digit levels of the 1970's, thereby wiping out a property owner's return if the calculation were made using an absolute fixed return.

The additional spread over the index is needed to compensate owners for the labor and risks involved in rental property ownership. Unlike some other capital investments such as securities, investing in rental properties is not passive. It involves a great deal of work. The reality is things wear out and need to be repaired and replaced all the time: roofs, appliances, landscaping systems, toilets, water heaters, furnaces, faucets, sink disposals, sewer systems, ceiling fans and locksets just to name a few. Whether the work is done directly by the owner or it is contracted out, there is a lot of hard work involved. It certainly is nothing like owning a utility security for which the City's memorandum on fair return calculation gave a range of up to 12%.

As for the risks, first, our market is subject to the vagaries of the historically cyclical tech world. Mountain View rents dropped by a third when the Dot Bomb burst in 1999 and it took twelve years for rents to get back to the levels of that time. Second, unlike investing in securities in which diversification is easily accomplished (e.g. buying an S&P index fund) investing in rental property is very concentrated. Third, a myriad of special risks from natural disasters to environmental threats (Mountain View sits on numerous Super Fund sites).

Finally, a major consideration in determining a fair return should be that Measure V has largely wiped out the appreciation potential of our properties. Many landlords who did not keep their rents at market always figured they could at least get a good return on their property's eventual sale. That is no longer the case. Our residual values have been crushed by Measure V. Any truly fair return calculation must provide for the fact that this very significant portion of our total returns have largely been taken away.

Q4: Is there any other information you would like the Rental Housing Committee to consider in deciding whether to adopt a fair return standard?

_Yes. Two points.

First, that the labor component of property ownership on a per unit basis obviously decreases as the number of units increases. The economies of scale achieved as the number of units increases is fairly linear.

Second, the fair return interest rate decided upon should not be confused with a rent growth rate. Presuming we stay in an inflation environment consistent with the 2-5% rent growth terms set forth in Measure V, only landlords whose rents are materially below market should have an incentive to appeal to the RHC for an upward rent adjustment.

Name:

Address:

Landlord/Tenant/Other:

Written comments can be submitted to: RHC@mountainview.gov by June 12, 2017.

From: Donut <iguana35@yahoo.com>
Sent: Monday, June 12, 2017 6:10 PM
To: RHC
Cc: Ms. Emey
Subject: Feedback for Rental Housing Committee on Measure V
Attachments: MVStakeholderForm.docx

Please see attached form for feedback from Landlord Emey Chu at 2060 Rialto Court...John T.

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Name: Shawyon Malek

Address: 1901 Montecito Avenue, Mountain View, CA 94043

Landlord/Tenant/Other: Landlord

Written comments can be submitted to: RHC@mountainview.gov by June 12, 2017.

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From: Eric Curiale <merryorgangrinder@yahoo.com>
Sent: Monday, June 12, 2017 5:23 PM
To: RHC
Subject: raising utility rates

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Community Development

are you taking that into account that the city has just raised my utility bill by over \$ 110 a month ? eric curiale 480 del medio



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From: Hue Simpson <hues07@sbcglobal.net>
Sent: Monday, June 12, 2017 5:23 PM
To: RHC
Subject: RHC stakeholder comments submission

Community Development

THE RENTAL HOUSING COMMITTEE IS SEEKING INPUT FROM ALL STAKEHOLDERS

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For example, 2012 or 2013 professional appraisal of the property at 480 Del Medio gave Market value at \$1575 per one bedroom apt similar, in the area. When Measure V passed in November, average rent charged for a one-bedroom that would fall under the V guidelines was \$1240 per month. With the rollback for all covered tenants starting May 1, 2017, the average one-bedroom rent controlled rent is now: \$1100. I recently rented to new tenants and checked local rents to see what was being charged: the LOWEST closest amount was \$1575 for a STUDIO. One-bedrooms started at \$1800 with a big deal made of the lowered from \$2200 or above.

Thank you,

Name: HUE SIMPSON MGR
FOR
ERIC L. CURIALE, OWNER

Address: 480 DEL MEDIO AVE, MV

Manager/Landlord/

Written comments can be submitted to: RHC@mountainview.gov by June 12, 2017.

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COMMUNITY
LEGAL SERVICES IN
EAST PALO ALTO

LAW
Foundation
OF SILICON VALLEY

RENTAL HOUSING COMMITTEE OF MOUNTAIN VIEW

June 12, 2017

By e-mail

Rental Housing Committee
City of Mountain View
Community Development Department
500 Castro Street, Mountain View, CA 94041
By-email to: RHC@mountainview.gov

Re: Fair Rent Standard

Dear Rental Housing Committee:

The Law Foundation of Silicon Valley, and Community Legal Services of East Palo Alto, write to recommend that the Rental Housing Committee adopt the Staff Recommendation of a Maintenance Net Operating Income – CPI Adjustment as its Fair Rent Standard.

The MNOI methodology is used by a number of other cities and has been repeatedly upheld by courts because it allows landlords to obtain a fair return.¹ MNOI is based on the premise that landlords are entitled to growth in net operating income over time and that the net operating income was providing a just and reasonable return at the time the rent control regulation went into effect.² A base year is established, and the fair net operating income is calculated using a multiplier related to the annual change in CPI each year since the base year.³ If a landlord can demonstrate that the actual net operating income for a property is less than the fair net operating income, then the landlord may obtain a rent adjustment to exceed the annual allowable increase so that the landlord is able to receive a fair return.⁴

¹ See, e.g., *Kavanau v. Santa Monica Rent Control Bd.* (1997) 16 Cal.4th 761; *Stardust Mobile Estates, LLC v. City of San Buenaventura* (2007); *Colony Cove Properties, LLC v. City of Carson* (2013) 220 Cal.App.4th 840 (holding that an MNOI standard, as applied to mobilehome parks “permits park owners to obtain a just and reasonable return under general marketing conditions in any given year” and ‘reflect[s] the tenant’s interest by giving the park owner an incentive to incur all reasonable expenses for maintenance and services’” (internal citations omitted).)

² See Memorandum on RHC Consideration of a Fair Return Standard, dated May 22, 2017, p. 3., available at <http://www.mountainview.gov/depts/comdev/preservation/rentstabilization.asp>.

³ *Id.*

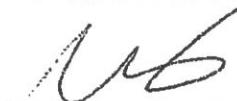
⁴ *Ibid.*

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The MNOI methodology has been upheld by Courts because it allows a landlord a just and reasonable return on her investment.⁵ Additionally, Courts have found that the MNOI methodology has been praised "for both its fairness and ease of administration."⁶ Indeed, the staff recommendation found that it was the easiest methodology to administer.⁷ This long-standing methodology should be established by the Rental Housing Committee. Should the Committee adopt a different standard that has not been upheld by Courts, the CSFRA could once again face an unnecessary and costly legal challenge.

Thank you for the opportunity to submit the above comments.

Sincerely,



Nadia Aziz, Senior Attorney
Law Foundation of Silicon Valley

Daniel Saver, Senior Staff Attorney
Community Legal Services, East Palo Alto

⁵ See, e.g., *Kavanau v. Santa Monica Rent Control Bd.* (1997) 16 Cal.4th 761; *Stardust Mobile Estates, LLC v. City of San Buenaventura* (2007); *Colony Cove Properties, LLC v. City of Carson* (2013) 220 Cal.App.4th 840

⁶ *Palomar Mobilehome Park Assn. v. Mobile Home Rent Review Com.* 16 Cal. App. 4th, 481, 486 (1993).

⁷ Memo, p. 7.

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Q1: Should the Rental Housing Committee adopt a specific standard to calculate fair return for petitions filed by landlords for upward adjustment of rent?

Yes

Q2a: If no, how would a petition be adjudicated in order to achieve a fair return that accomplishes the goal of the CSFRA if there is no standard?

N/A

Q2b: If yes, which of the following options should be the standard? (An explanation of these options is available in the Agenda Report and Power Point on the CSFRA website).

- a. Maintenance of Net Operating Income – CPI Adjustment
- b. Maintenance of Net Operating Income – Ratio Adjustment
- c. Fixed Return on Investment

Other

Q3: Please explain why you chose this standard.

I would consider the fixed rate of return but it would need to be at a high rate to be fair to landlords, near 12%. I am also concerned that the need for some kind of appraisal for value. There should be some standard way to determine the value of a rental unit in Mountain View for use in the fixed rate of return calculation. The NOI should be able to be submitted without the need to provide a tax return. Most owners and managers keep accurate records that they use to prepare their returns so a Profit and Loss statement should be adequate for NOI verification

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Q4: Is there any other information you would like the Rental Housing Committee to consider in deciding whether to adopt a fair return standard?

I hope the committee will make rules that are fair to all parties. The CSFRA requires that owners are given the ability to earn a fair rate of return. If a restrictive standard is applied, owners will be prevented from achieving a fair rate of return. As our expenses rise much more quickly than the CPI, we will achieve lower and lower rates of return without the ability to petition for higher rents.

Name: Joan Jamison

Address: 56 Centre Street

Owner

Written comments can be submitted to: RHC@mountainview.gov by June 12, 2017.

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Name: **Dominic BROCATO**

Address: **Los GATOS, CA**

Landlord/Tenant/Other: **Landlord/owner 651 Victor Wy.
Mountain View, CA 94040**

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Q2a: If no, how would a petition be adjudicated in order to achieve a fair return that accomplishes the goal of the CSFRA if there is no standard?

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DEVELOPED

Q3: Please explain why you chose this standard.

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Name: Amy Fal

Address: 370 Chatham Way, Mtn View 94040

Landlord/Tenant/Other: landlord

Written comments can be submitted to: RHC@mountainview.gov by June 12, 2017.

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Kennedy, Andrea

JUN 12 2017

From: beth walsh <homeagain.walsh@gmail.com>
Sent: Monday, June 12, 2017 1:47 PM
To: RHC

Community Development

The NMOI method basically just looks at operating income and expenses and ignores the fact that owning real estate is much riskier than investing in utilities. It is categorically unfair to landlords. The fixed return method is a better option. In short I think there are two arguments that I want to get across. First, is risk. Real estate is a risky investment (as clearly displayed in the last recession) and as investors in real estate one must have a higher return to offset that risk. Second, a return in an investment in a property is based on two factors. 1) the operating income (rent versus expenses) and 2) appreciation in a property. As rent control has undoubtedly reduced the opportunity for appreciation, we should be allowed a higher operating margin to make up for that "taking." Thank you

Beth Walsh
Mountain View, CA

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JUN 12 2017

THE RENTAL HOUSING COMMITTEE IS SEEKING INPUT FROM ALL STAKEHOLDERS
Community Development

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IF THE RHC DENIES THIS AS A FAIR RATE OF RETURN STANDARD, I AM REQUESTING THE RHC TO FOLLOW AMENDMENT 1709(d)(10) TO ADDRESS PROPERTY VALUATION LOSSES. THE PROPERTY OWNERS ARE GUARANTEED A "FAIR RATE OF RETURN" UNDER MEASURE V AND THESE LOSSES NEED TO BE CURED TO FACILITATE A "FAIR RATE OF RETURN"

Name:

KENIN KINNEY

Address:

304 Drayton Court, Walnut Creek, CA 94598

Landlord/Tenant/Other:

OWNER/PROPERTY MANAGER OF 16 UNITS IN MOUNTAIN VIEW

Written comments can be submitted to: RHC@mountainview.gov by June 12, 2017.

I AM AMENDING MY PRIOR FILED STAKE HOLDERS
FORM WITH THIS ONE

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JUN 12 2017

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Community Development

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A return based on a calculation on a property's market value before Measure V passed times a return based on a fixed spread over an inflation index.

Q3: Please explain why you chose this standard.

The fixed spread should factor in not just the labor involved (real estate is not a passive investment like a security), and the risks (rents go down as well as up as anyone who owned during the Dot Bomb knows) but that our current return from rents should compensate us for the fact that Measure V has largely eliminated the long term appreciation we would otherwise have been able to expect.

Q4: Is there any other information you would like the Rental Housing Committee to consider in deciding whether to adopt a fair return standard?

- Utility rate Increases - Leases that don't bill back for utilities negatively impact a fair return.
- Ability to recoup recent renovation costs and building code compliance costs.
- Base rent increases on the tenants ability to pay (income levels)

Name: Emey Chu

Address: 2060 Rialto Court

Landlord/Tenant/Other:

Written comments can be submitted to: RHC@mountainview.gov by June 12, 2017.

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RECEIVED

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Name: Curtis Conroy

Address: Menlo Park

Landlord/Tenant/Other: Landlord

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Indexed Fixed Return On Investment

Community Development

On the issue of the Fair Return methodology, as I mentioned at the 5/22/17 meeting of the RHC, after consideration of the three possible approaches to calculating the landlords' fair return set forth in the City's memorandum on same, many of us landlords strongly disagree with the City's recommendation of the Maintenance of Net Operating Income – CPI Adjustment approach. We strongly disagree that it is the easiest methodology requiring the least amount of information from landlords.

Instead we recommend a modified Fixed Return On Investment approach in which a fixed spread over an inflation index is applied to a property's fair market value to arrive at an allowed net operating income. The fixed spread should take into account that property ownership is not a passive investment like a stock or a bond. Nor is it diversified the way most stock portfolios are. It certainly is nothing like owning a utility security for which the City's memorandum even proposed returns of up to 12%. The spread should reflect the labor and risks of property ownership. The reality is things wear out and need to be repaired or replaced all the time which requires a great deal of hard work. As for the risks, our market is subject to the vagaries of the historically cyclical tech world. Our rents dropped by a third when the Dot Bomb burst in 1999 and it took us twelve years to get back to the rents of those days.

Additionally, a major consideration not to be overlooked is that Measure V has largely wiped out the appreciation potential of our properties. Many landlords who did not keep their rents at market always figured they could at least get a good return on the property's sale. That is no longer the case. Our residual values have been crushed by Measure V. Any *truly* fair return calculation must provide for the fact that this very significant portion of our total returns have been taken from us.

Thank you for your time and consideration.

Curt Conroy

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JUN 12 2017

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Community Development

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the Department of Agriculture, and the
Department of Health and Welfare.

Q3: Please explain why you chose this standard.

~~Other cities have used this effectively -- and it will help make rents affordable.~~

Q4: Is there any other information you would like the Rental Housing Committee to consider in deciding whether to adopt a fair return standard?

N/A

Name: Ken Wharton

Address: 801 Sonia Way, Mtn View

Landlord/Tenant/Other: Other (Homeowner).

Written comments can be submitted to: RHC@mountainview.gov by June 12, 2017.

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Name: Armand Staprans

Address: 445 Knoll Drive, Los Altos, CA 94024

Landlord/Tenant/Other: LANDLORD

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Name: Naresh Tandan

Address: 1092 Sundance Drive Fremont CA 94539

Landlord/Tenant/Other: Landlord

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THE RENTAL HOUSING COMMITTEE IS SEEKING INPUT FROM ALL STAKEHOLDERS As part of the implementation of the CSFRA, the Rental Housing Committee is considering the adoption of a fair return standard to be used when hearing individual landlord petitions for upward rent adjustments. One of the stated purposes of the CSFRA is to control excessive rent increases for rental units covered by the CSFRA while ensuring landlords receive a fair and reasonable return on their investment. The CSFRA identifies a number of factors that may be considered when calculating a fair return but does not identify or create a fair return methodology. A Fair Return Standard would provide clarity, transparency and understanding of what constitutes fair return by landlords, and public consistency, clear guidance to RHC and Hearing Officers when hearing petitions and consistency in the decisions. The Rental Housing Committee wants to hear from the stakeholders and consider the input of both landlords and tenants as part of their decision making process. The Rental Housing Committee heard a presentation on the concept of a fair return standard on May 22, 2017.

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No. A property built 50+ years ago has failing building components, higher operating cost, more intensive management requirements, garners lower rents, and results in inherently lower net income. The RHC needs to be flexible because no two properties will perform with identical results.

Q2a: If no, how would a petition be adjudicated in order to achieve a fair return that accomplishes the goal of the CSFRA if there is no standard?

Take a two year (2015 & 2016) net operating income average from the property to determine the base MNOI, add any warranted Vega Standard upward adjustment by comparing and adjusting realized rents to the HUD/SCC Housing Authority published Fair Median Rents (FMR) average for 2015 & 2016:

FMR History for Santa Clara County, CA

Santa Clara County, CA							
Year	Efficiency	1 Bedroom	2 Bedrooms	3 Bedrooms	4 Bedrooms	2-BR % Change	FMR Percentile
2016	\$1,348	\$1,582	\$1,994	\$2,777	\$3,098	10.23%	40
2015	\$1,213	\$1,419	\$1,809	\$2,551	\$2,892	9.70%	40

Add 100% of the annual CPI index plus a percentage to incentivize landlords to retain their property and working capital in Mountain View. Anything less creates economic obsolescence, removal of rental units from the market while redevelopment to a higher and best use of the land occurs wherever possible.

FORMULA: 24-month (2015/2016) average NOI upward adjusted for any warranted Vega Standard based on the Santa Clara County FMR average for 2015/2016 (the adjusted MNOI base), add 100% of the annual CPI index plus a margin fixed to the 30-year US Treasury bond rate (currently 2.864%) or similar cost of money index.

Q2b: If yes, which of the following options should be the standard? (An explanation of these options is available in the Agenda Report and Power Point on the CSFRA website).

- a. Maintenance of Net Operating Income – CPI Adjustment
- b. Maintenance of Net Operating Income – Ratio Adjustment
- c. Fixed Return on Investment
- d. Other?

Q3: Please explain why you chose this standard.

A base rent that only goes up with the rate of the CPI is not a rent increase realized by the landlord. They are treading water at best. Unless the landlord is incentivized to keep the property with an additional return on their working capital tied up in the property, they will seek investment elsewhere where their capital is generating a capital gain as well as operating income. If a landlord sells, the new owner would simply pass through property tax increases on the step-up at purchase or otherwise redevelop the property removing the units from Mt. View's housing stock. At a minimum the upward adjustment standard must be a combination of MNOI (the two year average of net operating income realized by the landlord for 2015 & 2016) + annual general adjustment at 100% of CPI + an incentive TO STAY INVESTED. The NOI for any years prior to 2017 had built into it the landlord's expectation that future appreciation would be the compensating factor for the modest returns and challenges of operating rental housing. Multifamily housing in Mt. View has already experienced a massive value decline. In order to attract and maintain responsible landlords, the standard for calculating a GUARANTEED [Section 1711 (m)] fair rate of return must include a minimum historical NOI percentage (minimum 50% of gross income), 100% of annual CPI adjustment and additional investment incentive along with any Vega adjustment to the base rent found warranted.

Q4: Is there any other information you would like the Rental Housing Committee to consider in deciding whether to adopt a fair return standard?

Averaging operating results over two years for MNOI provides a more accurate NOI since landlords frequently pay taxes, insurance and other large operating bills twice in a given calendar year. Sometimes our \$16,000 insurance premium is paid at the beginning of the calendar year or at the end of the previous calendar year. A year may show no insurance premium paid or the following year two premiums paid during that calendar year. The same goes for property taxes.

Name: MMA 
Address: Walker Drive, MV
Landlord/Tenant/Other:

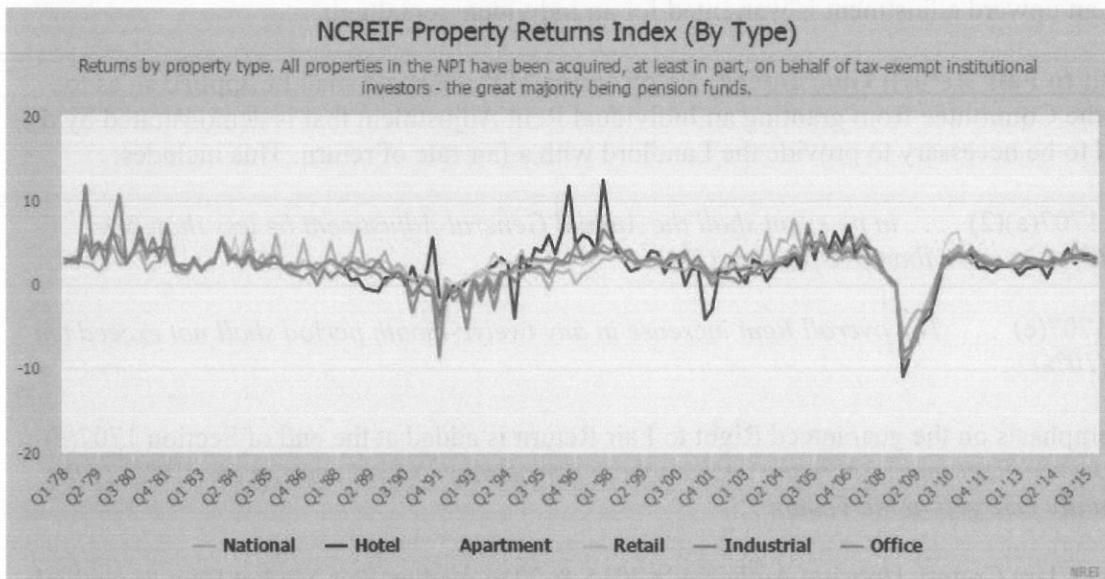
Written comments can be submitted to: RHC@mountainview.gov by June 12, 2017

Fair Rate of Return for Multifamily investors

The National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index (NPI)

Apartment properties, on the other hand, delivered total return of only 2.73 percent for the fourth quarter and office properties were at the bottom of the pyramid, with total return of 2.58 percent. The sectors' performance in the quarter mirrored a year-long trend. Office properties delivered annual total return of 12.5 percent in 2015, while apartment properties delivered total return of 12.0 percent.

(emphasis added)



These are returns realized by pension funds and other tax-free institutional investors.

Source: <http://www.nreionline.com/finance-investment/ncreif-property-index-ends-2015-highest-return-total-2011>

This Quora discussion highlights the experience and unbiased feedback from a number of national investors on what the industry (fixed return) norms range from and to, remembering that the CSFRA is for stabilization but it also needs to address *preservation* of the rental housing stock in Mountain View. By rendering large projects economically obsolete in their current use as multifamily rental housing, the Mt. View will soon experience major redevelopment projects destroying thousands of rental units in the city.

What is a normal rate of return on invested capital for multifamily real estate to be rented out? Is 8% abnormal?

<https://www.quora.com/What-is-a-normal-rate-of-return-on-invested-capital-for-multipamily-real-estate-to-be-rented-out-Is-8-abnormal>

The trend from these examples is very clear. A real estate investor will likely settle for an 8-9% fixed return on their investment in multifamily housing with the expectation of unrealized capital appreciation adding an additional 4-5% annually. Those investors who are restricted under stabilization to minimal or no capital appreciation need to meet or exceed the national average of 12% for multifamily housing (NCREIF analysis) in order to realize a fair return on investment.

Vega issue

Under the Vega Standard ruling of the courts, it only makes sense that the *guaranteed* right to a fair return [Section 1711(m)] look to the HUD published median Fair Market Rents (FMR) for Santa Clara County as a governing index for whether a base rent is artificially low and whether granting an upward adjustment is warranted for an individual rental unit.

(m) **Right to Fair Return Guaranteed.** No provision of this Article shall be applied so as to prohibit the Committee from granting an Individual Rent Adjustment that is demonstrated by the Landlord to be necessary to provide the Landlord with a fair rate of return. This includes:

Section 1707(a)(2) . . . *in no event shall the Annual General Adjustment be less than two percent (2%) or more than five percent (5%)*

Section 1707(e) . . . *The overall Rent increase in any twelve-month period shall not exceed ten percent (10%) . . .*

Further emphasis on the guaranteed Right to Fair Return is added at the end of Section 1707(e) . . . *the overall Rent increase in any twelve-month period may exceed ten-percent (10%) of the Rent actually charged to the Tenant . . .*

The Santa Clara County Housing Authority's 2015 & 2016 median Fair Market Rent as applied countywide for housing vouchers, Section 8, etc.

FMR History for Santa Clara County, CA

Santa Clara County, CA							
Year	Efficiency	1 Bedroom	2 Bedrooms	3 Bedrooms	4 Bedrooms	2-BR % Change	FMR Percentile
2016	\$1,348	\$1,582	\$1,994	\$2,777	\$3,098	10.23%	40
2015	\$1,213	\$1,419	\$1,809	\$2,551	\$2,892	9.70%	40

Anything below these numbers is subject to Vega scrutiny.

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JUN 12 2017

THE RENTAL HOUSING COMMITTEE IS SEEKING INPUT FROM ALL STAKEHOLDERS

As part of the implementation of the CSFRA, the Rental Housing Committee is considering the adoption of a fair return standard to be used when hearing individual landlord petitions for upward rent adjustments. One of the stated purposes of the CSFRA is to control excessive rent increases for rental units covered by the CSFRA while ensuring landlords receive a fair and reasonable return on their investment. The CSFRA identifies a number of factors that may be considered when calculating a fair return but does not identify or create a fair return methodology. A Fair Return Standard would provide clarity, transparency and understanding of what constitutes fair return by landlords, and public consistency, clear guidance to RHC and Hearing Officers when hearing petitions and consistency in the decisions. The Rental Housing Committee wants to hear from the stakeholders and consider the input of both landlords and tenants as part of their decision making process. The Rental Housing Committee heard a presentation on the concept of a fair return standard on May 22, 2017.

Q1: Should the Rental Housing Committee adopt a specific standard to calculate fair return for petitions filed by landlords for upward adjustment of rent?

Yes. Otherwise a property's revenue may fall so far below market that not only would the owner be deprived of a fair rate of return but also be deprived of the incentive and ability to properly maintain his or her property.

Q2a: If no, how would a petition be adjudicated in order to achieve a fair return that accomplishes the goal of the CSFRA if there is no standard?

Q2b: If yes, which of the following options should be the standard? (An explanation of these options is available in the Agenda Report and Power Point on the CSFRA website).

- a. Maintenance of Net Operating Income – CPI Adjustment
- b. Maintenance of Net Operating Income – Ratio Adjustment
- c. Fixed Return on Investment
- d. Other?

Other: AN INDEXED FIXED RETURN ON INVESTMENT

The RHC should use a modified fixed return on investment approach in which an owner should be allowed a net operating income arrived at by multiplying the property's fair market value by the sum of a Bay Area Price Index and a fixed spread that reflects the work and risks involved in rental property ownership.

RECORD
Q3: Please explain why you chose this standard.

This method is appropriate because it is simple, transparent, can be applied consistently and will likely only be used by landlords when and if they are not getting a fair return on their investments.

The inclusion of an inflation index is necessary because inflation, while relatively low today, could return to the double digit levels of the 1970's, thereby wiping out a property owner's return if the calculation were made using an absolute fixed return.

The additional spread over the index is needed to compensate owners for the labor and risks involved in rental property ownership. Unlike some other capital investments such as securities, investing in rental properties is not passive. It involves a great deal of work. The reality is things wear out and need to be repaired and replaced all the time: roofs, appliances, landscaping systems, toilets, water heaters, furnaces, faucets, sink disposals, sewer systems, ceiling fans and locksets just to name a few. Whether the work is done directly by the owner or it is contracted out, there is a lot of hard work involved. It certainly is nothing like owning a utility security for which the City's memorandum on fair return calculation gave a range of up to 12%.

As for the risks, first, our market is subject to the vagaries of the historically cyclical tech world. Mountain View rents dropped by a third when the Dot Bomb burst in 1999 and it took twelve years for rents to get back to the levels of that time. Second, unlike investing in securities in which diversification is easily accomplished (e.g. buying an S&P index fund) investing in rental property is very concentrated. Third, a myriad of special risks from natural disasters to environmental threats (Mountain View sits on numerous Super Fund sites).

Finally, a major consideration in determining a fair return should be that Measure V has largely wiped out the appreciation potential of our properties. Many landlords who did not keep their rents at market always figured they could at least get a good return on their property's eventual sale. That is no longer the case. Our residual values have been crushed by Measure V. Any truly fair return calculation must provide for the fact that this very significant portion of our total returns have largely been taken away.

Q4: Is there any other information you would like the Rental Housing Committee to consider in deciding whether to adopt a fair return standard?

_Yes.Two points.

First, that the labor component of property ownership on a per unit basis obviously decreases as the number of units increases. The economies of scale achieved as the number of units increases is fairly linear.

Second, the fair return interest rate decided upon should not be confused with a rent growth rate. Presuming we stay in an inflation environment consistent with the 2-5% rent growth terms set forth in Measure V, only landlords whose rents are materially below market should have an incentive to appeal to the RHC for an upward rent adjustment.

Note: We have been providing below market rate rental housing for almost four decades in our building; many tenants have stayed for 10 years or more. In spite of constantly increasing utility and operating costs, we have continued to maintain below-market rate housing in our building even during the time of rising rents. Now, under this unjust and divisive socialist scheme, you have forcibly reduced the income for the building and are basically re-distributing the rental rate to subsidize those paying the lowest rents. This is immoral and unjust, and puts a burden on the smaller landlords of older building like us, while allowing newer apartments to maintain the sky high rents. Totally unfair!

We came to this country to escape a repressive socialist government in the early 60's, and now we're staring the same situation in the face. Limiting rent increases is palatable, but rolling back rents to October 2015 levels, especially for those us who were always below market, is very misguided. Unfortunately, because of this forcible and unjust income reduction and resulting diminished property value, we must now strongly consider re-development of this property in the near future.

Name: David N. Hufton

Address: Milpitas, CA

Landlord/Tenant/Other:

Written comments can be submitted to: RHC@mountainview.gov by June 12, 2017.

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THE RENTAL HOUSING COMMITTEE IS SEEKING INPUT FROM ALL STAKEHOLDERS

Community Development

As part of the implementation of the CSFRA, the Rental Housing Committee is considering the adoption of a fair return standard to be used when hearing individual landlord petitions for upward rent adjustments. One of the stated purposes of the CSFRA is to control excessive rent increases for rental units covered by the CSFRA while ensuring landlords receive a fair and reasonable return on their investment. The CSFRA identifies a number of factors that may be considered when calculating a fair return but does not identify or create a fair return methodology. A Fair Return Standard would provide clarity, transparency and understanding of what constitutes fair return by landlords, and public consistency, clear guidance to RHC and Hearing Officers when hearing petitions and consistency in the decisions. The Rental Housing Committee wants to hear from the stakeholders and consider the input of both landlords and tenants as part of their decision making process. The Rental Housing Committee heard a presentation on the concept of a fair return standard on May 22, 2017.

Q1: Should the Rental Housing Committee adopt a specific standard to calculate fair return for petitions filed by landlords for upward adjustment of rent?

Yes, there should be an agreed upon formula that takes into consideration factors of anticipated regular expenses, expected returns which may have been the basis for purchase or capital improvements and the risk that is undertaken by anyone investing in the real estate market. It is important for landlords to remain incentivized to maintain their properties and provide quality housing for tenants. This specific standard will help avoid costly hearings for each adjustment request.

Q2a: If no, how would a petition be adjudicated in order to achieve a fair return that accomplishes the goal of the CSFRA if there is no standard?

Q2b: If yes, which of the following options should be the standard? (An explanation of these options is available in the Agenda Report and Power Point on the CSFRA website).

- Maintenance of Net Operating Income - CPI Adjustment
- Maintenance of Net Operating Income - Ratio Adjustment
- Fixed Return on Investment
- Other?

Q3: Please explain why you chose this standard.

I believe the RHC should use a hybrid formula that is based on a fixed rate of return stemming from industry standards for real estate investment in the Bay Area. Returns fluctuate based on a variety of variables including age of building, location, risks taken, etc. All expenses excluding financing as stated by the Measure V stipulations should be considered. There should be allowable pass through of some cost increases over prior year as stipulated in the Oakland ordinance.

The following should be considered when establishing the actual rate:

An index of REITs issued by the National Council of Real Estate Investment Fiduciaries shows that REITs provided an annualized return of 10.91 percent over the past 20-year period. While this is indicative of the industry, the risk is mitigated by a diverse portfolio unlike Mountain View landlords whose investments are concentrated on one building or one market and subject to substantially higher risk. I believe this would warrant a return of closer to 12%.

Q4: Is there any other information you would like the Rental Housing Committee to consider in deciding whether to adopt a fair return standard?

A major consideration in determining a fair return should be that Measure V has greatly reduced the appreciation potential of our properties. The value of my properties is now much less than before Measure V. Unfortunately, even a generous "rate of return" calculation will not compensate land owners for the newly reduced value of their property.

Owners must be compensated for the labor and risks involved in rental property ownership. Real Estate investment in the multifamily sector is labor intensive and often unpredictable and in the larger complexes there are multiple owners who have put their retirement funds in and rely on the cashflow to live. Repairs and replacements are part of everyday especially on 50-year-old buildings. Returns cannot be compared to stocks or passive investments. It certainly is nothing like owning a utility security for which the City's memorandum on fair return calculation gave a range of up to 12%.

Our expenses have gone up just as the utility company's expenses have. Our gas went up 14.65% this year, sewer went up 11.45% and water increased 15.2%. Our permitting fees required by the city to make necessary repairs went from \$3,480 in 2015 to \$22,915 in 2016, an increase of 558%. A fair rate of return requires consideration of all operating costs.

Please keep in mind that all property owners in Mountain View will consider the highest and best use of their land. If the returns are not adequate the alternative is redevelopment and possible removal from the rental market. It makes no sense to remain in an environment where the returns are not fair market when substantial investment dollars could be moved to a less regulated and investment friendly one.

Name: Elizabeth Lindsay

Address: P.O. Box 559 Palo Alto, CA 94302

Landlord/Tenant/Other: Partner-Property Manager

Written comments can be submitted to: RHC@mountainview.gov by June 12, 2017.

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THE RENTAL HOUSING COMMITTEE IS SEEKING INPUT FROM ALL STAKEHOLDERS

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As part of the implementation of the CSFRA, the Rental Housing Committee is considering the adoption of a fair return standard to be used when hearing individual landlord petitions for upward rent adjustments. One of the stated purposes of the CSFRA is to control excessive rent increases for rental units covered by the CSFRA while ensuring landlords receive a fair and reasonable return on their investment. The CSFRA identifies a number of factors that may be considered when calculating a fair return but does not identify or create a fair return methodology. A Fair Return Standard would provide clarity, transparency and understanding of what constitutes fair return by landlords, and public consistency, clear guidance to RHC and Hearing Officers when hearing petitions and consistency in the decisions. The Rental Housing Committee wants to hear from the stakeholders and consider the input of both landlords and tenants as part of their decision making process. The Rental Housing Committee heard a presentation on the concept of a fair return standard on May 22, 2017.

Community Development

Q1: Should the Rental Housing Committee adopt a specific standard to calculate fair return for petitions filed by landlords for upward adjustment of rent?

Yes. Otherwise a property's revenue may fall so far below market that not only would the owner be deprived of a fair rate of return but also be deprived of the incentive and ability to properly maintain his or her property.

Q2a: If no, how would a petition be adjudicated in order to achieve a fair return that accomplishes the goal of the CSERA if there is no standard?

Q2b: If yes, which of the following options should be the standard? (An explanation of these options is available in the Agenda Report and Power Point on the CSFRA website).

- a. Maintenance of Net Operating Income – CPI Adjustment
- b. Maintenance of Net Operating Income – Ratio Adjustment
- c. Fixed Return on Investment
- d. Other?

Other: AN INDEXED FIXED RETURN ON INVESTMENT

The RHC should use a modified fixed return on investment approach in which an owner should be allowed a net operating income arrived at by multiplying the property's fair market value by the sum of a Bay Area Price Index and a fixed spread that reflects the work and risks involved in rental property ownership.

Julie Carson
PO Box 2600
Los Altos, CA 94022 6/1/17

Q3: Please explain why you chose this standard.

This method is appropriate because it is simple, transparent, can be applied consistently and will likely only be used by landlords when and if they are not getting a fair return on their investments.

The inclusion of an inflation index is necessary because inflation, while relatively low today, could return to the double digit levels of the 1970's, thereby wiping out a property owner's return if the calculation were made using an absolute fixed return.

The additional spread over the index is needed to compensate owners for the labor and risks involved in rental property ownership. Unlike some other capital investments such as securities, investing in rental properties is not passive. It involves a great deal of work. The reality is things wear out and need to be repaired and replaced all the time: roofs, appliances, landscaping systems, toilets, water heaters, furnaces, faucets, sink disposals, sewer systems, ceiling fans and locksets just to name a few. Whether the work is done directly by the owner or it is contracted out, there is a lot of hard work involved. It certainly is nothing like owning a utility security for which the City's memorandum on fair return calculation gave a range of up to 12%.

As for the risks, first, our market is subject to the vagaries of the historically cyclical tech world. Mountain View rents dropped by a third when the Dot Bomb burst in 1999 and it took twelve years for rents to get back to the levels of that time. Second, unlike investing in securities in which diversification is easily accomplished (e.g. buying an S&P index fund) investing in rental property is very concentrated. Third, a myriad of special risks from natural disasters to environmental threats (Mountain View sits on numerous Super Fund sites).

Finally, a major consideration in determining a fair return should be that Measure V has largely wiped out the appreciation potential of our properties. Many landlords who did not keep their rents at market always figured they could at least get a good return on their property's eventual sale. That is no longer the case. Our residual values have been crushed by Measure V. Any truly fair return calculation must provide for the fact that this very significant portion of our total returns have largely been taken away.

Q4: Is there any other information you would like the Rental Housing Committee to consider in deciding whether to adopt a fair return standard?

Yes. Two points.

First, that the labor component of property ownership on a per unit basis obviously decreases as the number of units increases. The economies of scale achieved as the number of units increases is fairly linear.

*Julie Chalm
PO Box 56
FMSA/TDS*

b1117

Second, the fair return interest rate decided upon should not be confused with a rent growth rate. Presuming we stay in an inflation environment consistent with the 2-5% rent growth terms set forth in Measure V, only landlords whose rents are materially below market should have an incentive to appeal to the RHC for an upward rent adjustment.

Name: Julie Carson
Address: PO Box 56 Los Altos Ca 94022

Landlord/Tenant/Other:

Written comments can be submitted to: RHC@mountainview.gov by June 12, 2017.

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JUN 12 2017

THE RENTAL HOUSING COMMITTEE IS SEEKING INPUT FROM ALL STAKEHOLDERS

As part of the implementation of the CSFRA, the Rental Housing Committee is considering the adoption of a fair return standard to be used when hearing individual landlord petitions for upward rent adjustments. One of the stated purposes of the CSFRA is to control excessive rent increases for rental units covered by the CSFRA while ensuring landlords receive a fair and reasonable return on their investment. The CSFRA identifies a number of factors that may be considered when calculating a fair return but does not identify or create a fair return methodology. A Fair Return Standard would provide clarity, transparency and understanding of what constitutes fair return by landlords, and public consistency, clear guidance to RHC and Hearing Officers when hearing petitions and consistency in the decisions. The Rental Housing Committee wants to hear from the stakeholders and consider the input of both landlords and tenants as part of their decision making process. The Rental Housing Committee heard a presentation on the concept of a fair return standard on May 22, 2017.

Q1: Should the Rental Housing Committee adopt a specific standard to calculate fair return for petitions filed by landlords for upward adjustment of rent?

Yes, however, there also needs to be a mechanism for adjudicating petitions for rent increases on a case by case basis where the standard does not fit the circumstances or where the existing rent is far below the average rents AFTER application of the standard set by CSFRA.

Q2a: If no, how would a petition be adjudicated in order to achieve a fair return that accomplishes the goal of the CSFRA if there is no standard?

See answer to Question 1.

Q2b: If yes, which of the following options should be the standard? (An explanation of these options is available in the Agenda Report and Power Point on the CSFRA website).

- Maintenance of Net Operating Income - CPI Adjustment
- Maintenance of Net Operating Income - Ratio Adjustment
- Fixed Return on Investment
- Other? **INDEXED FIXED RETURN ON INVESTMENT - as outlined by Curtis Conroy**

Whichever option is used as the standard, the following factors also need to be considered in adjudicating a fair rate of return:

- (1.) Whether the proposed rent AFTER the increase is equal to or below the AVERAGE of the rents charged for similar sized units within the City of Mountain View, and/or is BELOW the average of the rents charged for similar sized units in Silicon Valley (or Santa Clara County or San Francisco Bay Area). This information can be determined using Zillow or another reasonable method.**
- (2.) How often had the landlord PREVIOUSLY increased the rent in past years? If the rents were increased infrequently, then the tenant has already benefited, and the landlord should be able to recoup some of that deferred return.**

Q3: Please explain why you chose this standard.

Keep in mind that not all Mountain View landlords had been charging at or near the market rate as of October 2015. Moreover, not all Mountain View landlords had been increasing rents on a yearly or other regular basis. Those landlords that had in fact been HELPING their tenants by keeping their rents BELOW market will be unjustly PENALIZED if only a straight percentage or other ratio is used in determining allowable increases.

Clearly a situation of “No Good Deed Goes Unpunished”!

Q4: Is there any other information you would like the Rental Housing Committee to consider in deciding whether to adopt a fair return standard?

Percentages cannot be applied in a vacuum. Adding \$200.00 to \$1,000.00 is a TWENTY percent (20%) increase. Yet \$1,200.00 per month for a 2 bedroom is still far below market rate in Silicon Valley.

It is patently UNFAIR to place the burden of solving the housing crisis only on the Mountain View landlords when this crisis is affecting the entire Bay Area. Doing this will only force landlords and potential landlords out of the City and further exacerbate the situation.

Name: **Nancy Ann Gee**

Address: **774 W Dana Street, Mountain View, CA 94041**

Landlord/Tenant/Other: **Property manager for deceased parents**

Written comments can be submitted to: RHC@mountainview.gov by June 12, 2017.

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van Deursen, Anky

JUN 12 2017

From: Alison H <alison_h@pacbell.net>
Sent: Sunday, June 11, 2017 3:26 PM
To: RHC
Subject: Stakeholder survey

Community Development

To Rental Housing Committee members,

Here is my survey feedback. The survey would not let me fill it in online. I wonder if other people are having that same problem.

Thank you for all your hard work,

Alison Hicks

THE RENTAL HOUSING COMMITTEE IS SEEKING INPUT FROM ALL STAKEHOLDERS As part of the implementation of the CSFRA, the Rental Housing Committee is considering the adoption of a fair return standard to be used when hearing individual landlord petitions for upward rent adjustments. One of the stated purposes of the CSFRA is to control excessive rent increases for rental units covered by the CSFRA while ensuring landlords receive a fair and reason return on their investment. The CSFRA identifies a number of factors that may be considered when calculating a fair return but does not identify or create a fair return methodology. A Fair Return Standard would provide clarity, transparency and understanding of what constitutes fair return by landlords, and public consistency, clear guidance to RHC and Hearing Officers when hearing petitions and consistency in the decisions. The Rental Housing Committee wants to hear from the stakeholders and consider the input of both landlords and tenants as part of their decision making process. The Rental Housing Committee heard a presentation on the concept of a fair return standard on May 22, 2017.

Q1: Should the Rental Housing Committee adopt a specific standard to calculate fair return for petitions filed by landlords for upward adjustment of rent?

Yes, absolutely they should.

Q2a: If no, how would a petition be adjudicated in order to achieve a fair return that accomplishes the goal of the CSFRA if there is no standard?

Q2b: If yes, which of the following options should be the standard? (An explanation of these options is available in the Agenda Report and Power Point on the CSFRA website).

- a. Maintenance of Net Operating Income – CPI Adjustment b. Maintenance of Net Operating Income – Ratio Adjustment
c. Fixed Return on Investment d. Other?

Q3: Please explain why you chose this standard.

This has been the method most-widely used by rent-controlled cities in California for many years and has not encountered legal problems. It is considered to be fair and easy to administer, which is why City staff is recommending this option. It states that the apartment owner may appeal to the committee to increase their rents so that their income minus expenses (called Net Operating Income) is at least as much as the amount of their Net Operating Income in October 2015, adjusted for the change in the consumer price index since then. The Net Operating Income, which the apartment owner is allowed

to protect from loss, is the amount of money that the apartment owner has available for upkeep due to normal wear and tear, discretionary upgrades to the facility, and profits.

Q4: Is there any other information you would like the Rental Housing Committee to consider in deciding whether to adopt a fair return standard?

Why reinvent the wheel? Please use the standard that is being used successfully in other cities around CA. I am a homeowner and like most homeowners I voted for rent control because I believe rapidly rising rents with no short-term and effective policy response is very bad for our community and quality of life. I believe that the only short-term and effective policy response we have is rent control. Please make this policy work as it does in other cities. I used to own a rental property in Berkeley that was covered by rent control and the system worked very well for us and for our tenants. We made a lot of money with the rising value of our property and our tenant could afford to stay in Berkeley. We took out home equity loans to make all our repairs and we were all very happy. Why are you not including homeowners as stakeholders here? If we don't have good affordable housing policy, more and more people will resort to living in RVs, we won't be able to hire teachers and people to work in our retail businesses, etc. This will become a truly serious problem for our entire community. Why is the renter stakeholder meeting during working hours? I cannot come then. Is there another one?

Name: Alison Hicks

Address: 602 Church St, Mtn View

Landlord/Tenant/Other: Homeowner/Voter

Written comments can be submitted to: RHC@mountainview.gov by June 12, 2017.

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THE RENTAL HOUSING COMMITTEE IS SEEKING INPUT FROM ALL STAKEHOLDERS
Community Development

As part of the implementation of the CSFRA, the Rental Housing Committee is considering the adoption of a fair return standard to be used when hearing individual landlord petitions for upward rent adjustments. One of the stated purposes of the CSFRA is to control excessive rent increases for rental units covered by the CSFRA while ensuring landlords receive a fair and reasonable return on their investment. The CSFRA identifies a number of factors that may be considered when calculating a fair return but does not identify or create a fair return methodology. A Fair Return Standard would provide clarity, transparency and understanding of what constitutes fair return by landlords, and public consistency, clear guidance to RHC and Hearing Officers when hearing petitions and consistency in the decisions. The Rental Housing Committee wants to hear from the stakeholders and consider the input of both landlords and tenants as part of their decision making process. The Rental Housing Committee heard a presentation on the concept of a fair return standard on May 22, 2017.

Q1: Should the Rental Housing Committee adopt a specific standard to calculate fair return for petitions filed by landlords for upward adjustment of rent?

The RHC Should not adopt a specific standard if the standard has such a narrow bandwidth that the RHC would be in violation of 17D9(a)(1) and (2). Too narrow a fair return standard would block petitions under 1710 (a)(2)(G) which is one of the critical components of Measure V - a fair rate of return for apartment owners.

Q2a: If no, how would a petition be adjudicated in order to achieve a fair return that accomplishes the goal of the CSFRA if there is no standard?

If a landlord is offering affordable rental units, they may be achieving a fair rate of return. There are metrics already in place which could be used by Project S mediators. The BMA standards under Ordinance 199 SEC 36.84 would provide a metric to determine if a fair return increase is warranted. This would also address the issue of tenant need and also avoid penalizing owners who effectively manage expenses.

Q2b: If yes, which of the following options should be the standard? (An explanation of these options is available in the Agenda Report and Power Point on the CSFRA website).

- Maintenance of Net Operating Income - CPI Adjustment
- Maintenance of Net Operating Income - Ratio Adjustment
- Fixed Return on Investment
- Other?

RECEIVED

SOS 8/1/16

A fixed rate of return with at least 8%-12% would be tolerable. Requiring an appraisal would be a huge burden on owners. A cap rate should be used for valuation. Building are selling at a 2.5 cap rate when median rents are charged. This would be an accurate valuation with which to determine fair rate of return. See p.66 of the 2015-2023 housing element on the city of Mt View website for median rents.

Q3: Please explain why you chose this standard.

Fixed rate of return is the only standard that would allow for petitioning for increases. CPI could work with a range of 8% - 15% min - max. Using CPI without a reasonable minimum would prevent petitions, a clear violation of the CSERA. All of the examples provided at the 5-22 meeting used unrealistic numbers and seemed crafted to prevent petitioning

Q4: Is there any other information you would like the Rental Housing Committee to consider in deciding whether to adopt a fair return standard?

I want to reiterate that many small owners do much of the work themselves, an expense that does not show on financials. The IRS requires a minimum of 700 hrs/yr for real estate professionals. At the median income, that is a \$32,849 expense not on financials. The CSERA clearly missed its target, but the RHC can make rules that protect tenants without harming landlords that have been providing affordable housing in Mountain View for years.

Name: Joe Maydak
Address: 56 Centre St. Mountain View

Landlord/Tenant/Other:

Written comments can be submitted to: RHC@mountainview.gov by June 12, 2017.

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JUN 12 2017

THE RENTAL HOUSING COMMITTEE IS SEEKING INPUT FROM ALL STAKEHOLDERS As part of the implementation of the CSFRA, the Rental Housing Committee is considering the adoption of a fair return standard to be used when hearing individual landlord petitions for upward rent adjustments. One of the stated purposes of the CSFRA is to control excessive rent increases for rental units covered by the CSFRA while ensuring landlords receive a fair and reasonable return on their investment. The CSFRA identifies a number of factors that may be considered when calculating a fair return but does not identify or create a fair return methodology. A Fair Return Standard would provide clarity, transparency and understanding of what constitutes fair return by landlords, and public consistency, clear guidance to RHC and Hearing Officers when hearing petitions and consistency in the decisions. The Rental Housing Committee wants to hear from the stakeholders and consider the input of both landlords and tenants as part of their decision making process. The Rental Housing Committee heard a presentation on the concept of a fair return standard on May 22, 2017.

Q1: Should the Rental Housing Committee adopt a specific standard to calculate fair return for petitions filed by landlords for upward adjustment of rent?

Yes

Q2a: If no, how would a petition be adjudicated in order to achieve a fair return that accomplishes the goal of the CSFRA if there is no standard?

N/A

Q2b: If yes, which of the following options should be the standard? (An explanation of these options is available in the Agenda Report and Power Point on the CSFRA website).

- a. Maintenance of Net Operating Income – CPI Adjustment
- b. Maintenance of Net Operating Income – Ratio Adjustment
- c. Fixed Return on Investment

Other

Q3: Please explain why you chose this standard.

I suggest using a modified fixed rate of return with the appraised value determined by using median rent with a cap rate of 3 applied. This would prevent an owner from needing a costly appraisal in order to petition for a rent increase. The rate of return should be 12% Anything lower than 12% would effectively eliminate the ability to petition for a rent increase.

RECEIVED

SIGS FIRM

Q4: Is there any other information you would like the Rental Housing Committee to consider in deciding whether to adopt a fair return standard?

Most landlords impacted by Measure V are reasonable people providing reasonable rent in Mountain View. The policies you are implementing need to be flexible enough to prevent landlords who are not part of the problem from being penalized for the actions of the few.

Name: JJJust LLC

Address: 1375 Montecito Avenue

Landlord

Written comments can be submitted to: RHC@mountainview.gov by June 12, 2017.

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JUN 12 2017

THE RENTAL HOUSING COMMITTEE IS SEEKING INPUT FROM ALL STAKEHOLDERS

Community Development

As part of the implementation of the CSFRA, the Rental Housing Committee is considering the adoption of a fair return standard to be used when hearing individual landlord petitions for upward rent adjustments. One of the stated purposes of the CSFRA is to control excessive rent increases for rental units covered by the CSFRA while ensuring landlords receive a fair and reasonable return on their investment. The CSFRA identifies a number of factors that may be considered when calculating a fair return but does not identify or create a fair return methodology. A Fair Return Standard would provide clarity, transparency and understanding of what constitutes fair return by landlords, and public consistency, clear guidance to RHC and Hearing Officers when hearing petitions and consistency in the decisions. The Rental Housing Committee wants to hear from the stakeholders and consider the input of both landlords and tenants as part of their decision making process. The Rental Housing Committee heard a presentation on the concept of a fair return standard on May 22, 2017.

Q1: Should the Rental Housing Committee adopt a specific standard to calculate fair return for petitions filed by landlords for upward adjustment of rent?

I'm no expert , but i urge committee to establish an increase limit on rental housing lease renewal . One idea is to force landlord for "committee approval" for every yearly rent increase, this way rent increase will be monitored by your committee. Not all renters are aware of measure V.

Q2a: If no, how would a petition be adjudicated in order to achieve a fair return that accomplishes the goal of the CSFRA if there is no standard?

Q2b: If yes, which of the following options should be the standard? (An explanation of these options is available in the Agenda Report and Power Point on the CSFRA website).

- Maintenance of Net Operating Income - CPI Adjustment
- Maintenance of Net Operating Income - Ratio Adjustment
- Fixed Return on Investment
- Other?

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JUN 13 2017

Q3: Please explain why you chose this standard.

Q4: Is there any other information you would like the Rental Housing Committee to consider in deciding whether to adopt a fair return standard?

Name: Tony Koudsi

Address: 707 Continental Circle, Mountain View, CA 94040

Landlord/Tenant/Other: Tenant

Written comments can be submitted to: RHC@mountainview.gov by June 12, 2017.

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JUN 08 2017

THE RENTAL HOUSING COMMITTEE IS SEEKING INPUT FROM ALL STAKEHOLDERS

Community Development

As part of the implementation of the CSFRA, the Rental Housing Committee is considering the adoption of a fair return standard to be used when hearing individual landlord petitions for upward rent adjustments. One of the stated purposes of the CSFRA is to control excessive rent increases for rental units covered by the CSFRA while ensuring landlords receive a fair and reasonable return on their investment. The CSFRA identifies a number of factors that may be considered when calculating a fair return but does not identify or create a fair return methodology. A Fair Return Standard would provide clarity, transparency and understanding of what constitutes fair return by landlords, and public consistency, clear guidance to RHC and Hearing Officers when hearing petitions and consistency in the decisions. The Rental Housing Committee wants to hear from the stakeholders and consider the input of both landlords and tenants as part of their decision making process. The Rental Housing Committee heard a presentation on the concept of a fair return standard on May 22, 2017.

Q1: Should the Rental Housing Committee adopt a specific standard to calculate fair return for petitions filed by landlords for upward adjustment of rent?

Yes. Landlords need to know what conditions must be met to petition for rent adjustments.

Q2a: If no, how would a petition be adjudicated in order to achieve a fair return that accomplishes the goal of the CSFRA if there is no standard?

Q2b: If yes, which of the following options should be the standard? (An explanation of these options is available in the Agenda Report and Power Point on the CSFRA website).

- Maintenance of Net Operating Income - CPI Adjustment
- Maintenance of Net Operating Income - Ratio Adjustment
- Fixed Return on Investment
- Other?

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SIS 80 MUL

Information developed by Mountain View City Manager's Office

MNOI plus allowance to cover cost of capital improvements

Q3: Please explain why you chose this standard.

My concern with CPI-based limits is the difficulty in recovering cost of up-grades.

For example: I would like to wire my building for internet. This would make my unit more valuable, but now, I do not know if I can recover the cost.

Q4: Is there any other information you would like the Rental Housing Committee to consider in deciding whether to adopt a fair return standard?

If we cannot cover the cost of capital improvements, we will have to let our properties deteriorate. (Staying at the same level of amenities ends up being a deterioration e.g. 1 brt your TV is fancier than the one you had 15 years ago)

Name: Donnie Middleman

Address: 16 Coalmine View

Landlord/Tenant/Other: Portola Valley CA 94028

Written comments can be submitted to: RHC@mountainview.gov by June 12, 2017.

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JUN 12 2017

THE RENTAL HOUSING COMMITTEE IS SEEKING INPUT FROM ALL STAKEHOLDERS
Community Development

As part of the implementation of the CSFRA, the Rental Housing Committee is considering the adoption of a fair return standard to be used when hearing individual landlord petitions for upward rent adjustments. One of the stated purposes of the CSFRA is to control excessive rent increases for rental units covered by the CSFRA while ensuring landlords receive a fair and reasonable return on their investment. The CSFRA identifies a number of factors that may be considered when calculating a fair return but does not identify or create a fair return methodology. A Fair Return Standard would provide clarity, transparency and understanding of what constitutes fair return by landlords, and public consistency, clear guidance to RHC and Hearing Officers when hearing petitions and consistency in the decisions. The Rental Housing Committee wants to hear from the stakeholders and consider the input of both landlords and tenants as part of their decision making process. The Rental Housing Committee heard a presentation on the concept of a fair return standard on May 22, 2017.

Q1: Should the Rental Housing Committee adopt a specific standard to calculate fair return for petitions filed by landlords for upward adjustment of rent?

Yes.

Q2a: If no, how would a petition be adjudicated in order to achieve a fair return that accomplishes the goal of the CSFRA if there is no standard?

Q2b: If yes, which of the following options should be the standard? (An explanation of these options is available in the Agenda Report and Power Point on the CSFRA website).

- Maintenance of Net Operating Income - CPI Adjustment
- Maintenance of Net Operating Income - Ratio Adjustment
- Fixed Return on Investment
- Other?

RECEIVED

SIXTY EIGHT

SEVEN HUNDRED TWENTY EIGHT

THREE THOUSAND EIGHT HUNDRED TWENTY EIGHT

Q3: Please explain why you chose this standard.

~~This is the easiest and best established method and should be implemented.~~

Q4: Is there any other information you would like the Rental Housing Committee to consider in deciding whether to adopt a fair return standard?

Name: **Kate Schafer**

Address: **801 Sonia Way; Mountain View, CA 94040**

Landlord/Tenant/Other: **Other**

I am a landlord/owner of rental property.

I am a tenant.

I am a member of the public.

Written comments can be submitted to: RHC@mountainview.gov by June 12, 2017.

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JUN 06 2017

THE RENTAL HOUSING COMMITTEE IS SEEKING INPUT FROM ALL STAKEHOLDERS
Community Development

As part of the implementation of the CSFRA, the Rental Housing Committee is considering the adoption of a fair return standard to be used when hearing individual landlord petitions for upward rent adjustments. One of the stated purposes of the CSFRA is to control excessive rent increases for rental units covered by the CSFRA while ensuring landlords receive a fair and reasonable return on their investment. The CSFRA identifies a number of factors that may be considered when calculating a fair return but does not identify or create a fair return methodology. A Fair Return Standard would provide clarity, transparency and understanding of what constitutes fair return by landlords, and public consistency, clear guidance to RHC and Hearing Officers when hearing petitions and consistency in the decisions. The Rental Housing Committee wants to hear from the stakeholders and consider the input of both landlords and tenants as part of their decision making process. The Rental Housing Committee heard a presentation on the concept of a fair return standard on May 22, 2017.

Q1: Should the Rental Housing Committee adopt a specific standard to calculate fair return for petitions filed by landlords for upward adjustment of rent?

yes

Q2a: If no, how would a petition be adjudicated in order to achieve a fair return that accomplishes the goal of the CSFRA if there is no standard?

Q2b: If yes, which of the following options should be the standard? (An explanation of these options is available in the Agenda Report and Power Point on the CSFRA website).

- Maintenance of Net Operating Income - CPI Adjustment
- Maintenance of Net Operating Income - Ratio Adjustment
- Fixed Return on Investment
- Other?

RENTED

Comments from the public on proposed rent increase standard

Comments from the public on proposed rent increase standard

Comments from the public on proposed rent increase standard

Comments from the public on proposed rent increase standard

Comments from the public on proposed rent increase standard

Comments from the public on proposed rent increase standard

Comments from the public on proposed rent increase standard

Comments from the public on proposed rent increase standard

Q3: Please explain why you chose this standard.

Comments from the public on proposed rent increase standard

Comments from the public on proposed rent increase standard

This is the method used successfully by other cities. Basing increase on CPI better ties

to renters ability to pay

Q4: Is there any other information you would like the Rental Housing Committee to consider in deciding whether to adopt a fair return standard?

When computing investment return, the increasing value of property should also be included

Name: Ronald and Dorothy Schafer

Address: 409 W. Dana St, Mountain View CA 94041

Landlord/Tenant/Other: Home owner

Written comments can be submitted to: RHC@mountainview.gov by June 12, 2017.

Kennedy, Andrea

From: Ron Schafer <ronschafer8@gmail.com>
Sent: Tuesday, June 06, 2017 1:12 PM
To: RHC
Subject: Fair rate of return

Follow Up Flag: Follow up
Flag Status: Completed

To the members of the Mountain View Rental Housing Committee

The fair and equitable implementation of Measure V is vitally important to the City of Mountain View. Measure V was passed by the citizens of Mountain View, including home owners, renters, and landlords, with the intention to stabilize rents and preserve the character and diversity of the city. While landlords and property owners naturally want the freedom to maximize their return on investment, Measure V's purpose is to protect renters from unreasonable rent increases that force them to abandon their homes in Mountain View -- sometimes even forcing them to live in cars, RVs, or encampments along Stevens Creek. Clearly, property owners are entitled to benefit from the law of supply and demand, but we should remember that the rent that they receive is not their only investment return. The value of their property has rapidly increased at a much higher rate than the ability of renters to pay ever higher rents. We strongly support maintenance of net operating income with CPI adjustment as employed by a range of California cities as the best way to implement Measure V. Fairly balancing the interests of landlords and renters is a huge responsibility. We thank you all for your willingness to take on this challenge.

Ron and Dorothy Schafer
409 W. Dana St.
Mountain View, CA 94041
PH: 650-962-0856
Cell: 650-521-3145
ronschafer8@gmail.com

RECEIVED

JUN 06 2017

THE RENTAL HOUSING COMMITTEE IS SEEKING INPUT FROM ALL STAKEHOLDERS

As part of the implementation of the CSFRA, the Rental Housing Committee is considering the adoption of a fair return standard to be used when hearing individual landlord petitions for upward rent adjustments. One of the stated purposes of the CSFRA is to control excessive rent increases for rental units covered by the CSFRA while ensuring landlords receive a fair and reasonable return on their investment. The CSFRA identifies a number of factors that may be considered when calculating a fair return but does not identify or create a fair return methodology. A Fair Return Standard would provide clarity, transparency and understanding of what constitutes fair return by landlords, and public consistency, clear guidance to RHC and Hearing Officers when hearing petitions and consistency in the decisions. The Rental Housing Committee wants to hear from the stakeholders and consider the input of both landlords and tenants as part of their decision making process. The Rental Housing Committee heard a presentation on the concept of a fair return standard on May 22, 2017.

Q1: Should the Rental Housing Committee adopt a specific standard to calculate fair return for petitions filed by landlords for upward adjustment of rent?

No! It's bad enough that this measure is controlling what private citizens can do with their own business and decreasing its value. There is no need to compound it by sticking their noses into private citizens books. Calculations or benchmarks like NOI, ROI, etc will not treat each landlord the same. If someone does their own maintenance, painting, cleaning, etc, they may have a higher NOI than an identical complex that hires out this work. Neither should be penalized more than they already are because of how they run their business. We are trying to be as successful as we can be and this measure is not allowing us to do so and in fact, giving us no incentive to try as hard as we could.

Q2a: If no, how would a petition be adjudicated in order to achieve a fair return that accomplishes the goal of the CSFRA if there is no standard?
You should spend your time and efforts to ONLY look at expenses that are asked to be passed onto the residents. Determine if those expenses are/were needed and if they maintain habitability of the property.

Then determine what percentage of those expenses and over what period of time a landlord can be allowed to recuperate these costs. This process should be independent of an individual landlords NOI, ROI, etc.

Q2b: If yes, which of the following options should be the standard? (An explanation of these options is available in the Agenda Report and Power Point on the CSFRA website).

- Maintenance of Net Operating Income - CPI Adjustment
- Maintenance of Net Operating Income - Ratio Adjustment
- Fixed Return on Investment
- Other?

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City of Mountain View
Rental Housing Committee

Q3: Please explain why you chose this standard.

I have suggested this approach because Measure V has already taken away constitutional rights of property owners. ~~Where this amendment does not appear to be going away soon, there is no need to take away more rights or continue to punish the property owner for being, or trying, to be successful. The more you punish (and that IS what you are doing is PUNISHING) property owners, the less motivation property owners will have to maintain their properties or continue to invest in the area. I have seen ZERO economic analysis done to investigate what rent control will do to Mt View nor was this written by economic experts. It takes little effort to research what economists have to say about rent control and it does not bode well for the future!~~

Q4: Is there any other information you would like the Rental Housing Committee to consider in deciding whether to adopt a fair return standard?

Measure V is a micro implementation of socialism when in theory we live in a capitalist society (apparently not in Mt View). You have the ability to accelerate the continued socialist implementation of this measure or to slow it down and try to maintain the ideals that built this country. I have spent years coaching kids & when they would say..."it's not fair", I would tell them the number one rule in life is..."life is not fair". It's an ambiguous word, what you consider "fair" for one is by no means "fair" for all. Because of this, it's impossible to try and be "fair" to all. Instead of trying to be "fair" you need to concentrate on providing each and every citizen the same constitutional rights. This measure takes rights away from property owners and give them no incentive or motivation to maintain and improve their properties.

Name: Stephen A Welter

Address: PO Box 1058 Mt View CA 94042

Landlord/Tenant/Other: Our family, members and investors in Mt View for 40+ years

Written comments can be submitted to: RHC@mountainview.gov by June 12, 2017.

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JUN 01 2017

THE RENTAL HOUSING COMMITTEE IS SEEKING INPUT FROM ALL STAKEHOLDERS

Community Development

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Q1: Should the Rental Housing Committee adopt a specific standard to calculate fair return for petitions filed by landlords for upward adjustment of rent?

Yes

Q2a: If no, how would a petition be adjudicated in order to achieve a fair return that accomplishes the goal of the CSFRA if there is no standard?

Q2b: If yes, which of the following options should be the standard? (An explanation of these options is available in the Agenda Report and Power Point on the CSFRA website).

- Maintenance of Net Operating Income - CPI Adjustment
- Maintenance of Net Operating Income - Ratio Adjustment
- Fixed Return on Investment
- Other?

RECEIVED

JUN 04 2015

Comments on proposed Residential Landlord-Tenant Ordinance

Q3: Please explain why you chose this standard.

We should not reinvent the wheel. If this works well for most other communities, lets go with it.

Q4: Is there any other information you would like the Rental Housing Committee to consider in deciding whether to adopt a fair return standard?

If implemented, make sure it is not abused.

Name: Elgin Bravo

Address: 348 Camille Ct, Apt 5

Landlord/Tenant/Other: Tenant

Written comments can be submitted to: RHC@mountainview.gov by June 12, 2017.

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JUN 01 2017

Dear Rental Housing Committee:

I had issues filling up the PDF form

Community Development

(<http://www.mountainview.gov/depts/comdev/preservation/rentstabilization.asp>),

and will answer the questions below instead:

Name: Serge Bonte

Address: 1625 Lloyd Way, Mountain View

Tenant/Landlord/Other: Currently a homeowner AND a landlord (condo unit on Latham Street).

Q1: Should the Rental Housing Committee adopt a specific standard to calculate fair return for petitions filed by landlords for upward adjustment of rent?

A1: Yes for the reasons provided in the report. It has to be clear though that: 1/ CSFRA allows for a fair return but in no way guarantees it (landlords can still make poor financial decisions and tenants should not be on the hook for those). 2/ the fair return "standard" only comes into play when there is an appeal to hearing officers. 3/ the fair return is only available to landlords in full compliance with CSFRA (incl. base rent reset) 4/ hearing officers should use a "trust BUT verify" policy for any financial data provided to calculate that fair return.

Q2b: If yes, which of the following options should be the standard? (An explanation of these options is available in the Agenda Report and Power Point on the CSFRA website).

A2b --> a. Maintenance of Net Operating Income – CPI Adjustment.

Q3: Please explain why you chose this standard.

A3. The winning argument for me is that it's used by most other jurisdictions with rent stabilization. It will be necessary however to adapt the standard to specific restrictions established in CSFRA (debt service.....). The standard should also speak about a "trust but verify" policy for any financial data used for calculating that fair return (among other things, expenses should be documented, amortized and "reasonable" in the Mountain View market).

Q4: Is there any other information you would like the Rental Housing Committee to consider in deciding whether to adopt a fair return standard?

A4: I think it is imperative for the RHC to implement good records management as soon as possible (maybe as an extension of the current building/license compliance database..). For any rental unit covered by CSFRA, the committee (and/or hearing offices) should have access to its compliance status with CSFRA, its current base rent, its history of appeals (incl all financial data), disputes, evictions.... This will certainly be necessary to implement a fair return standard; e.g.avoiding double counting of expenses, verifying amortization periods.....

Sincerely,

Serge Bonte
Lloyd Way, Mountain View

From: transparentpolitics@gmail.com on behalf of Patrick Moore <patmoore@farreach.es>
Sent: Monday, May 29, 2017 10:15 PM
To: Emily Ramos; Evan Ortiz; Julian Pardo de Zela; Matthew Grunewald; Tom Means;
Vanessa Oldenkamp Honey
Cc: RHC
Subject: Suggestion to reduce compliance costs

MAY 30 2017

RECEIVED

Hi there,

I have the following suggestions:

Capital expenses vs. "Repairs and Maintenance" definition.

This term is used in the Generally Accepted Accounting Principles (GAAP) standard and in Federal and California tax law. I would suggest that the committee specify that CSFRA standard be specified to follow the California tax standard exactly. Every year the committee may need to pass a resolution of conformity; this is what California does when federal tax code changes. If the RHC follows California tax law exactly, this will minimize reporting compliance costs. Landlords would only need to copy numbers from tax form lines to the CSFRA forms. Any minor variation will dramatically increase accountants' time and landlord cost and make auditing more difficult.

Depreciation schedules.

Any rent increases related to capital expenditures should follow California's Tax Useful Life rules as established by the Franchise Tax Board for the year in question.

Reporting, auditing and verification of expenses.

In order for a landlord to ask for an upward adjustment of rent based on allowed CSFRA expenses, the landlord needs to establish the expenses.

The RHC needs a mechanism to verify and audit for compliance.

- The RHC must require a copy of the FILED tax returns from the state of California and the IRS. (Please note that "Prepared tax returns" are not NOT the same as FILED copies.)
- The RHC must require that the landlord submit a IRS 8821 form granting access to the RHC, *and any accounting firm designated by the RHC*, for the purpose of performing audits and compliance verifications. IRS 8821 is the <https://www.irs.gov/uac/form-8821-tax-information-authorization> for any time period relevant for the rent increase. NOTE: a IRS 8821 can be filed to a limited portion of the return - the RHC needs to specify which tax forms access is needed.
- The RHC must have rules about how to handle landlords who revoke the RHC 8821 access.
- The RHC must require notification in the event of an taxing agency performing an audit that results in a change to the the relevant forms.
- The RHC should perform yearly audits of landlords that show a pattern of behavior that is similar to previous patterns of violations. NOTE: "random audits" are not as useful in this case. In many cases, fraudulent behavior patterns must be allowed to determine which returns are subject to additional auditing. Random audits cause annoyance for landlords that are exhibiting no signs of fraudulent behavior and waste reviewers' time.

Tax attorneys and other professionals

I suggest that the RHC consult with tax attorneys and accounting firms to ensure that the regulations are properly constructed.

Thank you for your time.

Patrick Moore

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JUN 13 2017

THE RENTAL HOUSING COMMITTEE IS SEEKING INPUT FROM ALL STAKEHOLDERS

Community Development

As part of the implementation of the CSFRA, the Rental Housing Committee is considering the adoption of a fair return standard to be used when hearing individual landlord petitions for upward rent adjustments. One of the stated purposes of the CSFRA is to control excessive rent increases for rental units covered by the CSFRA while ensuring landlords receive a fair and reasonable return on their investment. The CSFRA identifies a number of factors that may be considered when calculating a fair return but does not identify or create a fair return methodology. A Fair Return Standard would provide clarity, transparency and understanding of what constitutes fair return by landlords, and public consistency, clear guidance to RHC and Hearing Officers when hearing petitions and consistency in the decisions. The Rental Housing Committee wants to hear from the stakeholders and consider the input of both landlords and tenants as part of their decision making process. The Rental Housing Committee heard a presentation on the concept of a fair return standard on May 22, 2017.

Q1: Should the Rental Housing Committee adopt a specific standard to calculate fair return for petitions filed by landlords for upward adjustment of rent?

Not ANY of current options. Rental Housing Committee should have a fair return standard but none of the current options are either fair or practical.

Particularly Option 1: using the base of particular year could potentially punish long-term landlords while benefiting speculators and flippers for quick profit by avoiding long term maintenance and improvement of the properties. In many cases, long-term landlords spend heavily in one year to improve the property which depresses that year's profit. Under Option 1, they are unfairly punished if they happen to have major maintenance work in 2015. Also It is not practical solution for landlords who bought the properties after October with much higher cost (for example, much larger property tax bill) and no basis in 2015.

Q2a: If no, how would a petition be adjudicated in order to achieve a fair return that accomplishes the goal of the CSFRA if there is no standard?

Fair return format should be annual CPI + fixed return, in which case the fixed return should be a comparable return comparing to other alternative investment choices. In this case, the fixed return part equals 7%. Explanation in Q3.

Q2b: If yes, which of the following options should be the standard? (An explanation of these options is available in the Agenda Report and Power Point on the CSFRA website).

- Maintenance of Net Operating Income - CPI Adjustment
- Maintenance of Net Operating Income - Ratio Adjustment
- Fixed Return on Investment
- Other?

annual CPI + 7% fixed return

Q3: Please explain why you chose this standard.

As a long term investors, the comparison of whether or not to make an investment (fair return) is to compare return/risk against other investment. Since Silicon Valley housing closely matches the high tech job market and stock market, it is fair to ask for the similar return with the similar risk. Based on historical data, the annual real return (inflation adjusted return) of stock market in from 1950-2009 is 7%, thus it is reasonable to set the fixed return portion as 7%. I would have been higher than 7% if we includes 2010-2016 since 2009 was right after the Great Recession crash.

Q4: Is there any other information you would like the Rental Housing Committee to consider in deciding whether to adopt a fair return standard?

how to recapture the cost of capital improvement and property management, increasing fee, utility bills, labor cost, etc.

Name: Linda Wang

Address: 718 Muir Dr. Mountain View, CA 94041

Landlord/Tenant/Other:

Landlord

Written comments can be submitted to: RHC@mountainview.gov by June 12, 2017.

Q1: Should the Rental Housing Committee adopt a specific standard to calculate fair return for petitions filed by landlords for upward adjustment of rent? Community Development

Yes there must be standards to allow property owners for upwards adjustment of rent, in order for the owner to achieve a FAIR return. However none of the 3 options are fair and practical, particularly Option #1 has no fairness at all. To set 2015 as the "base year" could cause huge problem to the owners, especially small owners who only owns a few units. For example: 2 of the units in a 4plex happened to have major repairs so they were vacant for 6 months in 2015, it results in extremely low income but very high expense. Under Option 1 this owner will never get a fair return.

For owners who didn't keep the 2015 operation record, or for new owners who bought the property in or after 2015, what about them?

For many good hearted owners who have kept rents very low during the past many years, in order to help their tenants, Option 1 will hurt them the most, especially giving the fact that with the pass of Measure V, a large portion of their equity were wiped out. They are hopeless if without a meaningful fair rent return.

Q2a: If no, how would a petition be adjudicated in order to achieve a fair return that accomplishes the goal of the CSFRA if there is no standard?

Q2b: If yes, which of the following options should be the standard? (An explanation of these options is available in the Agenda Report and Power Point on the CSFRA website).

Choice: Others

The RHC should adopt a modified fixed return on investment approach that an owner should be allowed a Net Operating Income based on a fixed return of the property's fair market value. The fair market value of the property shall be the value before Measure V passed. The fixed return shall be no lower than 7% and no higher than 12%.

Q3: Please explain why you chose this standard.

Real property is an investment, the decision of whether or not to make an investment is based on the comparison of return/risk assessment. Based on historical data, the annual real return (inflation adjusted return) of stock market from 1950-2009 is 7%, it would have been higher than 7% if we include 2010-2016 since 2009 was right after the Great Recession crash. Thus it's reasonable to set 7% as the lowest limit of fix return.

Another major consideration in determine a fair return should be that Measure V has largely wiped out the appreciation in the past and in the future. Many owners who did not keep their rents at market always think they could at least get a good return when they sell the property, that's no longer the case. Therefore owners have to rely on additional Operation Income instead of future potential equity.

Name: Yong Zhao
Address: 1017 Olmo Ct, San Jose, 95129
Landlord/Tenant/Other: landlord

Written comments can be submitted to: RHC@mountainview.gov

JUN 13 2017

THE RENTAL HOUSING COMMITTEE IS SEEKING INPUT FROM ALL STAKEHOLDERS

Community Development

As part of the implementation of the CSFRA, the Rental Housing Committee is considering the adoption of a fair return standard to be used when hearing individual landlord petitions for upward rent adjustments. One of the stated purposes of the CSFRA is to control excessive rent increases for rental units covered by the CSFRA while ensuring landlords receive a fair and reasonable return on their investment. The CSFRA identifies a number of factors that may be considered when calculating a fair return but does not identify or create a fair return methodology. A Fair Return Standard would provide clarity, transparency and understanding of what constitutes fair return by landlords, and public consistency, clear guidance to RHC and Hearing Officers when hearing petitions and consistency in the decisions. The Rental Housing Committee wants to hear from the stakeholders and consider the input of both landlords and tenants as part of their decision making process. The Rental Housing Committee heard a presentation on the concept of a fair return standard on May 22, 2017.

Q1: Should the Rental Housing Committee adopt a specific standard to calculate fair return for petitions filed by landlords for upward adjustment of rent?

Not ANY of current options. Rental Housing Committee should have a fair return standard but none of the current options are either fair or practical.

Particularly Option 1: using the base of particular year could potentially punish long-term landlords while benefiting speculators and flippers for quick profit by avoiding long term maintenance and improvement of the properties. In many cases, long-term landlords spend heavily in one year to improve the property which depresses that year's profit. Under Option 1, they are unfairly punished if they happen to have major maintenance work in 2015. Also It is not practical solution for landlords who bought the properties after October with much higher cost (for example, much larger property tax bill) and no basis in 2015.

Q2a: If no, how would a petition be adjudicated in order to achieve a fair return that accomplishes the goal of the CSFRA if there is no standard?

Fair return format should be annual CPI + fixed return, in which case the fixed return should be a comparable return comparing to other alternative investment choices. In this case, the fixed return part equals 7%. Explanation in Q3.

Q2b: If yes, which of the following options should be the standard? (An explanation of these options is available in the Agenda Report and Power Point on the CSFRA website).

- Maintenance of Net Operating Income - CPI Adjustment
- Maintenance of Net Operating Income - Ratio Adjustment
- Fixed Return on Investment
- Other?

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103-6-10

(Paragon) annual CPI + 7% fixed return

Q3: Please explain why you chose this standard.

As a long term investors, the comparison of whether or not to make an investment (fair return) is to compare return/risk against other investment. Since Silicon Valley housing closely matches the high tech job market and stock market, it is fair to ask for the similar return with the similar risk. Based on historical data, the annual real return (inflation adjusted return) of stock market in from 1950-2009 is 7%, thus it is reasonable to set the fixed return portion as 7%. I would have been higher than 7% if we includes 2010-2016 since 2009 was right after the Great Recession crash.

Q4: Is there any other information you would like the Rental Housing Committee to consider in deciding whether to adopt a fair return standard?

how to recapture the cost of capital improvement and property management, increasing fee, utility bills, labor cost, etc.

Name: Richard Xiangqun Liu

Address: 236 Higdon Ave, Mountain View, CA 94041

Landlord/Tenant/Other: Landload

Written comments can be submitted to: RHC@mountainview.gov by June 12, 2017.

From: Bill Tam <bill18182000@yahoo.com>
Sent: Tuesday, June 13, 2017 11:23 PM
To: RHC

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JUN 13 2017

Input for Fair Return Standards

Community Development

Q1: Should the Rental Housing Committee adopt a specific standard to calculate fair return for petitions filed by landlords for upward adjustment of rent?

Yes there must be standards to allow property owners for upwards adjustment of rent, in order for the owner to achieve a FAIR return. However none of the 3 options are fair and practical, particularly Option #1 has no fairness at all. To set 2015 as the “base year” could cause huge problem to the owners, especially small owners who only owns a few units. For example: 2 of the units in a 4plex happened to have major repairs so they were vacant for 6 months in 2015, it results in extremely low income but very high expense. Under Option 1 this owner will never get a fair return.

For owners who didn't keep the 2015 operation record, or for new owners who bought the property in or after 2015, what about them?

For many good hearted owners who have kept rents very low during the past many years, in order to help their tenants, Option 1 will hurt them the most, especially giving the fact that with the pass of Measure V, a large portion of their equity were wiped out. They are hopeless if without a meaningful fair rent return.

Q2a: If no, how would a petition be adjudicated in order to achieve a fair return that accomplishes the goal of the CSFRA if there is no standard?

Q2b: If yes, which of the following options should be the standard? (An explanation of these options is available in the Agenda Report and Power Point on the CSFRA website).

Choice: Others

The RHC should adopt a modified fixed return on investment approach that an owner should be allowed a Net Operating Income based on a fixed return of the property's fair market value. The fair market value of the property shall be the value before Measure V passed. The fixed return shall be no lower than 7% and no higher than 12%.

Q3: Please explain why you chose this standard.

Real property is an investment, the decision of whether or not to make an investment is based on the comparison of return/risk assessment. Based on historical data, the annual real return (inflation adjusted return) of stock market from 1950-2009 is 7%, it would have been higher than 7% if we include 2010-2016 since 2009 was right after the Great Recession crash. Thus it's reasonable to set 7% as the lowest limit of fix return. .

Another major consideration in determine a fair return should be that Measure V has largely wiped out the appreciation in the past and in the future. Many owners who did not keep their rents at market always think they could at least get a good return when they sell the property, that's no longer the case. Therefore owners have to rely on additional Operation Income instead of future potential equity.

Name: Bill Tam

Address: Fremont Ca

Landlord/Tenant/Other: Landlord

From: Ming Dao <ming3dao@gmail.com>
Sent: Tuesday, June 13, 2017 11:10 PM
To: RHC
Subject: Input for Fair Return Standards

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JUN 13 2017

Input for Fair Return Standards

Community Development

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Choice: Others

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Name: Ming Lin

Address: 1536 Mackey ave. San Jose CA 95125

Landlord/Tenant/Other: Landlord

Written comments can be submitted to: RHC@mountainview.gov

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From: Jinghua Huang <jinghua_us@yahoo.com>
Sent: Tuesday, June 13, 2017 11:04 PM
To: RHC
Subject: Input for Fair Return Standards

JUN 13 2017

Community Development

Input for Fair Return Standards

Q1: Should the Rental Housing Committee adopt a specific standard to calculate fair return for petitions filed by landlords for upward adjustment of rent?

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Choice: Others

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Another major consideration in determine a fair return should be that Measure V has largely wiped out the appreciation in the past and in the future. Many owners who did not keep their rents at market always think they could at least get a good return when they sell the property, that?s no longer the case. Therefore owners have to rely on additional Operation Income instead of future potential equity.

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From: Dan Pan <dan_pan@hotmail.com>
Sent: Tuesday, June 13, 2017 9:21 PM
To: RHC
Subject: Inputs to MV rental fair return standard

JUN 13 2017

Community Development

Dear MV Rental Housing Committee:

Below is my inputs and thoughts for the standards:

Q1: Should the Rental Housing Committee adopt a specific standard to calculate fair return for petitions filed by landlords for upward adjustment of rent?

Not in one of current options. Rental Housing Committee should have a fair return standard for petitions, but none of the three options are fair or practical.

Particularly Option 1: using the base of particular year could potentially punish landlords meanwhile benefits speculators and flippers who avoid any long term fix for quick bucks. In many cases, long-term invest heavily in one year to sacrifice the profit of that particular year to achieve long-term benefit. Under Option 1, they are the ones to be punished and ultimately they will lose incentive to invest for the benefit of the renters and the city. Also it is not practical solution for investors who bought the property after Oct 2015 and incurred much higher cost (for example, new property tax based on much higher assessed value) and there is no basis for them to establish the basis.

Q2a: If no, how would a petition be adjudicated in order to achieve a fair return that accomplishes the goal of the CSFRA if there is no standard?

Fair return format should be annual CPI + fixed return, in which case the fixed return should be a comparable return comparing to other alternative investment choices. In this case, the fixed return part equals 7%. Explanation in Q3.

Q2b: If yes, which of the following options should be the standard? (An explanation of these options is available in the Agenda Report and Power Point on the CSFRA website).

Choice: Others

Q3: Please explain why you chose this standard.

As a long term investor, the comparison of whether or not to make an investment (fair return) is to compare return/risk against other investment. Since Silicon Valley housing closely matches the high tech job market and stock market, it is fair to ask for the similar return with the similar risk. Based on historical data, the annual real return (inflation adjusted return) of stock market from 1950-2009 is 7%, thus it is reasonable to set the fixed return portion as 7%. It would have been higher than 7% if we includes 2010-2016 since 2009 was right after the Great Recession crash.

Best !

Dan Pan

From: Bonnie Liu <bonnieliu2006@yahoo.com>
Sent: Tuesday, June 13, 2017 8:54 PM
To: RHC
Subject: inputs for MV Fair Return Standard

JUN 13 2017

Community Development

It will be extremely unfair to many good hearted landlords who had not raised the rents a lot and kept the rent far below the market before 10/2015 if the based is set at that time. The good hearted landlords should be treated fairly but not punished! MV city should give these landlords a opportunity to catch up the rent to a certain level.

Below are my thoughts about the questions regarding to the fair returns:

Q1: Should the Rental Housing Committee adopt a specific standard to calculate fair return for petitions filed by landlords for upward adjustment of rent?

Not in one of current options. Rental Housing Committee should have a fair return standard for petitions, but none of the three options are fair or practical.

Particularly Option 1: using the base of particular year could potentially punish landlords meanwhile benefits speculators and flippers who avoid any long term fix for quick bucks. In many cases, long-term invest heavily in one year to sacrifice the profit of that particular year to achieve long-term benefit. Under Option 1, they are the ones to be punished and ultimately they will lose incentive to invest for the benefit of the renters and the city. Also it is not practical solution for investors who bought the property after Oct 2015 and incurred much higher cost (for example, new property tax based on much higher assessed value) and there is no basis for them to establish the basis.

Q2a: If no, how would a petition be adjudicated in order to achieve a fair return that accomplishes the goal of the CSFRA if there is no standard?

Fair return format should be annual CPI + fixed return, in which case the fixed return should be a comparable return comparing to other alternative investment choices. In this case, the fixed return part equals 7%. Explanation in Q3.

Q2b: If yes, which of the following options should be the standard? (An explanation of these options is available in the Agenda Report and Power Point on the CSFRA website).

Choice: Others

Q3: Please explain why you chose this standard.

As a long term investor, the comparison of whether or not to make an investment (fair return) is to compare return/risk against other investment. Since Silicon Valley housing closely matches the high tech job market and stock market, it is fair to ask for the similar return with the similar risk. Based on historical data, the annual real return (inflation adjusted return) of stock market in from 1950-2009 is 7%, thus it is reasonable to set the fixed return portion as 7%. It would have been higher than 7% if we includes 2010-2016 since 2009 was right after the Great Recession crash.

Best,
Bonnie

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JUN 13 2017

THE RENTAL HOUSING COMMITTEE IS SEEKING INPUT FROM ALL STAKEHOLDERS

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Q1: Should the Rental Housing Committee adopt a specific standard to calculate fair return for petitions filed by landlords for upward adjustment of rent?

yes

Q2a: If no, how would a petition be adjudicated in order to achieve a fair return that accomplishes the goal of the CSFRA if there is no standard?

Q2b: If yes, which of the following options should be the standard? (An explanation of these options is available in the Agenda Report and Power Point on the CSFRA website).

- Maintenance of Net Operating Income – CPI Adjustment
- Maintenance of Net Operating Income – Ratio Adjustment
- Fixed Return on Investment
- Other?

Q3: Please explain why you chose this standard.

as the staff report states, it appears to be neutral & most efficient
and easy to administer as well as fair

Q4: Is there any other information you would like the Rental Housing Committee to consider in deciding whether to adopt a fair return standard?

For initial petitions, date of expenses & rents (income) for up to 5 prior years to determine base & fluctuations in ROR (NOR) will insure that PRO R (NOR) is not inflated by high rent increases that create base higher than fair R.R.

Name: Tami MacDonald

Address: 519 Emmons Drive, Mtn View 94043

Landlord/Tenant/Other: homeowner

Written comments can be submitted to: RHC@mountainview.gov by June 12, 2017.

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JUN 12 2017

THE RENTAL HOUSING COMMITTEE IS SEEKING INPUT FROM ALL STAKEHOLDERS

Community Development

As part of the implementation of the CSFRA, the Rental Housing Committee is considering the adoption of a fair return standard to be used when hearing individual landlord petitions for upward rent adjustments. One of the stated purposes of the CSFRA is to control excessive rent increases for rental units covered by the CSFRA while ensuring landlords receive a fair and reasonable return on their investment. The CSFRA identifies a number of factors that may be considered when calculating a fair return but does not identify or create a fair return methodology. A Fair Return Standard would provide clarity, transparency and understanding of what constitutes fair return by landlords, and public consistency, clear guidance to RHC and Hearing Officers when hearing petitions and consistency in the decisions. The Rental Housing Committee wants to hear from the stakeholders and consider the input of both landlords and tenants as part of their decision making process. The Rental Housing Committee heard a presentation on the concept of a fair return standard on May 22, 2017.

Q1: Should the Rental Housing Committee adopt a specific standard to calculate fair return for petitions filed by landlords for upward adjustment of rent?

Yes. Otherwise a property's revenue may fall so far below market that not only would the owner be deprived of a fair rate of return but also be deprived of the incentive and ability to properly maintain his or her property.

Q2a: If no, how would a petition be adjudicated in order to achieve a fair return that accomplishes the goal of the CSFRA if there is no standard?

Q2b: If yes, which of the following options should be the standard? (An explanation of these options is available in the Agenda Report and Power Point on the CSFRA website).

- a. Maintenance of Net Operating Income – CPI Adjustment
- b. Maintenance of Net Operating Income – Ratio Adjustment
- c. Fixed Return on Investment
- d. Other?

Other: AN INDEXED FIXED RETURN ON INVESTMENT

The RHC should use a modified fixed return on investment approach in which an owner should be allowed a net operating income arrived at by multiplying the property's fair market value by the sum of a Bay Area Price Index and a fixed spread that reflects the work and risks involved in rental property ownership.

Q3: Please explain why you chose this standard.

This method is appropriate because it is simple, transparent, can be applied consistently and will likely only be used by landlords when and if they are not getting a fair return on their investments.

The inclusion of an inflation index is necessary because inflation, while relatively low today, could return to the double digit levels of the 1970's, thereby wiping out a property owner's return if the calculation were made using an absolute fixed return.

The additional spread over the index is needed to compensate owners for the labor and risks involved in rental property ownership. Unlike some other capital investments such as securities, investing in rental properties is not passive. It involves a great deal of work. The reality is things wear out and need to be repaired and replaced all the time: roofs, appliances, landscaping systems, toilets, water heaters, furnaces, faucets, sink disposals, sewer systems, ceiling fans and locksets just to name a few. Whether the work is done directly by the owner or it is contracted out, there is a lot of hard work involved. It certainly is nothing like owning a utility security for which the City's memorandum on fair return calculation gave a range of up to 12%.

As for the risks, first, our market is subject to the vagaries of the historically cyclical tech world. Mountain View rents dropped by a third when the Dot Bomb burst in 1999 and it took twelve years for rents to get back to the levels of that time. Second, unlike investing in securities in which diversification is easily accomplished (e.g. buying an S&P index fund) investing in rental property is very concentrated. Third, a myriad of special risks from natural disasters to environmental threats (Mountain View sits on numerous Super Fund sites).

Finally, a major consideration in determining a fair return should be that Measure V has largely wiped out the appreciation potential of our properties. Many landlords who did not keep their rents at market always figured they could at least get a good return on their property's eventual sale. That is no longer the case. Our residual values have been crushed by Measure V. Any **truly** fair return calculation must provide for the fact that this very significant portion of our total returns have largely been taken away.

Q4: Is there any other information you would like the Rental Housing Committee to consider in deciding whether to adopt a fair return standard?

_Yes. Two points.

First, that the labor component of property ownership on a per unit basis obviously decreases as the number of units increases. The economies of scale achieved as the number of units increases is fairly linear.

Second, the fair return interest rate decided upon should not be confused with a rent growth rate. Presuming we stay in an inflation environment consistent with the 2-5% rent growth terms set forth in Measure V, only landlords whose rents are materially below market should have an incentive to appeal to the RHC for an upward rent adjustment.

Name: Teri Berwick, Summerhill Property Management

Address: Los Altos, but manage property in Mountain View

Landlord/Tenant/Other: Landlord

Written comments can be submitted to: RHC@mountainview.gov by June 12, 2017.

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JUN 12 2017

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Name: Jordan Spaulding

Address: 355 Mariposa Ave., Mountain View

Landlord/Tenant/Other:

Landlord

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