

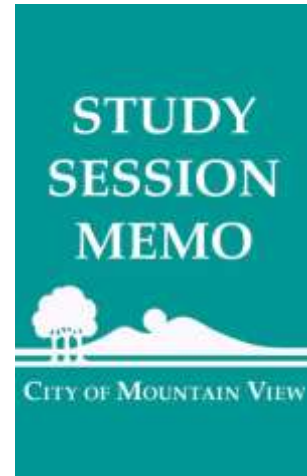
DATE: January 28, 2020

TO: Honorable Mayor and City Council

FROM: Anky van Deursen, Project Manager
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Community Development Director

VIA: Max Bosel, Interim City Manager

TITLE: **Mobile Home Rent Stabilization**



PURPOSE

The purpose of this Study Session Memorandum is to provide the City Council with an overview of rent stabilization measures for mobile homes and receive City Council input and direction to develop a mobile home rent stabilization ordinance.

BACKGROUND

A mobile home space rent stabilization ordinance applies to mobile home residents who own a mobile home and rent the site in a mobile home park on which to place the home. A rent stabilization ordinance, as discussed in further detail below, regulates the amount of rent increase for the mobile home space while at the same time providing park owners with just and reasonable returns from their mobile home park space rents.

In November 2016, the voters approved the Community Stabilization and Fair Rent Act (CSFRA) as a Charter amendment, which went into effect December 23, 2016. The CSFRA enacted stabilization of rents to multi-family residential rental units constructed prior to 1995 and just-cause termination protections for multi-family units constructed prior to the effective date of the CSFRA on December 23, 2016.

The CSFRA does not specifically identify mobile homes as a residential structure subject to the CSFRA. In 2018, the Rental Housing Committee (RHC) adopted Resolution 11 finding that the CSFRA did not apply to mobile homes. A lawsuit ensued, and the RHC decision was upheld in court. This means that, currently, the City of Mountain View does not regulate rent increases for mobile homes. Mobile home residents are appealing the court's decision.

On May 21, 2019, Council adopted its Fiscal Year 2019-21 Major Goals and associated work plan items. One of the work plan items (Project 2.5) included the CSFRA ballot

amendment and to examine and potentially develop a rent stabilization ordinance, consistent with the Mobile Home Residency Law, for mobile home park residents.

On November 12, 2019, Council adopted amendments to the CSFRA, including an express exclusion of mobile homes and spaces or lots for mobile homes from rent stabilization. These amendments are placed on the ballot for March 2020. Separately, Council decided to explore a separate rent stabilization ordinance for mobile homes outside of the CSFRA.

The purpose of this Study Session is to begin the process of implementing Project 2.5 and receive initial Council input for the preparation of a mobile home rent stabilization ordinance. Based on Council input and direction, a draft ordinance is expected to be brought back for Council's consideration in Q2 2020.

DISCUSSION

California Mobilehome Residency Law

In response to the special situation of mobile home park residents, California has adopted some Statewide laws which provide special protections for mobile home park residents (California Civil Code Chapter 2.5: The Mobilehome Residency Law (MRL)). The MRL regulates rental agreements for mobile home spaces, park rules and regulations, and transfer of mobile homes. The MRL does not regulate rent stabilization and leaves that up to local jurisdictions but addresses three aspects of mobile home residency that bear upon the issue of rent stabilization:

1. First, the MRL requires park management to provide residents at least 90 days' notice before implementing a rent increase.
2. Second, the MRL limits the reasons the park owner may use to terminate a lease of a mobile home space or deny its renewal to seven specific reasons: (1) failure to comply with local or State law or ordinances; (2) annoying conduct to other homeowners or residents; (3) conviction for prostitution; (4) failure to comply with reasonable park rules and regulations; (5) nonpayment of rent, utilities, or other reasonable charges; (6) condemnation of the park; and (7) change of use of park or portion thereof. Management is required to specify the rule broken and give the resident seven days to correct the rule violation. If not corrected, management can start an unlawful detainer action. In general, the resident has the choice to sell the mobile home "in place" or remove it from the park.

3. Third, the MRL allows cities to regulate those spaces held out for rent before January 1, 1990 and exempts from rent stabilization spaces with certain long-term leases over 12 months and spaces where the mobile home is not the owner's principal residence and the mobile home has not been rented out to another party (i.e., vacation homes). All six mobile home parks in Mountain View began operating well before 1990 with the newest park beginning operation in 1982, and so it appears likely that most of the 1,130 spaces in Mountain View could be subject to rent regulation.

Investment in Residence

Mobile home owners, unlike apartment tenants or residents of other rental units, are in the unique position of having made a substantial investment in a residence which is located on a rented or leased parcel of land (the mobile home park) either through acquisition of a mobile home from a prior owner or through purchase of a new mobile home which is then assembled on-site. The investment commonly includes the purchase of the mobile home (varying in price depending on the size and amenities, up to \$150,000 or more) and/or the cost of installing the mobile home on its space and installing related improvements, such as a foundation, carports, and integrated landscaping (depending on the job and local contractor costs, up to \$20,000 or more). Alternatively, the investment consists of the purchase of an "in-place" mobile home (varying in price from \$155,000 to \$350,000 depending on size, space rent, and location). The mobile home owner rents a space in a mobile home park upon which the mobile home is located. The investments of mobile home park residents can only be realized by continuing occupancy in the mobile home or by an "in-place" sale/transfer of the mobile home since:

- Physical relocation of mobile homes is costly;
- Relocation within metropolitan areas is practically impossible because there are virtually no vacant spaces in mobile home parks;
- Park owners generally will not permit older mobile homes to be moved into their parks when they do have vacant spaces for rent; and
- The supply of mobile home park spaces in urban areas in California is either frozen or declining. Mobile home park construction in urbanized areas of California virtually ceased by the early 1980s as alternative land uses became more profitable and land use policies continually tightened restrictions on the construction of new mobile home parks.

Given the substantial investment by mobile home owners into the physical structure of the mobile home but the lack of mobility or alternative options to move that physical structure from an existing mobile home park, mobile home park owners have disparate power over mobile home owners to charge high/excessive space rent increases.

Space Rent

In addition to the substantial investment made by the mobile home owner, additional rent needs to be provided for a space in a mobile home park. While space rent is required to continue occupancy, just like an apartment, overall affordability of the housing depends on rent and the cost of the mobile home. Due to the unique nature of the mobile home space tenancies, the amount paid for space rent has a direct correlation to the value of the mobile home. As space rents increase, the mobile home will depreciate in value (loss in equity) while the land value appreciates (gain in equity). The general industry rule of thumb is that for every \$10 per month space rent increase, \$1,000 in mobile home equity is lost. This is a key rationale why, besides State law, local laws have been incorporated regulating the rate at which space rents can be increased.

Santa Clara County

There are 17,115 mobile home spaces in 96 mobile home parks throughout Santa Clara County that are licensed and monitored by the State Department of Housing and Community Development. These parks, which vary in size from 24 to 909 spaces, are located in nine cities from Gilroy to Milpitas to Palo Alto. Of these mobile home parks, 23 with 3,295 spaces are restricted to occupancy by seniors (generally, at least one occupant of the mobile home must be at least 55 years old). The City of Mountain View contains six mobile home parks with a total of 1,130 spaces.

It has been several decades since any new mobile home parks have been developed. Many mobile home parks that were originally developed in low-density areas or in more industrial areas are now surrounded by higher-density and residential uses, and the underlying lands have increased in value. This created increased pressure on two fronts:

1. **Redevelopment**. On the one hand, pressure increased to convert mobile home parks to other uses. In 1992, Mountain View adopted a special General Plan land use designation and zoning for mobile home parks, which was continued in the wholesale General Plan adoption in 2012. The City of Mountain View's Housing Element identified mobile homes as an important source of affordable housing for all income level households as a strategy to preserve affordable housing. San Jose is exploring a similar designation. Santa Clara, Sunnyvale, and San Mateo County

have special General Plan/zoning for mobile home parks. In addition, some cities adopted protective ordinances to provide greater protection for residents in mobile home parks. These ordinances typically include requirements for notifying the residents about hearings on proposed conversions and the preparation of relocation plans and proposed financial benefit packages for residents who would be displaced by conversion. Milpitas, Morgan Hill, Palo Alto, San Jose, and Sunnyvale also adopted conversion ordinances.

2. Rents. On the other hand, the increased value of land has also increased pressure on rent prices. The impact of rent increases are considerable, bearing in mind that mobile home residents often live on a fixed income, and each rent increase is money not being spent on mortgage or other living costs. In response, the cities of Gilroy, Los Gatos, Milpitas, Morgan Hill, and San Jose have adopted rent stabilization ordinances. This Study Session is held to explore a similar rent stabilization ordinance for mobile homes in Mountain View.

Rent Stabilization in Other Jurisdictions

The MRL does not provide for rent stabilization regulations, but leaves it up to local jurisdictions with some limitations, as discussed earlier. Over time, approximately 100 jurisdictions in California have adopted some type of rent stabilization of mobile home park spaces to help stabilize rent increases and, in doing so, preserve the affordable housing which parks provide. Most mobile home rent stabilization regulations in California apply to space rent. If a tenant were to rent a mobile home from either a private owner or a mobile home park owner, rental of the mobile home itself would not be regulated. Local rules usually apply to all mobile home spaces in a city or county with exceptions for mandatory exemptions under State law (e.g., spaces built after 1990 and spaces used for vacation homes are exempt). Typically, the rent stabilization ordinances tie annual allowable rent increases to the percentage increase in the Consumer Price Index (CPI). The MRL also does not regulate rent increases in case of an “in-place” sale of a mobile home. This allows mobile home park owners to reset the rent at market in case of an “in-place” sale/transfer (vacancy decontrol). Most local ordinances adopted some type of vacancy control and do not permit additional rent increases or alternatively limit rent increases to 10 percent or less when a mobile home is sold in place. Under all ordinances, park owners are entitled to petition for additional rent increases in order to obtain a fair return. Attachment 1 provides an overview of mobile home rent stabilized jurisdictions in the Bay Area and key policy components.

Table 1: Mobile Home Rent Stabilization Ordinances in Other Jurisdictions

City	County	Date	Parks	Spaces	Annual General Adjustment of Rent	Vacancy Control
Alameda (County)	Alameda	1990-09	22	712	4%	No
East Palo Alto	San Mateo	1983-11	2	146	100% CPI	No
Fremont	Alameda	1987-02	3	732	3% or \$10 or 60% CPI, 6% Cap	Yes CPI% change between transfers, 15% cap
Hayward	Alameda	1980-03	16	2,397	Lesser of 3% or 60% CPI, 6% Cap	Yes AGA
Los Gatos	Santa Clara	1980-10	2	138	100% CPI, 3% Min, 5% Cap	Yes \$25 or AGA
Milpitas	Santa Clara	1992-08	3	521	50% CPI, 5% Cap	Yes AGA
Morgan Hill	Santa Clara	1983-08	6	531	75% CPI, 8% Cap	Yes AGA
San Jose	Santa Clara	1985-07	58	10,667	75% CPI, Min 3%, 7% Cap	Yes 8%
Santa Cruz	Santa Cruz	1979-01	24	1,630	75% CPI, 8% Cap	Yes AGA

Rent Stabilization in Mountain View

Rent stabilization mechanisms are consistent with Council’s goals to: (a) encourage a variety of housing types, prices, and densities within the community; (b) respond to the need to preserve existing housing stock and assist in providing housing for low- and very low-income households; and (c) to examine and potentially develop separate rent

stabilization regulations for mobile home park residents. While no firm data is available, anecdotally, rent increases for mobile home spaces in Mountain View range from 3.6 percent to 12 percent annually. Equally, rent increases at the time of a mobile home sale or transfer “in-place” could range from 25 percent to 50 percent and up.

Table 2: Overview of Mobile Home Parks in Mountain View

Park Name	Number of Spaces	Number of Senior Households	Average Space Rent	Space Rent Transfer “In Place”	Homes for Rent by Park Owner
New Frontier	141	127	\$975	*	No
Sunset Estates	144	130	\$1,340 - \$1,627	*	No
Moffett	143	10	\$700 - \$1,450	*	No
Moorpark	138	45	\$600 - \$950	\$1,200	No
Santiago Villa	358	*	*	*	70 - 80
Sahara	206	*	*	*	60 - 70

* Information request sent to parks, but no data received.

A mobile home rent stabilization ordinance for the City of Mountain View will prevent excessive and unreasonable increases in mobile home park rents due to the shortage of available mobile home park spaces in the City and neighboring areas, vacancy control will enable mobile home owners to preserve their equity in their mobile homes, and rent stabilization will continue to permit mobile home park owners to receive a fair return and preserve affordable housing within the City. As noted earlier in this memo, all six mobile home parks in Mountain View began operating well before 1990 with the newest park beginning operation in 1982, and so it appears likely that most of the 1,130 spaces in Mountain View could be subject to rent regulation.

Policy Options for a Potential Ordinance

The following contains a discussion of potential policy options for a mobile home park rent stabilization ordinance. Where feasible, the items include policy options mirroring the CSFRA and streamlined for administrative purposes and/or reflect alignment with best practices policies in the State of California as well as options chosen by other jurisdictions. For certain items, it is recommended to wait until the March ballot to see if the CSFRA amendments pass, such as the Annual General Adjustment of rents, and the capital improvement pass-through process.

1. Regulation of Rents

a. Base Year

The base year is used as a benchmark for the income earned by park owners in case they would like to file a petition for upward adjustment of rent to guarantee a fair return. A fair return process compares earnings made by a park owner before local rent stabilization is adopted with earnings made while rent stabilization applies. Generally, the base year is set prior to the implementation of local regulation so that park owners' earnings reflect the market conditions prior to local rent stabilization. It is recommended to set 2019 as the year to use for the "base year."

b. Base Rent Date and Rent Roll-Back Provisions

Similar to the base year described above, the base rent date sets a benchmark for tenant rents. The base rent on the base rent date is used as the basis for calculating annual rent increases. Generally, the base rent date is during the base year and is often identified as a date when the likelihood of regulating mobile home space rents became apparent.

The base rent date can also be used to "roll back" rents if rent increases occurred after the base rent date based on the following theory: if a park owner increases rents based primarily on the likelihood of impending regulation limiting rent increases, those increases can also be subject to regulation even though they occurred before final adoption of the regulations.

The CSFRA established 2015 as base year (the year before the CSFRA became effective) and established the base rent date as October 19, 2015. Per the effective date of the CSFRA (December 23, 2016), all rents were "rolled back" to the rate effective on October 19, 2015.

It is recommended to use the date of September 1, 2019 as the base rent date and rent roll-back date, which coincides with public discussions regarding amendments of the CSFRA and also mirrors the start date each year that Annual General Adjustments of rent are allowed to be charged under the CSFRA. Similar to the CSFRA, on the effective date of the ordinance, only base rent rates are allowed to be charged.

Example: Assuming an ordinance is adopted on June 1, 2020, all space rents from June 1, 2020 forward must equal the amount charged on September 1, 2019 (base rent).

c. Annual General Adjustment of Rents

Typically rent stabilization ordinances tie annual allowable rent increases to the percentage increase in the CPI—All Items. Staff recommends aligning this percentage with the CSFRA. Currently, the CSFRA Annual General Adjustment (AGA) is based on the annual change in value of the CPI (with a minimum and maximum amount of 2 percent and 5 percent), but the ballot initiative, if passed, would change that to a flat 4 percent annual increase. For an overview of AGAs in other Bay Area mobile home rent-stabilized jurisdictions, see Attachment 1.

d. Vacancy Control/Decontrol During In-Place Sale of Mobile Home

The MRL does not regulate vacancy control/decontrol. Local rent stabilization ordinances balance the directly competing interest of mobile home owners who want to sell and park owners who want a higher rent in a variety of ways. The sales price of a mobile home is directly related to the space rent the park owner will charge the new owner. If rent is low, the mobile home will generally command a higher price. If rents are high or increase on turnover, the mobile home may not command as much value. As space rents increase, the mobile home will depreciate in value while the land value appreciates. The general industry rule of thumb is that for every \$10 per month space rent increase, \$1,000 in mobile home equity is lost. Cities can regulate the amount of rent increase (if any) when a mobile home owner sells the mobile home to another person who will live in the unit and rent the space from the existing park owner.

Some local jurisdictions prohibit park owners from increasing rents beyond annual increases (i.e., vacancy control). Other jurisdictions allow for larger rent increases during an “in-place” sale/transfer, ranging from increases of a set amount (\$25) to percentage increases ranging from 5 percent to 10 percent. Finally, some jurisdictions do not regulate rents during “in-place” transfers (i.e., vacancy decontrol). For an overview of Vacancy Control/Decontrol policies in other Bay Area mobile home rent-stabilized jurisdictions, see Attachment 1.

2. Processes for Upward or Downward Adjustment of Rent

Most ordinances in other rent-stabilized jurisdictions provide a basic structure for park owners to petition to increase rents in excess of the annual general adjustment in order to earn a fair return as well as a basic structure for residents to petition for rent reductions if there were overpayments or if services are reduced. Only a few jurisdictions provide for a separate capital improvement process to temporarily increase rents to reimburse for capital improvements for roads, sewer hookups, and electric/gas connections and potentially community facilities like a pool, gym, or clubhouse. In some instances, resident voting requirements are included in such capital improvement processes. It is recommended to wait until the March ballot to see if the CSFRA amendments pass. Similarly to the CSFRA, it is recommended to have the RHC develop regulations to facilitate prompt resolution of both types of petitions. For an overview of fair return/capital improvement policies in other Bay Area mobile home rent-stabilized jurisdictions, see Attachment 1.

3. Just Cause for Eviction Protections

As mentioned, the MRL regulates just cause for eviction protections in mobile home parks. These just causes are applicable to all mobile home parks in California and do not need to be replicated in a local ordinance. It limits park owners to seven specific reasons to terminate a tenancy. Similar to other just cause for eviction protection laws, mobile home residents may only be evicted for: (1) failure to comply with local or State law or ordinances; (2) annoying conduct to other homeowners or residents; (3) conviction for prostitution; (4) failure to comply with reasonable park rules and regulations; (5) nonpayment of rent, utilities, or other reasonable charges; (6) condemnation of the park; or (7) change of use of park or portion thereof. Staff recommends including the requirement of park owners to provide copies of termination notices to the City so staff can track termination data similar to terminations for rent-stabilized apartments under the CSFRA.

4. Administration

Similar to the CSFRA and as expressed by City Council in previous meetings, it is recommended to authorize the RHC with the administration and the implementation of the ordinance:

- a. Authorize the RHC to set an annual fee based on the costs of implementing a rent stabilization program;

- b. Authorize the RHC to implement a registry of mobile home spaces in mobile home parks;
- c. Authorize the RHC to determine a disclosure and notices policy, which requires park owners to disclose that the park is subject to local rent stabilization regulation to existing and potential residents; and
- d. Authorize the RHC to establish remedies and enforcement for compliance with the ordinance.

Question 1: Does the Council agree with the recommendations for policies to be included in a mobile home rent stabilization ordinance, including aligning with the CSFRA where feasible regarding:

- *Regulation of Base Rent, Base Rent Date, and AGA*
- *Notification to City of termination notices*
- *Authorization of the RHC with the Administration*

Question 2: Is the Council in favor of implementing Vacancy Control or Decontrol of rent upon sale/transfer of an "in-place" mobile home?

RECOMMENDATION

Staff recommends the City Council provide feedback and direction on the desired policies for a mobile home rent stabilization ordinance.

NEXT STEPS

Following feedback from the City Council at this Study Session, stakeholder meetings will be held. City Council consideration is expected in Q2 2020.

FISCAL IMPACT

It is estimated that the research and preparation for Regulation language will cost approximately \$125,000. Based on the Fiscal Year 2019-20 CSFRA budget, it is estimated that administrative program costs for six mobile home parks and 1,130 spaces will amount to \$180,000 to \$200,000 per year. Depending on the sections of an ordinance with regard to fee charges and financial structure, either fees or the general budget of the City will need to cover implementation and administration of an

ordinance. As recommended, this program is based on full cost recovery through the charge of annual fees.

PUBLIC NOTICING

The Council's agenda is advertised on Channel 26, and the agenda and this report appear on the City's website. All mobile home park owners and mobile home residents were notified of this meeting.

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Attachment: 1. Overview of Bay Area Jurisdictions with MHP Space Rent Stabilization Ordinances (SRSO)