



CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ben Rosenfield
Controller
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Deputy Controller

March 27, 2014

TO: The Honorable Board of Supervisors
FROM: Ted Egan, Chief Economist, Office of Economic Analysis
RE: Calculation of Rental Payment Differential

Note: This memo supersedes an earlier version that was distributed to members of the Land Use and Economic Development committee on March 24th, 2014. That version should be disregarded.

Supervisor Campos has introduced a proposed ordinance (Item #140096) that would increase the relocation payment which must be paid to tenants who are evicted under the Ellis Act. The ordinance sets the payment at the greater of the amount currently provided for, or “an amount equal to the difference between the unit’s rental rate at the time the landlord files the notice of intent to withdraw rental units with the Board, and the market rental rate for a comparable unit in San Francisco as determined by the Controller’s Office, multiplied to cover a two-year period, and divided equally by the number of tenants in the unit (the “Rental Payment Differential”).”

As the legislation delegates the determination of the market rental rate for a comparable unit to the Controller’s Office, and at the request of members of the Land Use and Economic Development committee, this document explains the approach the Controller’s Office would use to make this determination.

Approach

We interpret the “market rental rate for a comparable unit” to mean what the unit in question would have rented for had it not been subject to rent control. Under vacancy decontrol, owners of rent-controlled units may set rents to catch up with the market when a unit becomes vacant.

Our estimate of this market rent is based, first, on the assumption that the unit received the maximum increases allowable under the Rent Ordinance since the time it was last vacant. Its rent in that year, or “base rent”, can then be computed by multiplying its current rent by the appropriate Rent Control Deflator shown in Table 1. Starting with 2013 and working backwards in time, each year’s deflator in the table is calculated by dividing the previous deflator by one plus the allowable rent increase for that year.

Table 1: Rent Control Deflator, 1982-2013

Year	Allowable Rent Increase*	Rent Control Deflator
2013		1.0000
2012	1.7%	0.9834
2011	0.5%	0.9785
2010	0.1%	0.9775
2009	2.2%	0.9565
2008	2.0%	0.9377
2007	1.5%	0.9239
2006	1.7%	0.9084
2005	1.2%	0.8976
2004	0.6%	0.8923
2003	0.8%	0.8852
2002	2.7%	0.8619
2001	2.8%	0.8385
2000	2.9%	0.8148
1999	1.7%	0.8012
1998	2.2%	0.7840
1997	1.8%	0.7701
1996	1.0%	0.7625
1995	1.1%	0.7542
1994	1.3%	0.7445
1993	1.9%	0.7306
1992	1.6%	0.7191
1991	4.0%	0.6915
1990	4.0%	0.6649
1989	4.0%	0.6393
1988	4.0%	0.6147
1987	4.0%	0.5911
1986	4.0%	0.5683
1985	4.0%	0.5465
1984	4.0%	0.5254
1983	4.0%	0.5052
1982	7.0%	0.4722
1981	2.4%	0.4609
1980	2.4%	0.4499
1979	2.4%	0.4392

Source: San Francisco Rent Board. For years prior to 1982, allowable increases are not published. The figure used is an average of the increases from 1982 to 2013.

Secondly, the estimate assumes that, on average, without rent control the unit's rent would have increased at the average rental rate for vacant units in the city, since the time of its last vacancy. Its market rent can then be calculated by dividing the base rent by the appropriate Market Rate Inflator shown in Table 2. Starting with 2013 and working backwards in time, each year's inflator is calculated by dividing the previous inflator by one plus the average market rate increase for the previous year.

Table 2: Market Rent Inflator, 1982-2013

Year	Average Market Rent Increase*	Market Rent Inflator
2013		1.0000
2012	8.2%	0.9239
2011	11.1%	0.8317
2010	8.9%	0.7639
2009	-4.5%	0.7997
2008	-0.8%	0.8065
2007	10.2%	0.7318
2006	10.3%	0.6634
2005	9.1%	0.6079
2004	6.6%	0.5704
2003	6.6%	0.5353
2002	6.6%	0.5023
2001	6.6%	0.4713
2000	6.6%	0.4423
1999	6.6%	0.4150
1998	6.6%	0.3895
1997	6.6%	0.3655
1996	6.6%	0.3429
1995	6.6%	0.3218
1994	6.6%	0.3020
1993	6.6%	0.2834
1992	6.6%	0.2659
1991	6.6%	0.2495
1990	6.6%	0.2341
1989	6.6%	0.2197
1988	6.6%	0.2062
1987	6.6%	0.1935
1986	6.6%	0.1816
1985	6.6%	0.1704
1984	6.6%	0.1599
1983	6.6%	0.1500
1982	6.6%	0.1408
1981	6.6%	0.1321
1980	6.6%	0.1240
1979	6.6%	0.1163

Source: San Francisco Rent Board. Data was available for 2004-2013. For earlier years, the figure used is an average of the increases from 2005 to 2013.

The data on average market rents comes from RealFacts, a real estate information. Each quarter, RealFacts surveys vacant rents at over 50 multi-family residential properties in the city.

Calculating the Rental Payment Differential

To simplify calculation of the Rental Payment Differential, the Controller's Office would in practice consolidate the Rent Control Deflator and Market Rent Inflater into a single Index, as shown in Table 3. The index for a given year equals the Rent Control Deflator, divided by the Market Rate Inflater, minus 1. Multiplying the current rent by the appropriate Index will yield the Rental Payment Differential.

Table 3: Rental Payment Differential Index

Year	Index
2013	-
2012	0.0644
2011	0.1765
2010	0.2796
2009	0.1960
2008	0.1627
2007	0.2625
2006	0.3694
2005	0.4767
2004	0.5643
2003	0.6538
2002	0.7161
2001	0.7789
2000	0.8423
1999	0.9305
1998	1.0130
1997	1.1072
1996	1.2234
1995	1.3436
1994	1.4654
1993	1.5783
1992	1.7044
1991	1.7711
1990	1.8395
1989	1.9096
1988	1.9814
1987	2.0549
1986	2.1303
1985	2.2076
1984	2.2867
1983	2.3678
1982	2.3542
1981	2.4892
1980	2.6296
1979	2.7757

Each year, per the legislation, the Controller's Office would recalculate the Index using the most recent allowable rent increase and average market rent increase.

As an additional consideration, if a landlord raised the rent by less than the allowable rate in any year during the tenancy, the Rent Control Deflator will underestimate the base rent. Since the Rental Payment Differential is proportional to the base rent, the relocation would be lower than it would be had maximum allowable increases been imposed during the tenancy.

Examples

To illustrate how the Index would work in practice, three examples provided by Supervisor Campos's office are discussed in this section. In each example, Rental Payment Differentials and relocation payments are rounded to the nearest dollar.

1. A studio in the Mission, last vacant in 1989, currently rented at \$549.76.

Based on Table 1, the Rent Control Deflator for 1989 is 0.63929, indicating that the base rent is $\$549.76 \times 0.63929$ or \$351.46. The Market Rent Inflater for 1989, from Table 2, is 0.21972. The estimate for the market rent is therefore $\$351.46 / 0.21972$ or \$1,600.

The Rental Payment Differential is the difference between the estimated market rent, \$1,599.58, and the actual rent, \$549.76, or \$1,050. The required relocation payment is $24 \times \$1,050$ or \$25,200.

In practice, the Rental Payment Differential would be calculated simply by multiplying the current rent by the Index for 1989, or 1.9096, from Table 3:

$\$549.76 \times 1.9096 = \$1,050$: Rental Payment Differential

In order to assess the validity of this method, the market rent estimation here, \$1,600, was compared to current rentals for studios in the Mission listed on Craigslist from March 22-24. Nine such studios were found, with asking rents ranging from \$1,550 to \$2,495 per month. Seven studios were listed at a rent above the rent estimated here, while two were listed below, so this method provides a rent estimate within the range currently seen in the market.

2. A two-bedroom apartment in the Inner Sunset, last vacant in 1995, currently rented at \$1,460.

The rent control deflator for 1995 is 0.7542, so the base rent is $\$1,460 \times 0.7542$ or \$1,101.13. The market rent inflater for 1995 is 0.3218, so the market rent estimate is $\$1,101.13 / 0.3218$ or \$3,422.

The rental payment differential is therefore \$1,962 ($\$3,422 - \$1,460$), and the relocation payment is \$47,088.

In practice, the same rental payment differential would be calculated by simply multiplying the current rent by the Index for 1995, 1.3436:

$\$1,460 \times 1.3436 = \$1,962$

Twenty two-bedroom apartments in the Inner Sunset were listed for rent on Craigslist from March 22-24, with rents ranging from \$2,550 to \$3,995. Five asking rents were above the estimate produced using this method, while fifteen were below, indicating that the method again produces estimates well within the range currently seen in the market.

3. A two-bedroom apartment in the Mission, last vacant in 1987, currently rented at \$909.

The rent control deflator for 1987 is 0.5911, so the base rent is $\$909 \times 0.5911$ or \$537.31. The market rent inflator for 1987 is 0.1935, so the market rent estimate is $\$537.31 / 0.1935$ or \$2,777.

The rental payment differential is therefore \$1,868 ($\$2,777 - \909), and the relocation payment is \$44,832.

Again, the rental payment differential would be calculated in practice by multiplying the current rent by the Index for 1987, 2.0549:

$$\$909 \times 2.0549 = \$1,868.$$

From March 22-24, there were twenty-five two bedroom units in the Mission listed on Craigslist, with asking rents ranging from \$2,700 to \$8,500 per month. Twenty-two units had asking rents higher than the estimate produced with this method, while three units had asking rents below. Again, the method estimated market rents which are within the range observed in the market.