

**January 31, 2006****SUBJECT:** VACANCY AND RENT SURVEY REPORT**REPORT IN BRIEF**

The purpose of this report is to provide the City Council with the results of a Vacancy and Rent Survey completed during the month of December 2005. Vacancy and rent surveys are conducted twice annually, in June and December. Rental increases or decreases are calculated in January, based upon the last 12 months of survey data.

Information collected by this survey indicates a vacancy rate of 2.99% for apartment complexes in Sunnyvale. The two prior semi-annual surveys indicated a vacancy rate of 5.75% in December 2004 and 4.77% in June 2005. This is the first time the vacancy rate has dropped to 3% since June, 2001. Municipal Code Section 19.70 states that no permit to convert apartments to condominiums may be approved until the vacancy rate exceeds 3% or more for one full year.

Sunnyvale Municipal Code, Chapter 19.66, amended on February 4, 2003 by City Council, requires that rent information collected from this survey be used to determine whether rent increases will be allowed in March of each year for Below Market Rate (BMR) rental units. Average annual rents increased on all unit sizes (studio to 3 bedrooms) from December 2004 to December 2005 by 9.25%. Since the percentage increase of average rents exceeds 5%, a rental increase of the maximum allowable increase of 5% will be permitted. Initial base rents for new rental complexes are currently calculated at 80% of median rents, since this results in the lowest rental rate; therefore, the new BMR rents for studio to three bedroom units would be \$644, \$800, \$1,073 and \$1,374, respectively.

**BACKGROUND**

At various times apartment owners have applied to the City for conversion of apartment complexes to condominium status. The Sunnyvale Municipal Code restricts apartment conversions to condominium status until there is a vacancy rate surplus for one full year prior to a conversion application.

In order to determine if an apartment vacancy surplus exists, Section 19.70.030 of the Municipal Code requires the Director of Community Development to determine twice each year, on the basis of a representative sampling of apartment buildings, the vacancy rate for apartments within the City. A vacancy surplus is defined as any number of apartments offered for rent or lease in excess of a three percent apartment vacancy rate. The intent of this ordinance is to prevent the conversion

of apartment complexes to condominiums at times of low vacancy when affordable rental housing is in short supply.

When the vacancy rate allowing conversion is attained, the City requires a project to receive approval of a Use Permit or Special Development Permit, as well as a Tentative Map. The zoning code allows applications for conversions to be submitted semi-annually in the months of May and November. If the number of applications received exceeds the number of units allowed by the vacancy rate, then projects are evaluated based on criteria in Section 19.70.060 of the Municipal Code.

On February 4, 2003, City Council adopted Ordinance No. 2717-03 amending Chapter 19.66 of the Sunnyvale Municipal Code to require that the semi-annual Vacancy and Rent Survey be used to determine whether rent increases will be allowed for apartments in the BMR Rental Program. The amended chapter requires that increases in rental prices “shall be either an increase of five percent or the increased percentage of average annual rent based on the Sunnyvale vacancy and rent survey, whichever is less.”

### **EXISTING POLICY**

#### **Housing and Community Revitalization Sub-Element - January 2002**

Policy D.4 Provide a mixture of owner and rental housing opportunities by allowing conversion from apartments to condominiums or cooperatives when a benefit to the over-all city housing situation can be shown and when the citywide vacancy rate for rental units warrants.

Policy D.4.a Continue the Condominium Conversion regulation that provides a system for evaluating condominium and cooperative conversion proposals.

The regulations require the City to conduct a survey of apartments every six months to determine the vacancy rate. Conversion to condominiums are permitted only if a vacancy surplus exists (defined as a vacancy rate exceeding 3 percent). The ordinance also provides protection for tenants of converted projects, including ownership opportunities and provisions for BMR units.

Goal E Maintain and increase housing units affordable to households of all income levels and ages.

Policy E.1 Continue to require a mix in the price of housing units in new subdivisions and apartment complexes as a way of distributing low and moderate cost housing throughout the city.

Policy E.1.a Continue the Affordable Housing requirement in the zoning code.

**DISCUSSION**

In December, 2005, Realfacts conducted the semi-annual vacancy and rent survey for the City. In accordance with its contract, Realfacts surveyed approximately 15,000 rental units which are representative of all rental units in Sunnyvale.

The survey results show that out of a total of 103 complexes with 14,854 units, 445 units were vacant. This equals a vacancy rate of 2.99%, a substantial decrease from the 4.77% vacancy rate in June 2005. Because the vacancy rate does not exceed 3.00%, apartment complexes may no longer be converted to condominiums.

The survey also collected rental rate information which is summarized below:

**December 2005 Rent Survey Results**

	<b>Low</b>	<b>High</b>	<b>Average Rent</b>	<b>Median Rent</b>	<b>% Annual Increase in Average Rent</b>
Studio	\$ 500	\$ 1,125	\$ 829	\$ 805	9.0%
1 Bdrm	\$ 749	\$ 1,840	\$ 1,050	\$ 1,000	9.2%
2 Bdrm	\$ 950	\$ 2,485	\$ 1,359	\$ 1,341	9.3%
3 Bdrm	\$ 1,200	\$ 3,010	\$ 1,822	\$ 1,717	9.5%

The overall average annual rent increase between December 2004 and December 2005 is 9.25%. Chapter 19.66 of the Sunnyvale Municipal Code, as amended on February 4, 2003, provides that the permitted maximum rents for BMR units may be increased by the average annual increase in market rents, or by 5%, whichever is lower. Therefore, a 5% increase in rents will be permitted for all BMR rental units beginning in March, 2006.

The original BMR rental program calculated the maximum permitted rents using a formula of one-twelfth of 25% of 80% of area median income. Beginning in 2001, when market rents declined dramatically but median income continued to increase, this formula resulted in BMR rents which actually exceeded market rents. Therefore, on September 30, 2003, City Council approved a rental formula to insure that BMR rents would not exceed 80% of median market rents. This revision, however, could not apply to existing rental complexes which have BMR agreements with the City. When the 5% increase is applied to the BMR rental rates for these pre-existing complexes, the permitted maximum BMR rents become \$1057, \$1209, \$1360 and \$1631, for studios, 1, 2, and 3 bedroom units, respectively. With the exception of the three-bedroom unit, these permitted maximum rents continue to be above market rate.

Council adopted recommended guidelines on September 30, 2003, establishing a new methodology for calculating initial base rents for BMR units. Two alternate rent calculation formulas are utilized, with the one resulting in lower rents used to establish initial base rents. The first formula utilizes 30% of income of

households earning 65% of area median income. The second formula utilizes the survey of market rents, establishing BMR rent at 80% of median market rent. Applying these two formulas to conditions in December 2005 results in a BMR rent for a two-bedroom unit of \$1544 per month and \$1073 per month, respectively. Therefore, the second formula, based upon median market rent, is utilized, resulting in initial BMR base rents for new apartment complexes of \$644, \$800, \$1073, and \$1374, for studios, 1, 2, and 3 bedroom units, respectively.

### **FISCAL IMPACT**

No fiscal impact to the General Fund will result from the information provided.

### **CONCLUSION**

The Vacancy and Rent Survey was completed as required. From July through December 2005 a decrease in the vacancy rate to 2.99% occurred. Apartment conversions to condominium status will be restricted until the vacancy rate exceeds 3% for one full year. The overall average rental rate increase is 9.25%; therefore, a 5% increase will be permitted in BMR rents in March 2006.

### **PUBLIC CONTACT**

Public contact was made through posting of the Council agenda on the City's official notice bulletin board, posting of the agenda and report on the City web page, and the availability of the report in the Library and the City Clerk's Office.

### **RECOMMENDATION**

No Action Required.

Reviewed by:

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Approved by:

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Approved by:

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**Attachments**

- A. Vacancy Rate Graph 12/00-12/05
- B. Average Rent Graph 12/00-12/05
- C. Median Rent Graph 12/00-12/05