



January 30, 2007

SUBJECT: INFORMATIONAL REPORT – VACANCY AND RENT SURVEY

The purpose of this report is to provide City Council with the results of the Vacancy and Rent Survey completed during the month of December 2006. The City conducts a vacancy and rent survey of rental properties in Sunnyvale twice annually, in June and December and reports the findings in July and January.

In December 2006, 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 107 complexes with 14,486 units, 343 units were vacant. This equals a vacancy rate of 2.37%, which is lower than both the January and July 2006 vacancy rates, which were 2.99%.

Amendments to Chapter 19.66 of the Sunnyvale Municipal Code require that the semi-annual Vacancy and Rent Survey be used: (1) to establish the rental rate for new Below Market Rate (BMR) rental units, (2) to adjust rental rates on existing BMR rental units, (3) as a factor in determining whether or not some rental properties may be converted to condominium ownership and (4) as provided by City ordinance, to determine if an increase in the number of required BMR rental units is warranted.

Purpose 1 - To establish the rental rate for new BMR rental units.**RENT SURVEY RESULTS**

	Low	High	Average Rent	Median Rent	Calculation of Initial BMR Rent
Studio	\$ 500	\$ 1,325	\$ 958	\$ 908	\$ 726
1 Bdrm	\$ 750	\$ 2,255	\$ 1,204	\$ 1,200	\$ 960
2 Bdrm	\$ 975	\$ 2,805	\$ 1,509	\$ 1,500	\$1,200
3 Bdrm	\$ 1,295	\$ 3,380	\$ 1,969	\$ 1,800	\$1,440

The BMR Housing Program – Administrative Procedures for Renters includes two formulas to establish initial base rents in the BMR rental units, with the lower rent calculated to be used as the initial base rent. The first formula utilizes 30% of income of households earning 65% of HUD Area Median Income

(AMI), which would result in rents for a two-bedroom unit at \$1,714 per month. The second formula utilizes this survey’s results for current market median rents, with initial rents set at 80% of median rent. This formula would establish initial rents at \$1,200 for a two-bedroom unit, which is used as the initial base rent because it is the lower of the two rent calculations. This results in a new higher rental rate for new apartment complexes of \$726, \$960, \$1,200, and \$1,440, for studios, 1, 2, and 3 bedroom units, respectively.

Purpose 2 - To adjust rental rates on existing BMR rental units.

ANNUAL RENTAL INCREASE

	January 2006	January 2007	% Rent Increase January 2006 – January 2007
Studio	\$ 829	\$ 958	15.56%
1 Bdrm	\$ 1,050	\$ 1,204	14.67%
2 Bdrm	\$ 1,359	\$ 1,509	11.04%
3 Bdrm	\$ 1,822	\$ 1,969	8.07%

The original BMR rental program allowed annual increases in existing BMR rents up to a maximum 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 establishing that rental increases for existing BMR units could be increased by a maximum of 5% or the actual increased percentage of average annual rent, based on the Sunnyvale Vacancy and Rent Survey, whichever is less.

Average annual rents increased on all unit sizes (studio to 3 bedrooms) from January 2006 to January 2007 by 12.33%. Since the percentage increase of average rents exceeds 5%, a rental increase of the maximum allowable increase of 5% will be permitted for all existing BMR rental units beginning in March, 2007.

Purpose 3 - To determine whether or not rental properties may be converted to condominium ownership.

On May 9, 2006, the City Council amended Municipal Code Section 19.70 to eliminate the restriction on conversion of apartment units to condominiums when the vacancy rate was 3% or less. In lieu of this restriction, a 175-unit limit was placed on conversions in any given 12-month period; conversion in excess of 175-units could be approved upon a finding that “the conversion will not adversely impact the community’s ability to provide housing for all economic segments of the community,” noting that the City “will consider the annual vacancy rate in making the Finding.” Therefore, the third purpose for

the vacancy and rent survey remains, even though the vacancy data is used in a different manner in processing condominium conversion applications. From the period of January 15, 2006 through January 15, 2007, 11 units have been approved for conversion to condominiums.

Purpose 4 – As provided by City Ordinance, to determine if an increase in the number of required BMR rental units is warranted.

Chapter 19.66 of the Sunnyvale Municipal Code requires that 10% of the total number of dwellings units in a rental complex shall be maintained as affordable. However, it provides that when vacancy rates reach levels of 3% or less and rents show a net increase of 20% or more during a 24-month period, based on the Sunnyvale Vacancy and Rent Survey, new rental developments will be required to maintain 15% of the total number of dwelling units as affordable.

24-MONTH RENT INCREASE

	January 2005	January 2007	% Rent Increase January 2005 – January 2007
Studio	\$ 755	\$ 958	26.89%
1 Bdrm	\$ 968	\$ 1,204	24.38%
2 Bdrm	\$ 1,261	\$ 1,509	19.67%
3 Bdrm	\$ 1,723	\$ 1,969	14.28%

The current vacancy rate is 2.37%, and the 24-month average rent from January 2005 to January 2007 has increased 21.31%. Therefore, developers will now be required to dedicate 15% of the total number of rental dwelling units to be maintained as affordable. The increase will take effect on March 1, 2007. Any complete applications received prior to this date will be subject to the 10% affordability requirement. The grace period for implementation provides an opportunity to work with the development community to incorporate changes that are a result of the increased affordability requirement. Council’s foresight and concern for its low-income residents and private developers incorporated this economic trigger in the regulations just prior to a shift in development activity.

This report was made public 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.

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Attachments

- A. Vacancy Rate Graph 1/02 – 12/06
- B. Average Rent Graph 1/02 – 12/06
- C. Median Rent Graph 1/02 – 12/06
- D. Sunnyvale Municipal Code - Chapter 19.66 – Affordable Housing and Single Room Occupancies