

Upcoming Rent Control Mitigation Measures

by Joseph W. DeCarlo, MBA, CPM, CCIM, CRE

Proposition 10 (Rent Control) to repeal the 1995 Costa Hawkins Act, a law that restricts rent control ordinances in cities in California was defeated in the November 2018 election. Municipalities can still enact moratoriums and rent control. The County of Los Angeles just instituted a rental cap until the end of 2019 which will probably be extended again and again. The City of Long Beach has rent control on their ballot in the next election.

If rent control comes to Orange County, the first two cities likely to be affected will be Santa Ana and Anaheim. Remembering that most landlords do not live in the same cities as their owned property and cannot vote, while the more numerous tenants can.

HOW CAN WE MITIGATE OR LESSEN THE EFFECTS OF RENT CONTROL?

Normally, under rent control, the rent is capped around 3% however this depends on the City and CPI increases. Operating expenses like water, gas, electric, sewer and trash fees increase and are not capped or restricted. In many years, expenses will increase more than the artificial rent control cap, while owner NOI and cash flow will decline. In the larger and newer apartment complexes there are separate meters and sub meters which are billed back with trash and other items monthly. Many of the larger apartment complexes use outside billing companies to bill the tenants on a monthly basis. The billing companies usually require 100 or more units per complex to make it economical to service the property and usually will not handle smaller properties.

HOW ABOUT SMALLER PROPERTIES SUCH AS 4-PLEXES, 10 UNITS, 20-30 UNIT APARTMENTS?

Most owners do not use RUBS (Ratio Utility Billing System) to bill back utilities to the tenants. In Los Angeles, you can't institute RUBS unless it was in effect before rent control was enacted. I presume it will be the same for Orange County. If RUBS is in place before rent control, you can continue to use it. We try to promote the environmental benefits of using less utilities that will result in lower usage in selling RUBS to tenants. Cost of installing sub meters is not feasible and will take decades to see a return on investment. Also, cities may not allow the project to be implemented.

WHY DON'T SMALLER PROPERTY OWNERS USE RUBS?

1. It's difficult to find a billing company that will handle less than a 100 unit property.
2. Property Managers and onsite managers are not receptive as it is hard to explain to existing and new tenants and onsite managers need to be trained.
3. Usually we institute RUBS in lieu of a rent increase and some owners want the higher rent today
4. Some owners and property management companies are afraid of change and the added work
5. Small property owners need to find a property management firm that will do the RUBS billing

HOW RUBS WORKS

Each tenant gets a monthly rental bill with the base rent and RUBS charges in an itemized list. We will provide the tenants the actual utility bills if they question the amount, as we do not mark up any of these bills. A 2 bedroom pays a higher percentage than a 1 bedroom apartment since they generate more utilities.

Sample RUBS Bill

John Jones
100 Rose Lane, Apt. 10
Anaheim, CA 90000

July 2019

Base Rent	\$1,500
Gas	\$5.00
Trash	\$15.00
Sewer	\$10.00
Water	\$30.00
Electricity	\$10.00
Admin. Fee	\$4.00
TOTAL	\$74.00
Total Payment due this month	\$1,574.00

ADDITIONAL RUBS FACTORS

Looking at the real estate tax bill, you may want to use Sewer & Water Bonds, City Services (Paramedics) etc., as part of the calculations for the RUBS charges. As these costs increase, the tenants will pay the increases vs. a rent control cap. This is similar to a commercial property net lease, except for maintenance costs. In California, Civil Code 1941.1 states "Landlord must provide a habitable unit" (no roof leaks, working plumbing & electrical, etc.). We, as the property management firm, do all of the billing and collection and charge the tenants a \$4.00 p/month fee and there is no cost to the apartment owner for RUBS.

By using RUBS, which usually returns over 5% per/mo. of your gross income, you can more than likely expect to cover your property management cost for the month. That means free management for your apartment.

In summary, rent control is coming and property owners should now do everything possible to have secure future income practices in place that a rent control cap allows. Using RUBS, allows the owner to pass higher utility and other costs, dollar for dollar, to the tenant. RUBS is environmentally friendly as tenants will use less utilities knowing they will pay more if they are wasteful.

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