

City of Alexandria, Virginia

MEMORANDUM

DATE: MAY 17, 2006

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER 

SUBJECT: CONSIDERATION OF RESOLUTION FROM THE LANDLORD-TENANT RELATIONS BOARD REGARDING THE VOLUNTARY RENT GUIDELINES

ISSUE: City Council consideration of the Resolution from the Landlord-Tenant Relations Board regarding the Voluntary Rent Guidelines.

RECOMMENDATION: That City Council approve the attached Resolution (Attachment) to increase the City's Voluntary Rent Guidelines from 5% to 6% in cases where the tenant pays utilities and from 7% to 9.5% in cases where the owner pays utilities, as recommended by the Landlord-Tenant Relations Board.

BACKGROUND: Since 1950, the Code of Virginia has prohibited localities from enacting rent control. However, for over 20 years, the City has encouraged landlords to limit rent increases in accordance with the City's Voluntary Rent Guidelines. The City's Voluntary Rent Guidelines are suggested maximum rent increases for existing tenants, but they provide no authority to the City to enforce the guidelines against landlords who fail to comply with them. As long as Virginia law remains unchanged with regard to rent control, the City's rent guidelines will remain voluntary, and the City will be unable to mandate that rent increases be held to any recommended percentage. An act of the General Assembly would be required to allow the City to control rent increases.

The Landlord-Tenant Relations Board reviews the City's Voluntary Rent Guidelines every six months, and makes annual recommendations to City Council regarding the adequacy of the Voluntary Rent Guidelines. The current guidelines are 5% if the tenant pays utilities, and 7% if the landlord pays utilities. The guidelines for properties with rents including utilities were increased from 7.5 to 9% in 2001 to encourage compliance during a very strong rental market. By 2003, market conditions and increased vacancy prompted a reduction in the guidelines to 7% for properties with rents including utilities. The guidelines have remained at 5% for properties with tenant paid utilities since 1999 when they were increased from 4.5%.

However, stronger rental market conditions have developed and vacancies are again falling in rental properties, in part due to conversion of over 2600 rental apartments in the City to condominiums since October 2004. At its April 5, 2006, the Landlord-Tenant Relations Board recommended that the guidelines be increased to recognize these market conditions.

In preparing its recommendations, the Board considers rent data, market forecasts and vacancy surveys by Delta Associates, a national real estate consulting firm. The Board also considers market rent and vacancy data prepared by the Office of Housing in its annual apartment survey, as well as data compiled by Real Estate Assessments. In reviewing these data, the Landlord-Tenant Relations Board attempts to set the guidelines at a level that will account for inflation and property owners' increases in cost, without unduly burdening tenants.

DISCUSSION: Based on complaint information, staff estimated that prior to 2000, approximately 1% of the City's landlords with properties of 10 or more units had failed to comply with the Voluntary Rent Guidelines. However, noncompliance increased significantly around 2000, when the vacancy rate for rental properties in the City dropped below 1%. In 2001, the Landlord-Tenant Relations Board recommended increasing the guidelines from 7% to 9% for properties with utilities included in rent, in order to encourage greater compliance. Current data show that, once again, stronger rental market conditions have developed and vacancy rates are again falling in rental properties, as discussed below. In addition, landlords have been forced to absorb significant increases in utilities as well as many other costs which increased rapidly because of increases in the price of oil and gasoline. Taxes have also increased substantially, driven by the market value of property in Alexandria. The Landlord-Tenant Relations Board has noted that the guidelines must be reasonable and consistent with market conditions, or landlords are unlikely to comply.

Vacancy rates are declining both in the region and in Alexandria. During the first quarter of 2006, Delta Associates reported that the Washington D.C. region's stabilized vacancy rate for apartments declined to 2.3%, which is less than one-half of the national vacancy rate. Delta's reported year-end vacancy rates for 2005 in Alexandria submarkets were 1.8% in Old Town, 1.4% in Arlandria, and 2.4% in West Alexandria. The Office of Housing's January 2006 survey of all market-rate multifamily apartment complexes with ten or more units also indicates a declining apartment vacancy rate, decreasing from 5.2% City-wide in January 2004 to 3.8% in January 2006. Delta Associates noted that during the last year, net absorption for rental apartments has been consistently running 1,000 or more units higher than deliveries, indicating a continuation of declining vacancy.

The data also show that rents are increasing regionally and in Alexandria. Delta Associates reported that rents increased 6.8% in 2005 for all apartments in the D.C. Region. Delta Associates' market analysis for the first quarter of 2006 also noted that concessions (rent specials) have decreased significantly, with only about half the level of rent concessions offered at the same time last year. Delta year-end 2005 data for Alexandria submarkets indicated substantial rent increases for garden apartments from year-end 2004. Rents increased 13.5% in the Old Town submarket, 11% in the Arlandria submarket, and 7.4% in West Alexandria. According to the Office of Housing's annual apartment survey data, market rents in the City increased 21.7% from January 2001 through January 2006, and 5.2% from January 2003 through January 2006. From 2005 to 2006, City-wide rents increased only slightly (less than 1%) from January 2005, but many of the higher rent units which would have increased the average rent were converted to condominiums in 2005. Rents for all of the properties converted in 2005 were above the City's average rents and above the rents affordable to households at 60% of area median income.

At its April 5, 2006 meeting, the Landlord-Tenant Relations Board voted unanimously to increase the guidelines from 5% to 6% for properties with tenant paid utilities, and from 7% to 9.5% for properties with utilities included in rents. These guidelines will remain voluntary, as under Virginia law the City cannot mandate that rent increases be held to any recommended percentage.

FISCAL IMPACT: None.

ATTACHMENT: 2006 Voluntary Rent Guidelines Resolution

STAFF:

Melodie Baron, Division Chief, Office of Housing

Mildrilyn Stephens Davis, Director, Office of Housing

2006 VOLUNTARY RENT GUIDELINES RESOLUTION
CITY OF ALEXANDRIA, VIRGINIA
RESOLUTION NO. _____

WHEREAS, more than half of the dwelling units in the City of Alexandria are renter-occupied; and

WHEREAS, the Alexandria City Council has continually expressed its concern for the well-being of the City's tenants and landlords through proposed charter changes, legislation, and establishment of the Landlord-Tenant Relations Board; and

WHEREAS, the Alexandria Landlord-Tenant Relations Board has previously expressed its concern to the City Council regarding excessive rent increases;

NOW, THEREFORE, BE IT RESOLVED that the Council of the City of Alexandria, Virginia calls upon the Alexandria Landlord-Tenant Relations Board to monitor and investigate complaints of rent increases in excess of the following guidelines and to conduct a review of the guidelines every six months and forward recommendations to Council at a minimum of every 12 months:

-- If the tenants pay all utilities, not more than six percent cumulatively per year;

-- If all utilities are included in the rental amount, not more than nine and one half percent cumulatively per year;

PROVIDED, however, that Board investigators will recognize and take into account any unusual costs, capital improvements and major repairs to the property (which should be substantiated by the owner), and extraordinary increases (more than 50%) in assessments;

PROVIDED, further, that the landlord may apportion increased real estate taxes in an equitable manner;

PROVIDED, further, that when a landlord converts utilities to a sub-metered or individually metered system, the amounts of monthly rents, plus annualized utility costs, shall remain within these guidelines.

BE IT FURTHER RESOLVED that the Landlord-Tenant Relations Board will report to City Council on the adequacy of the above guidelines in 2006.

IN WITNESS WHEREOF, I have hereunto set my hand and caused the Seal of the City of Alexandria to be affixed this 23rd day of May, 2006.

ADOPTED:

WILLIAM D. EUILLE, MAYOR
On behalf of the City Council
of Alexandria, Virginia

ATTEST:

Jacqueline Henderson, City Clerk

RESOLUTION NO. 2186

WHEREAS, more than half of the dwelling units in the City of Alexandria are renter-occupied; and

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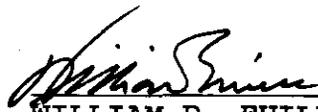
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BE IT FURTHER RESOLVED that the Landlord-Tenant Relations Board will report to City Council on the adequacy of the above guidelines in 2006.

ADOPTED: May 23, 2006



WILLIAM D. EULLE

MAYOR

ATTEST:



Jacqueline M. Henderson, CMC City Clerk