EXHIBIT NO. 1

35
6-12-07

City of Alexandria, Virginia

MEMORANDUM

DATE: MAY 30, 2007

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

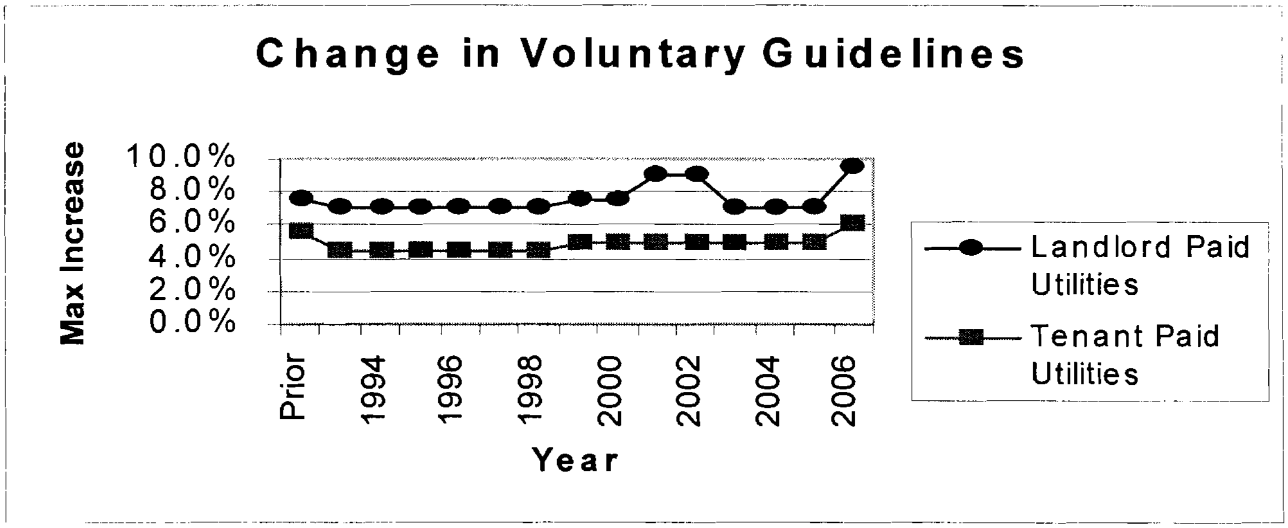
ISSUE: City Council consideration of the Resolution from the Landlord-Tenant Relations Board regarding the Voluntary Rent Guidelines.

RECOMMENDATION: That City Council approve the attached Resolution (Attachment I) to decrease the City's Voluntary Rent Guidelines from 6% to 5.5% where the tenant pays utilities and from 9.5% to 7.5% 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. Under current Virginia law, the City's rent guidelines must remain voluntary, as the City has no authority to mandate 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. 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: The current guidelines are 6% if the tenant pays utilities, and 9.5% if the landlord pays utilities. As noted in the graph below, the guidelines for properties with rents including utilities were increased substantially from 7.5 to 9% in 2001. This was done to encourage compliance during a very strong rental market, and because of increases in utility costs. By 2003, market conditions and increased vacancy prompted a reduction in the guidelines to 7% for properties with rents including utilities, but the percentage was increased again in 2006 to 9.5% due to competitive rental market conditions. The guidelines remained at 5% for properties with tenant paid utilities from 1999 when they were increased from 4.5%, until 2006, when they were again increased to 6% to respond to stronger market rental conditions due to low vacancy and the conversion of over 2600 rental apartments in the City to condominiums from 2004 through 2006.



However, despite low vacancy and a continued strong job market in the region, significant numbers of condominium units added to the market through conversions and new construction created a sub-market of condominiums rented by private investors. Some developers have continued to rent converted units due to decreased condominium sales. Delta Associates reported that in the first quarter of 2007, the condo pipeline in the Washington, D.C. metropolitan area has declined by over 20% since its peak in March 2006, and prices of new condos were down 0.7% for the year. Prices are down 2.6% when concessions are taken into account (i.e. first two months rent free for leases signed before a certain date).

Based on complaint information, staff estimated that prior to 2000, very few 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%, and again in 2005 when a significant number of rental units were converted to condominiums. Current compliance is substantial, and staff estimate that nearly all landlords in the City are in compliance with current guidelines. Based on complaint data, staff also estimate that reducing the guidelines will not reduce compliance, as rent increases for current residents have remained consistently below the recommended percentages. Current data show that, although less competitive, rental market conditions remain strong and vacancy is below the national rate of 5.9%, as discussed below. However, 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 remains low in Alexandria and regionally in the Washington D.C. area rental market. Because of Alexandria's proximity to major employment centers, vacancy remains low, at an estimated 2.9% based on the Office of Housing's January 2007 survey of rental apartments with ten or more units. Delta Associates reported that the 2006 year-end stabilized vacancy rate for the Washington D.C. area rental market for class A and B apartments was 2.9%. Delta Associates reported that vacancy increased to 3.4% during the first quarter of 2007.

The data also show that rents continue to increase steadily regionally and in Alexandria, but are not increasing at rates seen in prior years in extremely competitive rental markets. Delta reports that regional average rents increased 5.2% at the end of the first quarter of 2007 compared to the same time period last year. According to the Office of Housing's annual apartment survey data, market rents in the City increased 5.4% from 2006 to 2007. Since 2000 Citywide rents increased 39.5%, an average of 5.6% per year. The highest annual increase during this period occurred between 2001 and 2002, when rents increased 13.3%.

At its April 4, 2007 meeting, the Landlord-Tenant Relations Board voted unanimously to decrease the guidelines from 6% to 5.5% for properties with tenant paid utilities, and from 9.5% to 7.5% for properties with utilities included in rents.

FISCAL IMPACT: None.

ATTACHMENT: 2007 Voluntary Rent Guidelines Resolution

STAFF:
Melodie Baron, Division Chief, Office of Housing
Mildrilyn Stephens Davis, Director, Office of Housing

ATTACHMENT

2007 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 five and one half percent cumulatively per year;

-- If all utilities are included in the rental amount, not more than seven 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 2008.

IN WITNESS WHEREOF, I have hereunto set my hand and caused the Seal of the City of Alexandria to be affixed this 12th day of June, 2007.

ADOPTED:

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

ATTEST:

Jacqueline Henderson, City Clerk

RESOLUTION NO. 2236

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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 2008.

ADOPTED: June 12, 2007

WILLIAM D. EUILLE **MAYOR**

ATTEST:

Jacqueline M. Henderson, CMC City Clerk