

## **Questions Posed by the FORA Board**

### **1. Market Rate definition (What properties are included, size of units, etc.)**

Market rent is described as what a landlord might reasonably expect to receive, and a tenant might reasonably expect to pay, for tenancy in comparison with rent levels for similar properties in similar areas.

The Preston Park Market Survey provides information regarding the unit sizes, amenities, and market rents attributed to Preston Park and surrounding communities.

To determine the New Move-In Market Rent amounts at Preston Park, first consideration is given to the home specifications (ex. 2 BR X 1.5 BA vs 3 BR X 2.5 BA). Rates for like-size rentals are then utilized as a base for comparison for factors including actual square footage offered, interior amenities (laundry space, product finish) exterior amenities (garage/yard space) and community amenities (location, management services, community center/business center). No exact pricing is associated with any one amenity. Once a base rate is established, additional fees are applied to homes displaying certain characteristics (ex. \$25 more per month charged for a home with just one neighbor).

Note that in addition to the over-sized homes offered, Preston Park exhibits a number of features that are not seen in some of the comparable communities or single-family home rentals, including:

Attached garage, driveway parking, in-home laundry, gated back yard, pet friendly community, professional management and maintenance.

Additionally, feedback from prospects is key in determining if the rent is too high or too low. The Alliance team is professionally trained to exhibit homes in a manner to best showcase the community and value of a particular rental. If rentals are quick to secure, prices might be increased. If rentals are slow to occur, pricing might be re-evaluated.

### **2. Details on current rent increase formula (3% concept , how it relates to HUD)**

The current rental increase formula for in place residents, adopted by the Marina City Council in 2010, allows for a maximum rental increase per year of 3% or CPI-U (whichever is the lesser) during the next fiscal year. An in-place resident rent is never to exceed Current Market Rates, or New Move-In Rents.

This concept resembles the HUD increase methodology, but is not intended to directly emulate it.

### **3. Historical Preston Park rent increases and proposed rent increase formula/solution by the management company.**

The property is run on a fiscal year basis, July – June. In 2010 a rental formula was adopted by the City of Marina to allow for in place resident rental increases in the amount of the lesser of 3% or CPI-U. Upon approval of the new fiscal year budget (anticipated to take place in June) rental increases for in place residents can take place by August 1<sup>st</sup>. Instances where increases took place at an alternate time (2013, 2012) indicate that a delay in the approval of the property budget took place.

August 2014 (increase delayed until Jan 2015): Proposed increase of 2.4% (2.4 CPI)

September 2013: 2.4% Increase (2.4 CPI)

August 2012 (increase delayed until February 2013): 3% Increase (3.0 CPI)

August 2011: 0.0% Increase (1.7 CPI) City of Marina declined any rental increase

August 2010: 1.8% Increase (1.8 CPI)

Prior to 2010, rental increases were not limited to the 3% or CPI-U formula.

August 2009: 3.3% Increase (1.2 CPI)

August 2008: 3.3% Increase (2.8 CPI)

Increases in 2007 and prior were implemented by Mid Peninsula Housing, approved by the City of Marina.

The current rental formula allows minimal growth to rents for in place market renters and depresses the rental market for surrounding properties. A more traditional increase formula (raise in place market resident rents to within 5% of current Market Rates) would benefit the property and FORA, while providing discounted rates and recognizing tenure to in place residents.

### **4. Move-in procedure (what happens to rent increase monies)**

After a current resident supplies the Leasing Office with a written 30-Day Notice to vacate (as per the lease agreement), the on notice apartment is made available to prospective residents for future reservation. A \$250 Holding Deposit is taken and a Welcome Letter is signed by all parties to solidify the rental rate and any additional relative information relating to the application. A background and credit screening is run, and copies made of qualification documents. After the households' application for lease is approved, the lease is executed and move-in fees collected. A move-in inspection takes place on the day of move-in, and keys are released to the new Resident.

In recent past, a new market rate move-in generally creates revenue of \$200 - \$500 per month above the rental rate paid by the previous occupant. These monies are already projected as increased income within the fiscal year budget based on historical increases and turnover trends, and do not represent a specific amount to be set aside in addition to the budget projected for income. The increased income helps fund day to day operating expenses at the property, non-routine and capital repairs and contributes towards the replacement reserve fund.

## **5. 35 day notice of rent increases (may not be sufficient for displaced tenants)**

California law requires that rental increases of less than 10% annually be delivered with a 30-day written notice/change of terms. Increases at or over 10% annually must be served with 60 days notice. This allows the resident to consider their options, and either elect to stay within the community at the adjusted rate, or serve a 30-day notice to vacate to the community.

Note – The practice of a 35-Day notice based on historical increases falls within the law, and is used at Preston Park to allow residents time to make a decision to continue residency or leave the community.

A greater notice period by the property would reduce potential income enhancements.

## **6. Financial objective of the rent increases (how it aligns with the operating budget)**

Sustainability and asset protection is the objective of the rent increase. Non-routine expenses are anticipated to encompass significant projects (resulting from the Property Assessment performed in 2013) over a 5-year period. These costs are not capitalized as the reserve accounts do not have the funds to carry the projects.

Alliance recommends a minimum Capital Reserve withholding amount of \$2,057 per unit per year during the 2014/15 fiscal period. This withholding would ensure adequate reserves to perform necessary replacements and repairs to protect the useful life of the asset and account for possible unforeseen cost increases and repairs, and address resident requested projects such as parking enhancements.

Implementing a rent increase offers an opportunity to increase the property's replacement reserve account through compounded revenue generation, thus allowing for many of the critical Capital Improvement projects throughout the community to take place over time.

With approval of either of the proposed budgets, the City of Marina and FORA equally split the proceeds (after all expenses) from the Preston Park operating budget. Each party is anticipated to receive a total of \$1,743,933 during the 2014/2015 fiscal year.

Approval of a rental increase will increase the funds available to dedicate to the Capital Reserve Fund by \$12,488 for the year, resulting in an additional Reserve Amount of \$130,605 when amortized over a seven year period.