

**CITY AND COUNTY OF SAN FRANCISCO
BOARD OF SUPERVISORS
BUDGET AND LEGISLATIVE ANALYST**

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Policy Analysis Report

To: Supervisor Campos
From: Budget and Legislative Analyst's Office
Re: Analysis of Tenant Buyouts
Date: July 29, 2014



Summary of Requested Action

Your office requested that the Budget and Legislative Analyst conduct an analysis of cash incentives offered to tenants to willingly leave a rental, known as tenant buyouts, which are used by some landlords in lieu of formal evictions.

For further information about this report, contact Fred Brousseau at the Budget and Legislative Analyst's Office.

Executive Summary

- Instead of evicting their tenants, some landlords offer cash buyouts to tenants in exchange for the tenants vacating their rental units. Such buyouts, which are not subject to regulation by the City and County of San Francisco, can be cost-effective for landlords compared to No-Fault evictions¹, which are regulated by the City and County. Specifically, San Francisco's Residential Rent Stabilization Ordinance imposes: 1) limitations on re-rental of units where certain types of No-Fault evictions have occurred, 2) eviction tenant notification timing requirements, and 3) mandatory payment of relocation expenses for most No-Fault evictions. In addition, for owners wishing to evict their tenants and sell the rental units as condominiums, the City and County of San Francisco restricts conversion of rental units to condominiums in many instances where the units have been subject to No-Fault evictions.²
- Comprehensive data on the number or amounts of tenancy buyouts is not collected by the City and County of San Francisco's Rent Board or any other City agency as buyouts are not regulated by the Rent Ordinance or other City ordinance. While an unknown number of tenants accept buyout offers and vacate their rental units, some tenants seek

¹ No-Fault evictions cover situations in which the tenant being asked to vacate the unit is not at fault for violating terms of their lease such as when a landlord is making capital improvements to, or substantial improvements of, a rental unit, Ellis Act evictions and owner/relative move-ins, among others.

² Legislation adopted by the Board of Supervisors in June 2014 has amended the Residential Rent Stabilization Ordinance ("Rent Ordinance") to require that, in the case of Ellis Act evictions, tenant relocation payments are now the greater of the amounts currently required by the Rent Ordinance or the difference between a rental unit's current rental amount and the market rate for a comparable unit. This new provision does not change the incentives for landlords to offer tenant buyouts as described and could increase the incentives in cases where required relocation payments would now be higher.

advice from the San Francisco Tenants Union, a tenant advocacy organization, when they receive buyout offers concerning their alternatives and/or whether to accept their buyout offers.

- The Budget and Legislative Analyst collected and analyzed data about San Francisco tenants who used the counseling services of the San Francisco Tenants Union (SFTU) after receiving buyout offers. The organization reports that they advised 729 tenants on buyout offers between 2008 and 2014. The number of clients seeking advice on buyout offers increased every year between Calendar Years 2009 and 2013, from 76 clients in 2009 to 175 clients in 2013.
- A sample of 44 tenants served by SFTU between 2008 and 2014 reported a median buyout offer of \$16,000. More recently, 24 of those tenants who obtained services from SFTU in 2013 and the first two months of 2014 reported a higher median buyout offer amount of \$20,000, ranging from a low of \$900 to a high of \$50,000.
- Median monthly rent for tenants that reported a buyout offer to SFTU between 2008 and 2014 was \$1,432 for a two-bedroom apartment; for 2013 and the first two months of 2014, the median monthly rent for two-bedroom apartments for tenants reporting a buyout was \$1,700.
- The highest concentration of buyout offers reported to SFTU occurred in the Mission District, the Western Addition, the Haight-Ashbury and North of the Panhandle. Significant concentrations were also reported in the Castro and Noe Valley.
- Compared to current City requirements pertaining to No-Fault evictions, tenant buyouts: 1) allow landlords to re-rent their apartments at market rate to new tenants, with no obligations to re-rent to existing tenants at rent-controlled rates, 2) release landlords from tenant notification time requirements of the Rent Ordinance; and, 3) keep open the possibility of converting the rental units to condominiums for sale which could be prohibited as current City law does not allow condominium conversions at buildings where No-Fault evictions of tenants have occurred after March 31, 2013, or where multiple No-Fault evictions occurred prior to March 2013.
- As an illustration of the economics of tenant buyouts:
 - Rent for a two-bedroom rent-controlled apartment rented in 2005 at the median market rate of \$1,636 per month would be \$1,861 in 2013 with increases allowed by San Francisco's Residential Rent Stabilization Ordinance—an increase of \$225 per month or 13.7 percent.
 - If the same apartment were vacated in 2014 and adjusted to the median rental rate being paid by all tenants, the rent would be \$2,146 per month, a \$510, or 31.2 percent, increase.

- If the apartment were re-rented to new tenants in early 2014 at the then median listing rate for two bedroom apartments on the market, the rent would be \$4,150, a \$2,514 increase in monthly rental income and a 153.7 percent increase.
- After deducting tenant relocation costs required by the Rent Ordinance for most No-Fault evictions, the net cost for a landlord offering a \$20,000 buyout and then re-renting a two-bedroom apartment for \$2,146 per month, would be \$9,478. At the new rental rate of \$2,146 per month, the early 2014 median rent paid by all tenants, the landlord's net buyout costs of \$9,478 would be recovered in less than three years. Net costs for Ellis Act evictions could be less given new relocation payment requirements for those types of evictions that went in to effect in June 2014.

Number of tenants offered buyouts & advised by SF Tenants Union (SFTU), 2008-2014	729
Median buyout; sample of 44 SFTU clients, 2008-2014	\$16,000
Median buyout; sample of 24 SFTU clients, 2013-2014	\$20,000
Median rent for 2 BR apartment, 2005	\$1,636
Median rent paid by tenants for 2 BR apartment, 2014	\$2,146
List price for 2 BR apartments on market, 2014	\$4,150

Sources: SF Tenants Union, US Dept. of Housing & Urban Development, Zillow.com

- If the same two-bedroom apartment was re-rented for the early 2014 median list rate of \$4,150 per month in, an even higher \$30,000 buyout would be recovered by the landlord in less than one year. In instances of Ellis Act evictions, under the terms of the Rent Ordinance amendments adopted in June 2014, the net costs could be lower given the new relocation payment requirements for those types of evictions.
- Tenancy buyout costs could also be recovered by a landlord from the sale of a rental unit. A tenant buyout in such a scenario would allow for a higher market value of the unit because it could potentially be converted to a condominium. Under current City law, condominium conversions are prohibited on buildings for which a No-Fault eviction occurred after March 31, 2013 or, if multiple No-Fault evictions occurred or a No-Fault eviction of a protected status tenant such as a senior or disabled tenant occurred prior to March 31, 2013. With tenancy buyouts, landlords can vacate their rental units but have no eviction record and would not be prohibited from applying to the City for a condominium conversion, or selling the units as tenancies-in-common to buyers who can then apply for condominium conversion.
- Data for this report was provided by the San Francisco Tenants Union based on intake forms prepared by tenants who receive drop-in counseling from the organization. The data is not a comprehensive picture of buyouts in San Francisco. In addition, individuals

who obtain drop-in counseling may be tenants who have been offered buyouts but are uncertain what to do or are looking for advice on how to avoid eviction. These tenants may not be representative of all tenants in San Francisco.

I. Background

Most rental units in San Francisco built before June 1979 are subject to the San Francisco Residential Rent Stabilization Ordinance (“Rent Ordinance”).³ The Rent Ordinance limits rent increases to a yearly percentage pegged to inflation.⁴ There are certain exceptions, such as capital improvements, for which a pass-through increase may be allowed, subject to approval by the Rent Board.

The City and County of San Francisco’s Rent Ordinance also contains controls over evictions for rental units subject to rent control. Under the ordinance, evictions are allowed for 16 just causes, which are classified into one of two groups: 1) For-Cause evictions, which cover circumstances such as non-payment of rent, breach of rental agreement, illegal use of rental unit, and other similar situations; and 2) No-Fault evictions for situations in which the tenant being asked to vacate the unit is not at fault, covering situations such as capital improvements to or substantial improvements of a rental unit, Ellis Act evictions⁵ and owner/relative move-in, among others.

The Rent Ordinance imposes a number of mandates on landlords who execute No-Fault evictions, including:

- Landlords must provide allowances of between 30 and 365 days for tenants to vacate the units, with 60-90 days for most No-Fault evictions, with longer periods required for Ellis
- Act evictions and evictions of tenants in protected classes such as seniors and disabled tenants.
- Landlords must provide funds to tenants to cover relocation costs for certain types of No-Fault evictions, ranging from \$5,261 per tenant to a maximum of \$15,795.27 per rental unit plus \$3,510.06 additional for every senior or disabled tenant or household with minor children.⁶ Relocation payments for Ellis Act evictions can be higher than these amounts pursuant to amendments to the Rent Ordinance adopted in June 2014.⁷

³ San Francisco Administrative Code Section 37.

⁴ Increases in rental rates allowed by the Rent Board from 2005-2015 are shown in Appendix I.

⁵ The Ellis Act is a State law that allows owners to evict their tenants and remove the rental unit from the rental market,

⁶ Rent Ordinance relocation expense requirements are shown in Appendix II.

⁷ Legislation adopted by the Board of Supervisors in June 2014 has amended the Residential Rent Stabilization Ordinance (“Rent Ordinance”) to require that, in the case of Ellis Act evictions, tenant relocation payments are now the greater of the amounts currently required by the Rent Ordinance or the difference between a rental unit’s current rental amount and the market rate for a comparable unit.

- Tenants have the right to reoccupy their rental units at their prior rents in a number of post-eviction circumstances such as: evictions for capital improvement; owner/relative move-ins if the unit is offered for rent again within three years of eviction, and Ellis Act evictions if the landlord rescinds their removal of the unit from the rental market within five years of the eviction.

In addition to these Rent Ordinance eviction mandates, the City's Subdivision Code includes the following provision that affects landlords who wish to vacate a rental unit and convert it to a condominium or sell it to a buyer with the same objective:

- Buildings are disqualified from condominium conversion if one of the following has occurred: 1) a No-fault eviction of a tenant after March 31, 2013; 2) two or more No-fault evictions after May 1, 2005; or, 3) a No-fault eviction of a protected tenant (such as a senior or disabled tenant) after November 16, 2004.

According to a representative of the San Francisco Tenants Union (SFTU), unoccupied buildings can command higher prices than those with tenants in them.

Under the Rent Ordinance, landlords are required to file a Notice of Eviction with the Rent Board of the City and County of San Francisco ("the City") for all types of evictions, except non-payment of rent, and provide tenants with information about their right to file appeals of their eviction notice to the Rent Board. Rent Board staff investigates such filings and, if they find evidence of an unlawful eviction, they may bring the eviction case to an Administrative Law Judge to rule on the legality of the eviction.

Because a landlord cannot force a tenant to leave without using a lawful eviction cause, which, in the case of No-Fault evictions, imposes re-rental restrictions, time restrictions, relocation expenses, and restrictions on converting rental units to condominiums, landlords in some situations may find it profitable to offer a buyout to their tenants. If the tenant accepts the offer, this arrangement allows the landlord to re-rent the rental unit at a higher rate to a new tenant, avoid notification timing requirements, or convert or sell the units with the potential to convert it to a condominium. Tenant relocation expenses required by the Rent Ordinance would assumedly be covered by either a tenant buyout or a formal eviction.

A tenancy buyout is a privately negotiated financial agreement between a tenant and a landlord wherein the tenant agrees to willingly vacate an apartment on a certain date in exchange for compensation. Such negotiations do not have to be reported to the Rent Board or any other City department or agency (an example tenant buyout offer is shown in Appendix III). Even buyouts worth tens of thousands of dollars can be recouped by a landlord retaining ownership and re-renting at market rates or selling

the unit. The breakeven point in such situations will depend on the difference between the rent-controlled and market rate rents or sales price and relocation expenses that the landlord will have to pay for certain types of No-Fault evictions. In some cases tenancy buyouts may be mutually beneficial, as the landlord can sell or re-rent the rental unit at a higher rate and the tenant realizes a payout for giving up their tenancy.

Though some tenants willingly accept buyouts and vacate their rental units, there are cases in which tenants have concerns or do not want to enter in to such agreements and leave their tenancy. Some of these tenants use the services of the San Francisco Tenants Union and other tenant organizations to obtain counsel on their buyout offers. Some have reported to SFTU that their landlords have used intimidation tactics or the threat of eviction to get them to accept the buyout.

II. Results

Due to the absence of any City agency data or records on tenant buyout offer amounts and frequency, the Budget and Legislative Analyst obtained data from the San Francisco Tenants Union (SFTU) to analyze the frequency and characteristics of tenant buyout offers reported to that organization.

The SFTU holds drop-in counseling hours, during which tenants who are having problems or concerns with their rental can meet with a counselor. During these drop-in sessions, tenants are asked to fill out an intake form that indicates the reason for their visit (an example intake form is shown in Appendix IV). Data from these intake forms are then entered into the SFTU database for tracking. Values and conditions are self-reported by tenants. For buyout offer data, SFTU does not record outcomes as to whether the buyouts were ultimately accepted or not.

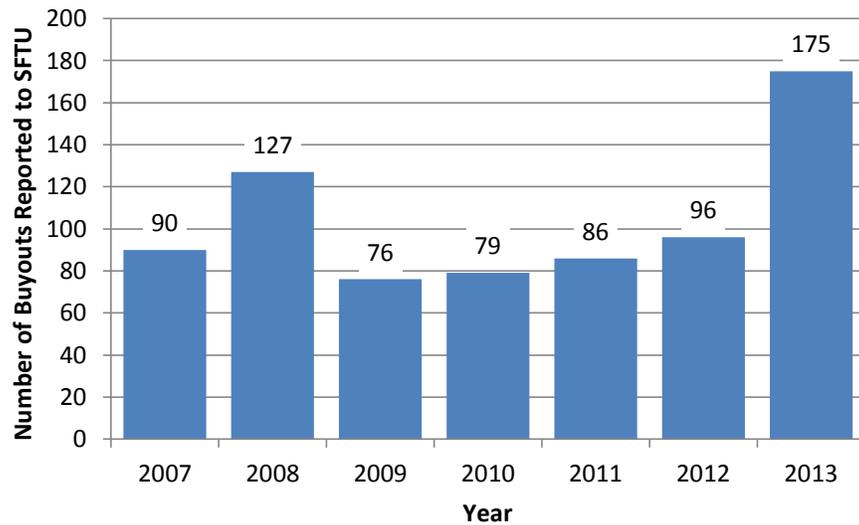
Because the data is based solely on SFTU drop-ins, the Budget and Legislative Analyst has concluded that buyout offer data from the SFTU database represents a sample of buyout offers occurring in San Francisco, with the total number of buyout offers Citywide unknown. When a buyout offer is mutually beneficial, a tenant may be less likely to seek counseling from SFTU. This adds some potential sampling bias to the data presented. For example, tenants seeking assistance from SFTU after receiving a buyout offer may want to stay in their rental unit, which might indicate that they have a lower rent and/or longer tenancy than renters who accept buyout offers. Indeed, clients who disclosed their rent to SFTU for calendar years 2013 and 2014 (through February 28, 2014) reported a median monthly rent of \$1,700 for a two-bedroom unit, compared with a median market rate of \$1,979 for 2013 and \$2,146 for early 2014.⁸ Even with its

⁸ U.S. Department of Housing and Urban Development, 50th Percentile Rent Estimates, San Francisco County.

limitations, the SFTU data is able to provide some information on the frequency of buyout offers, the magnitude of the offer amounts, and the neighborhoods in which they are occurring.

The SFTU data shows that counseling drop-ins for buyouts have increased year-over-year since 2010, after dropping significantly in 2009 during the economic recession. For the most recent full year, 2013, SFTU reports 175 drop-ins for buyout offer counseling, more than double the number in 2011, as shown in Exhibit 1.

Exhibit 1: Number of Buyout Offers Reported to SFTU by Year



Source: San Francisco Tenants Union

Between 2008 and 2014, the median reported buyout offer amount for a sample of 44 of the offers reported to SFTU was \$16,000.⁹ The reported offers varied significantly over the five-year period reviewed, ranging from a minimum of \$900 to a maximum of \$80,000. Buyout offer amounts can vary based on a number of factors, particularly the difference between current rent paid by the tenant and the market rental rate or sales price for that unit. In addition, seniors and disabled tenants and tenants with minor children in the household may receive higher offers because of the additional Rent Ordinance restrictions and higher relocation costs imposed on most No-fault evictions for these classes of tenants. Tenant buyout offers in lieu of Ellis Act evictions might also be higher as of June 2014, when Rent Ordinance amendments went in to effect potentially increasing relocation payments for this class of evictions. Descriptive statistics for 2008-2014 from the SFTU database are summarized in Exhibit 2.

⁹ There were 688 reported buyout offers from 2008 to 2014, but only 44 respondents reported buyout values.

Exhibit 2: Buyout Offer Data Reported to the San Francisco Tenants Union 2008-2014*	
Tenants Offered Buyouts	
Median Rent:	\$ 1,432
Median Bedrooms in Unit:	2
Median Years of Tenancy:	7
Buyout Offers†	
Median	\$ 16,000
Mean	\$ 20,823
Maximum	\$ 80,000
Minimum	\$ 900

Source: 688 tenant buyout offers reported to San Francisco Tenants Union

*2014 data as of February 28, 2014.

†Offer data based on 44 offers, as not all respondents reported buyout offer amount.

More recent buyout offer data is shown in Exhibit 3, below, for Calendar Years 2013 and early 2014 (through February 28, 2014). While the median number of bedrooms and years of tenancy remain the same, both median rent and median buyout offer amounts for 2013 and the first two months of 2014 are higher than for the five year period shown in Exhibit 2. Since not all respondents reported the amount of the buyout offer, the sample size for 2013 and 2014 is 23 buyouts.

Exhibit 3: Buyout Offer Data Reported to the San Francisco Tenants Union 2013-2014*	
Tenants Offered Buyouts	
Median Rent:	\$ 1,700
Median Bedrooms in Unit:	2
Median Years of Tenancy:	7
Buyout Offers†	
Median	\$ 20,000
Mean	\$19,257
Maximum	\$ 50,000
Minimum	\$ 900

Source: 224 tenant buyout offers reported to San Francisco Tenants Union

*2014 data as of February 28

†Offer data based on 23 offers, as not all respondents reported buyout offer amount

Tenancy Buyout Offers by Neighborhood

589 or the 729 tenants who used the services of SFTU reported the address of their rental units, which allows for geographical analysis of the offers. Between 2008 and 2014, 165 of the 589 reported buyout offers reported to SFTU with address information, or 28 percent, were for tenants in the Inner Mission and Bernal Heights (94110 zip code). The next-highest area was the Haight-Ashbury and Cole Valley (94117 zip code), followed by the Castro and Noe Valley (94114 zip code) which, combined, equals approximately 23 percent of the sample. This data is shown below in Exhibit 4.

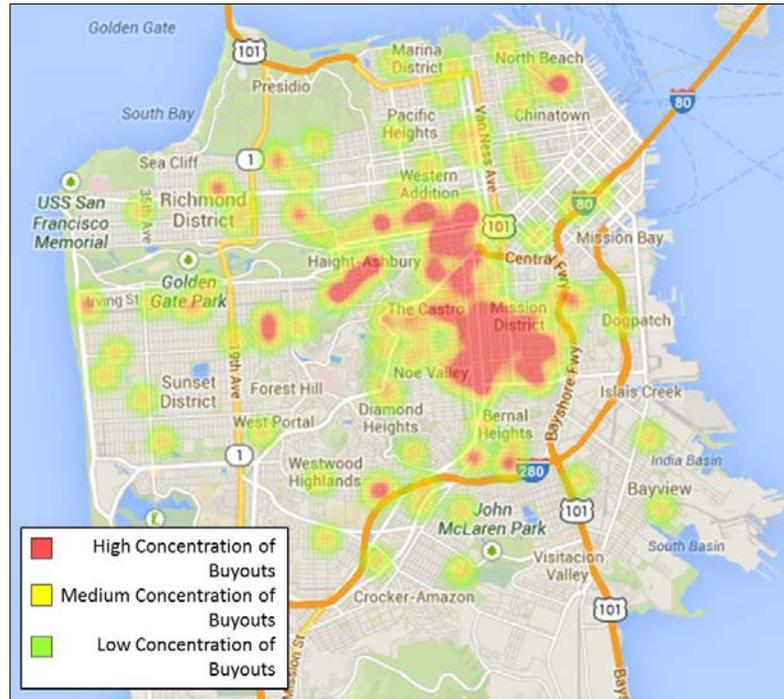
Exhibit 4: Buyout Offers Reported to the San Francisco Tenants Union by Neighborhood and ZIP Code, 2008-2014							
ZIP Code	Neighborhood	Count	Percent	ZIP Code	Neighborhood	Count	Percent
94110	Inner Mission, Bernal Heights	165	28.01%	94133	North Beach, Fisherman's Wharf	16	2.72%
94117	Haight-Ashbury, Cole Valley	67	11.38%	94116	Outer Sunset	14	2.38%
94114	Castro, Noe Valley	66	11.21%	94131	Twin Peaks, Glen Park	13	2.21%
94122	Inner Sunset	29	4.92%	94123	Marina, Cow Hollow	12	2.04%
94102	Hayes Valley, Tenderloin	27	4.58%	94124	Bayview	7	1.19%
94115	Pac Heights, Western Addition, Japantown	27	4.58%	94134	Visitacion Valley	7	1.19%
94112	Ingelside, Excelsior	25	4.24%	94127	St. Francis Wood, West Portal	3	0.51%
94103	South of Market	23	3.90%	94132	Lake Merced	3	0.51%
94118	Inner Richmond	23	3.90%	94104	Financial District	1	0.17%
94121	Outer Richmond	23	3.90%	94108	Chinatown	1	0.17%
94107	Potrero Hill, Dogpatch	19	3.23%	94111	Embarcadero, Barbary Coast	1	0.17%
94109	Nob Hill, Russian Hill	17	2.89%	Total		589	

Source: San Francisco Tenants Union

Geographical data for buyout offers for Calendar Years 2013 and 2014 (through February 28) is mapped in Exhibit 5. The geographical distributions for the years 2008-2012, not shown in Exhibit 5, had a nearly identical geographical distribution.

Consistent with the zip code-based data in Exhibit 5, the highest concentration of buyouts was in the Inner Mission district. A strip also extends north to the Western Addition and west to the Haight-Ashbury and north of the Panhandle. The Castro and Noe Valley also showed significant concentrations of reported buyout offers.

Exhibit 5: Map of Reported Tenancy Buyouts, 2013-14



Source: San Francisco Tenants Union. 2014 as of February 28, 2014

Illustration of the Economics of Tenancy Buyouts

In cases where tenants stay for many years or even decades, the market rate of a unit can outpace rent to such an extent that even seemingly large buyouts are cost-effective for a landlord. As an illustration of the possible financial incentives for a landlord to buy out a tenant, Exhibit 6 below shows a hypothetical rental situation of a two-bedroom rent-controlled apartment rented in 2005 for the median market rate of \$1,636 per month.¹⁰ From 2005 to 2014, rent on the apartment would have increased by \$225 per month to \$1,861 under rent control increases allowed by the Rent Ordinance, an increase of approximately 14 percent.¹¹ If the same apartment's monthly rental rate had kept pace with the median market rate being paid by all tenants for two bedroom apartments, however, its rent would have increased by \$510 to \$2,146 per month in 2014, an increase of 31 percent.¹² That means that, without Rent Ordinance

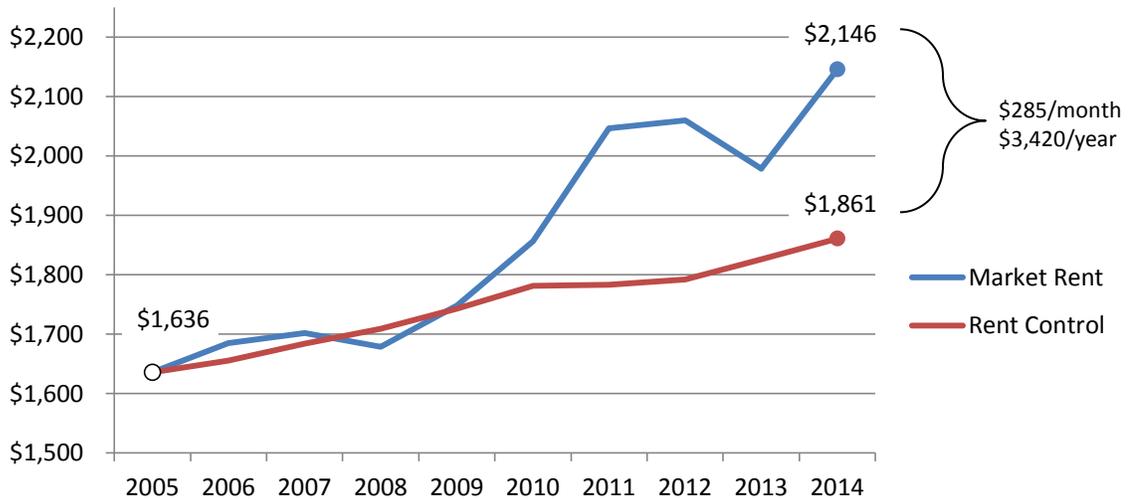
¹⁰ Market rate based on U.S. Department of Housing and Urban Development 50th Percentile Rent Estimates and shown in Appendix V.

¹¹ Allowable rent increases by the San Francisco Rent Board shown in Appendix I. This example assumes the landlord does not undertake capital improvements or other Rent Board-allowable increases.

¹² Annual market rates based on U.S. Department of Housing and Urban Development 50th Percentile Rent Estimates and shown in Appendix III. These market rates are very low compared to list prices in San Francisco. Median rent list price in San Francisco for a two-bedroom unit averaged \$4,150 for January to March 2014 according to Zillow.com.

limitations on the apartment, the landlord in this scenario would be collecting an additional \$285 per month, or \$3,420 per year, in the current year (\$2,146 median monthly rental rate less \$1,861 Rent Ordinance allowed monthly rent).

Exhibit 6: Difference between Median Market Rate and Rent Board-Allowed Increases in Rent Two-Bedroom Apartment Rented in 2005



Source: U.S. Dept. of Housing and Urban Development and the Budget and Legislative Analyst's Office.

If a buyout in this hypothetical example was offered in lieu of a No-Fault eviction, the buyout amount would likely incorporate the tenant relocation costs since tenants in most No-Fault evictions are entitled to such payments under the Rent Ordinance. For example, two tenants in a No-Fault eviction for a two-bedroom apartment to allow the property owner to make capital improvements would be entitled to \$5,261 each, or a total of \$10,522 in landlord covered relocation expenses.

The net additional costs to the landlord for a \$20,000 tenant buyout compared to a No-Fault eviction would thus be \$9,478 (\$20,000 buyout less \$10,522 required relocation payments).

Given the \$285 per month in additional rent revenue that the landlord could earn after re-renting this apartment at the 2014 median rental rate of \$2,146, the net buyout costs of \$9,478 would be recovered in just under three years, as shown in Exhibit 7.

Exhibit 7: Breakeven Point for \$20,000 Buyout if Rent Increased from \$1,861/mo. to \$2,146 Median Monthly Rent being Paid by all Tenants		
Year	Cumulative Additional Rental Income	Breakeven on Buyout
-	-	-\$9,478
2014	\$3,420	-\$6,058
2015	\$6,840	-\$2,638
2016	\$10,260	\$782
2017	\$13,680	\$4,202
2018	\$17,100	\$7,622
2019	\$20,520	\$11,042
2020	\$23,940	\$14,462
2021	\$27,360	\$17,882
2022	\$30,780	\$21,302
2023	\$34,200	\$24,722

Source: Budget and Legislative Analyst

The scenario in Exhibit 7 assumes that the post-eviction rent would be the median of what was being paid by tenants in San Francisco as of early 2014, according to U.S. Department of Housing and Urban Development data. However, that median rental rate is based on what all tenants were currently paying, not current rental market “list” prices. The median rental list price, or rate, for two-bedroom apartments on the market as of March 2014 was \$4,150, according to Zillow.com.

If the two-bedroom apartment in the hypothetical buyout scenario above could be rented for the median \$4,150 monthly list rental rate and the landlord offered a higher \$30,000 tenant buyout, that buyout amount would be recovered much quicker than in the first scenario since the additional rental income would be \$2,289 per month compared to the \$285 increment in the first scenario presented above (\$4,150 median list monthly rental rate less \$1,861 rent control monthly rental rate for same apartment = \$2,289). Exhibit 8 shows that the net cost of \$19,478 (the \$30,000 buyout less \$10,522 in tenant relocation costs) would be recovered in under one year.

Exhibit 8: Breakeven Point for \$30,000 Buyout if Rent Increased from \$1,861/mo. to \$4,150/mo. Median Market List Rent		
Year	Cumulative Additional Rental Income	Breakeven on Buyout
-	-	(\$19,478)
2014	\$27,468	\$7,990
2015	\$54,936	\$35,458
2016	\$82,404	\$62,926
2017	\$109,872	\$90,394
2018	\$137,340	\$117,862
2019	\$164,808	\$138,382
2020	\$192,276	\$162,322
2021	\$219,744	\$189,682
2022	\$247,212	\$220,462
2023	\$274,680	\$254,662

Source: Budget and Legislative Analyst

Both of the scenarios in Exhibit 7 and Exhibit 8 assume that the property owner would choose to re-rent his or her rental unit at a higher rate after the current tenant has vacated. However, another reason for tenancy buyouts is so the property owner can convert and sell the rental unit as a condominium or sell it as a tenancy-in-common to a buyer whose ultimate interest is converting the unit to a condominium. As discussed in the Background section of this report, City laws place restrictions on condominium conversions for buildings in which certain No-fault evictions have occurred. Buying out a tenant in lieu of a No-fault eviction such as an Ellis Act eviction¹³ can thus give a listed property greater value as it would have a greater chance of being approved by the City for condominium conversion since fewer impediments to being approved for a condominium conversion.

¹³ Ellis Act evictions are allowed by the Rent Ordinance in instances when property owners are going out of the rental business.

Appendix I: Allowable Rent Increases by San Francisco Rent Board, 2005-2015

Annual Allowable Increases in Rent under San Francisco Rent Ordinance 2005-2015	
Effective Period*	Amount of Increase
2014-2015	1.0%
2013-2014	1.9%
2012-2013	1.9%
2011-2012	0.5%
2010-2011	0.1%
2009-2010	2.2%
2008-2009	2.0%
2007-2008	1.5%
2006-2007	1.7%
2005-2006	1.2%

*Effective year begins March 1st

Source: San Francisco Rent Board

Appendix II: Mandated Relocation Expenses by the San Francisco Rent Board for Ellis and Other No-Fault Evictions as of May 2014¹⁴

Exhibit 1: Relocation Payments for No-Fault Evictions, 3/1/14 - 2/28/15		
	Ellis Act Evictions	Owner Move-In and Other No-Fault Evictions
Relocation Amount Due Per Tenant	\$5,265.10	\$5,261.00
Maximum Relation Amount Due	\$15,795.27	\$15,783.00
PLUS Additional Amount for Each Elderly (62+) or Disabled Tenant Per Unit	\$3,510.06	\$3,508.00

Source: San Francisco Rent Board

¹⁴ Legislation adopted by the Board of Supervisors in June 2014 amended the Residential Rent Stabilization Ordinance (“Rent Ordinance”) to require that, in the case of Ellis Act evictions, tenant relocation payments are now the greater of the amounts currently required by the Rent Ordinance or the difference between a rental unit’s current rental amount and the market rate for a comparable unit.

Appendix III: Sample Buyout Letter

[REDACTED]

[REDACTED]

Confidential – For Settlement Purposes Only

Re: Buyout of your tenancy

Dear Tenants:

The owner of your building intends to perform extensive renovations to create brand new apartments for sale. This requires you to **permanently move** from your apartment. He is willing to compensate you for your moving costs, and for the higher rent you may have to pay for a similar apartment. This type of arrangement, in which the owner **pays you to voluntarily move out, with no right to ever move back**, is referred to as a "buyout of your tenancy."

If the owner is unable to reach agreement with you on a buyout of your tenancy, then the owner will exercise his legal right to compel you to move under an Ellis Act eviction.

Under an Ellis Act eviction, you would have to move within approximately one year from the time that the owner files the "Notice of Intent to Withdraw Rental Units" with the San Francisco Residential Rent Stabilization and Arbitration Board. The law actually requires you to move within four months, however, elderly (over the age of 62) or disabled tenants who have lived in the apartment for at least one year have the right to extend the move-out date from four months to one year. During the one-year waiting period, you would be required to pay your normal rent of \$553.85 per month.

The Ellis Act compensates tenants with mandatory relocation payments based upon the number of tenants in the apartment, their age and disability status. According to the law, you would be paid \$5,157.27 per person, for up to three people per apartment. Additionally, you would receive \$3,438.17 for each person who is over the age of 62, or who is disabled. For example, in an apartment with one tenant who is over the age of 62 or disabled, you would receive a total of \$8,595.44 (\$5,157.27 plus \$3,438.17).

But your actual, net compensation under an Ellis Act eviction consists of the mandatory relocation payments *minus* the monthly rent due; in this case, \$8,595.44 minus \$6,646.20 (12 times \$553.85), which equals only \$1,949.24.

A buyout of your tenancy avoids the Ellis Act eviction and is mutually beneficial to the owner and the tenants.

With a buyout, the owner will permit you to stay for a full year, and he will not require you to pay any rent. **You will live a full year for free.** Additionally, the owner will pay you more than you would receive by law under the Ellis Act. Here's a comparison of the compensation you would receive from a buyout of your tenancy, compared to the amount you would get under an Ellis Act eviction:

Ellis Act eviction		Tenant Buyout	
Relocation money:	\$ 8,595.44	Buyout payment:	\$15,000.00
Minus rent due for 1 year	\$ 6,646.20	Value of free rent for 1 year:	\$ 6,646.20
Net value to tenants:	\$ 1,949.24	Net value to tenants:	\$21,646.20

As you can see, a buyout of your tenancy is worth **more than 10 times as much** as you would get under an Ellis Act eviction. Half of the buyout payment (\$7,500) would be paid when you sign the move-out agreement; the other half (\$7,500) would be paid when you fully vacate the apartment.

A buyout of your tenancy (voluntary move-out agreement) would be a "win-win" situation for both the owner and the tenants. Both parties would benefit from the buyout since they would avoid the unnecessary time, expense and stress involved with litigating the Ellis Act eviction action. More importantly, though, you would receive a monetary payment that would be considerably more than the law requires.

If you are interested in taking advantage of a buyout of your tenancy, please return the enclosed decision form **postmarked no later than December 10, 2012.** If we do not receive a response from you by December 1, **then we must assume that you do not want the additional money you would receive from a buyout,** and in that case, we will proceed with the Ellis Act eviction in early January of next year. You should know that, once we commence the Ellis Act process by filing a notice with the Rent Board, we are required by law to complete it. In other words, **once the Ellis Act eviction process begins, there is no turning back, and no opportunity for a buyout.**

This letter is not a request or demand that you vacate your unit; it simply informs you of our intent to proceed with the Ellis Act if the parties are unable to come to an agreement. When that time comes, you will receive a legal notice to vacate from our attorney. Should you have any questions about this letter, please feel free to contact me. You can also contact the San Francisco Rent Stabilization and Arbitration Board to receive advice regarding this letter.

Sincerely



BUYOUT DECISION FORM

- Yes, I want to schedule a meeting at [REDACTED] to discuss accepting your offer to buy out my tenancy. I want to enjoy the free rent and extra money I will receive from a buyout. Please call me at the number listed below so that we can arrange a time to meet.

Print name: _____

Cell phone: _____

- No, I do not want free rent, and I will not consider a buyout of my tenancy. I understand that in the absence of a buyout, the owner intends to pursue an Ellis Act eviction, and that I will receive only the relocation payments mandated by law.

Sign your name: _____

Today's date: _____

Appendix IV: San Francisco Tenants Union Intake Form



San Francisco Tenants Union Intake Sheet

This information helps the counselor understand the issues in your case

Today's Date: _____ Your E-Mail: _____

Last Name: _____ First Name: _____

Address of "problem" property: _____
(Please include apartment number and zip code)

If you live elsewhere, give that address: _____
(Please include apartment number and zip code)

Cell Phone: _____ Home Phone: _____
(Please include area code) *(Please include area code)*

Basics

- Was your building built before 1979? Yes No Don't Know
 Is your building under rent control? Yes No Don't Know
 Does the government pay a part of your rent? Yes No Don't Know
 What is the condition of your building? Poor Fair Good Great
 You currently rent a Apartment Condo Single Family Home Room
 Your rent is paid to..... Landlord Roommate

Give date when *(or if)* your building was cited/inspected by Dept. Building Inspection (DBI): _____

How many units in your building? _____ **How many bedrooms in your apartment?** _____

Current rent for entire apartment: \$ _____ How much do **you pay** each month? _____

How much was rent when you moved in? \$ _____ Security Deposit Paid \$ _____

When did you move in? _____ When did 1st roommate *(if any)* move in? _____

Landlord: _____ Address: _____

How did you hear about the San Francisco Tenants Union? _____

General Information

- Senior (60 yrs. or over) Disabled Family with Children
 Low Income (<\$2,000/mo.) Mid-Income (\$2,001-\$4,000/mo.) Upper-Income (>\$4,001/mo.)

Main Problem/Reason for Your Visit

- Foreclosure Building for Sale Eviction: *(why?)* _____
 Rent Increase Buyout Landlord Harassment Repairs Roommate/Neighbor Dispute
 Add/Replace Roommate Security Deposit Service Animal/Pet Lease/General Questions

Briefly, State the Nature of Your Problem – Please Print

**Appendix V: U.S. Department of Housing and Urban Development 50th Percentile Rent Estimates,
2005-2014**

Median Rent Estimate for Two-Bedroom Apartment in San Francisco County, 2005- 2014	
Year	Rent Estimate
2005	\$1,636
2006	\$1,685
2007	\$1,702
2008	\$1,679
2009	\$1,748
2010	\$1,856
2011	\$2,046
2012	\$2,060
2013	\$1,979
2014	\$2,146

Source: U.S. Dept. of Housing
and Urban Development