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Marina City Council
City of Marina
211 Hillcrest
Marina, CA 93933

Re: Mobilehome Study Response Report

Dear Mayor Delgado and Councilmembers McCall, Gray, Ford, and O'Connell:

On December 31, 2008, I delivered my initial report ("Marina Mobilehome Report") describing my findings regarding mobilehomes and mobilehome residents in Marina. This letter is the second stage of the mobilehome consulting contract. In this letter, I will comment on Kenneth Baar's report and will expand on two important topics. Hereafter, I would be happy to meet with the Council to answer any questions Councilmembers may have on this important topic.

Many findings in the Baar report are accurate and match findings in my report. To save time and space, I will focus in this letter on the differences, not the similarities, between our findings.

Space Rents. A key finding of the Baar Report is that space rents increased significantly over the past 6 years. (Baar Report, page 18). But the document that Dr. Baar relied on for the 2002 space rents is inaccurate. The average 2002 space rents for El Rancho and Marina del Mar, for example, were \$265 and \$266, respectively, not \$247. I therefore requested from park owners the rent rolls for 2002 and, using the true averages for 2002, have analyzed the period 2002 – 2008 in more detail. The average annual rent increase figures for this period are as follows:

Cypress Square – 4.5%
El Camino – 6.8%
El Rancho – 4.9%
Marina del Mar – 4.4%
Lazy Wheel – 8.5%

These rates of increase are greater than the average increase in the CPI (2.8%) or the CPI-Rent (1.7%) over the period 2002 - 2008.

The 2002 Mobilehome Space Rent Task Force survey established that space rents in Marina were at that time significantly less than space rents elsewhere in Monterey County. It is my understanding that there was agreement at that time that park owners would increase space rents by more than the CPI each year for several years and would take increases on vacancy so that space rents in Marina could catch up gradually with space rents in other cities in Monterey

County.¹ The Memoranda of Understanding (MOU) signed at that time specified that continuing tenants at El Rancho would receive space rent increases of 75% of CPI plus \$9 and that continuing tenants at Lazy Wheel would receive space rent increases of 75% of CPI plus \$10. The El Rancho MOU said that rents on vacancy could rise to the highest rent in the park for a similar space or to the county median space rent. The Lazy Wheel MOU said that rents on vacancy could rise to market. Thus greater-than-CPI increases reflected in now-current space rents were paid for in part by continuing residents and in part by new residents.

It is apparent that the memorandum of understanding system has been in place in Marina for many years. A 1992 MOU for Cypress Square records a commitment to restrict space rent increases to "70% of the CPI or 5% of the base rent, whichever is less". If this instruction was followed consistently, rents a decade later, in 2002, would have been far below market rents elsewhere in the County.

My original report calculated space rent increases over 20 years, 1988 - 2008. My report concluded that over this twenty-year time period space rents in Marina increased at rates close to the CPI and less than the CPI-Rent index for the San Francisco Bay Area. With the information now collected on space rents in 2002, it appears to be the case that space rents in Marina increased by less than the CPI from 1988 to 2002 and by more than the CPI from 2002 to 2008, with the overall result that space rents in Marina increased from 1988 to 2008 by something close to the CPI. This conclusion is more meaningful than the Baar report conclusion that space rents increased by more than the CPI in the period 2002-2008.

Mobilehome Values. A key finding of my report was that mobilehome values increased, over the twenty year period 1988 to 2008, on average, by 6.1% per year. Dr. Baar, in correspondence, questioned whether this statistic was biased because of the inclusion of new mobilehomes. I therefore went back to the survey data, identified those mobilehome owners who purchased a new mobilehome, removed those cases from the data for the recent ten years, and looked at the average sales prices that way. It turns out that the average price of mobilehomes purchased in the decade 1988-1998 was \$36,602 and that the average price of used mobilehomes purchased in the decade 1998-2008 was \$67,654. Leaving out new mobilehomes, the values of mobilehomes in Marina's mobilehome parks increased, on average, by 6.3% per year. This finding is essentially the same as my previous finding. It confirms that mobilehome values have increased during the past twenty years by far more than the inflation rate, the consumer price increase for rent, or the rate of increase in space rents. It confirms that the mobilehome market is, in this sense, out of balance.

Dr. Baar's report differs from my report in several other important ways.

- The Baar report says that there is no way to know whether current space rents are too high or too low ("*Current rent levels may be considered reasonable or unreasonable depending on what standard of reasonableness is used*" – p.ii), whereas my report

¹ In a memorandum to homeowners, the owner and managers of El Rancho wrote in 2003 that the survey demonstrated that "our space rents are \$75 to \$150 below the average median of the County's parks. Along with other parks in Marina, we feel that we should take a less intrusive approach in raising our rents to a more realistic and justifiable level and at the same time giving park owners a more fair market value for their property."

includes robust tests of space rent reasonableness indicating that the space rents in Marina's mobilehome parks are moderate.

- Dr. Baar warns that space rents may be increased significantly, with dire consequences ("*Exceptional rent increases can lead to a situation in which mobilehome owners cannot afford to remain in their mobilehomes and/or lose most of the value of their mobilehomes*" – p. ii), whereas space rents have not in fact increased in this way in Marina's mobilehome parks and whereas there is no evidence that they will increase in this way in the future.
- The Baar report fails to acknowledge or explain the connection between mobilehome values and space rents, a connection that is well documented in the literature. By ignoring this connection, Dr. Baar ignores the central dynamic governing the mobilehome market. My report, in contrast, highlights the mobilehome-value/space-rent connection and proposes that there is significant imbalance in the market currently because mobilehomes values have increased over the past twenty years at twice the rate of increase in space rents.
- Dr. Baar, at many points in his report, quotes from decisions at law. These quotes are basically useless in this context. Court decisions, understandably, cite all the evidence in favor of the decision and little or none of the evidence on the other side. The inquiry the Council invited is an economic and public policy inquiry, not a legal inquiry. What courts may think about the housing market may be interesting in some contexts, but is fundamentally irrelevant to the decisions facing the Council at this time. For example, Dr. Baar quotes the statement in Adamson v. Malibu that "the park owner, absent regulation, theoretically has the power to exact a premium from the tenant who, as a practical matter, cannot move the coach" without mentioning that the entire concept of "premium" arose because of the observation of economists that rent control tends to cause the transfer of value from the park owner to the mobilehome residents.
- Dr. Baar argues (page 34) for partial indexing, whereas it is easily shown that partial indexing is confiscatory.² 100% indexing is a minimum, not a maximum. 110% or 120% indexing makes good sense in light of the infrastructure improvements that will be required in mobilehome parks in future years.
- Dr. Baar notes that mobilehomes in Marina sell for more than mobilehomes elsewhere in Monterey County (p. 16), but fails to explain why this might be so. My report, in contrast, explains that low space rents tend to create high mobilehome values. Since space rents in Marina are low by Monterey County standards, it makes sense that mobilehomes in Marina would have higher values than mobilehomes elsewhere in the County.
- In addressing the space-rent/mobilehome-value connection, Dr. Baar states that "empirical studies have not confirmed the validity of such projections" (p. 27), whereas

² That partial indexing necessarily prevents a fair return is explained and demonstrated in my report "Fair Return and the California Courts", pages 17-34.

the literature includes several studies mentioned in my report and included in my bibliography that have confirmed the connection. Dr. Baar implies that capitalization works to lower mobilehome values (p. 24-25), but fails to state that capitalization can also work to increase mobilehome values if rents are below market and that rent control programs commonly increase the value of mobilehomes and decrease the value of mobilehome parks.

- The Baar report implies that mobilehomes are the most affordable housing choice for low income residents (p. 24), whereas more thorough analysis in my report indicates that this is not always true. A home or condominium with no mortgage is far more affordable than a mobilehome.
- Dr. Baar implies that all affordability problems are housing problems, whereas my report makes it clear that affordability problems are often income problems, not housing problems. My report therefore suggests that there be a subsidy program to address the needs of the lowest income residents. Dr. Baar's report doesn't include a plan that would help the lowest income residents.
- Dr. Baar talks about "the captive nature of mobilehome park tenancies" (p. 3), but fails to address the fact that, under rent control, market power shifts to residents and it is park owners who are "captive".
- The Baar report says, without evidence, that "the 'historical' investments of the mobilehome owner (tenants) in mobilehomes in mobilehome parks generally exceed those of the landlord park owners" (p. 1). A more accurate statement, to be found in my report, is that the investments of the mobilehome owners collectively are roughly equal to the investments of the park owner.
- My report therefore argues for space rent increases that match increases in the value of mobilehomes and mobilehome parks, leading to a balanced market. Dr. Baar's analysis doesn't include the concept of "balance".
- The Baar report mentions that 40% of mobilehome owners have mortgages (p. 14), but fails to point out that 60% of mobilehome owners have no mortgage and that their housing costs are for this reason extraordinarily low. Mobilehome owners with no mortgage, for example, have monthly housing costs that are significantly lower than two-bedroom apartment rents in Marina.
- Dr. Baar's affordability analysis (p. 23) is interesting, but Dr. Baar fails to include mortgage costs in "overall housing costs", an omission that makes his analysis basically meaningless. (If we leave out the mortgage, owning a single family home would seem to be almost free.) The truth is that some mobilehome residents have mortgages, some don't, and this affects the affordability of their housing situation profoundly.
- Dr. Baar's reporting on mobilehome prices is inadequate to the purpose. The Baar report says (p. 14) that *"From 2000 to 2007, the average price of mobilehomes in Marina*

increased from \$72,477 to \$97,171. Since 2007, the average price and the number of sales have decreased. Through August 2008, the average sale price for a smaller number of sales was \$59,394." These figures are about right, but the implication that mobilehome prices are lower today than they were several years ago is misleading. A more useful depiction of the pattern of mobilehome values over time can be found in my report, pages 30-34, where it is demonstrated that mobilehome values have increased over the past 20 years by something like 6.1% per year while fluctuating with the overall housing market year by year.

- The Baar report doesn't recommend in favor of rent control in so many words, but the report leans heavily in that direction. Dr. Baar is known throughout California as an advocate for mobilehome rent control. To the best of my knowledge, Dr. Baar has never advised any City or County anywhere in California against enacting rent control. Rent Control is his standard solution to space rent questions in all communities. In contrast, my report describes the negative side effects of rent control in considerable detail, and discusses less invasive, more cooperative/inclusive programs that forward-looking cities and counties in California are now exploring as they address the space rent question.

I hope these comments and the underlying report are helpful to the Council, and look forward to working with the Council, City staff, residents, and park owners to develop a program that will benefit all stakeholders and the City of Marina most favorably.

Sincerely,

Michael St. John, Ph.D.

Cc: Anthony Altfeld, City Manager
Robert Wellington, City Attorney
Christine di Iorio, Community Development Director