

Conflict over profits and pricing at Del Medio apartments

Tenants join together to fight landlord's petition to raise rents

by Mark Noack

For Freddie Farris, 60, the golden years aren't going quite as planned. After having to leave her postal carrier job due to a disability, Farris thought she could spend a little more time caring for her family while her pension kicked in. They needed her help — her sister had a debilitating stroke years ago, and her 83-year-old mother, who shares an apartment with her, can no longer walk on her own.

For years now, Farris' family has resided on the second floor of the Del Medio Manor Apartments. But in recent days, the family has faced the harrowing possibility they soon could be out on the street.

It all started last month, when the property manager sent out a notice unlike any paperwork Farris had ever seen before. The thick 138-page document listed maintenance reports, expense sheets and years of accounting for how Del Medio Manor operated.

As Farris soon learned, this document was a sweeping petition filed under Mountain View's Rental Housing Program to raise rents on dozens of apartments at Del Medio Manor. But for her, the important detail came several pages in, where she saw a row with her apartment number. Her landlord wanted to raise her \$1,200-a-month unit rent by \$500. Then she saw the row with her sister's \$1,650-per-month, 2-bedroom unit. That would go up by \$900 a month.

If the increase goes forward, it would be tantamount to an eviction, she said. She thought of her brother, who is homeless and always trying to save money to afford an apartment, but never quite managing enough to secure a lease. Her heart dropped as she realized that could soon be the fate for the rest of the family.

"God, this means a lot of things now that we just can't do. It at least means we have to move and I have no idea where we'd go," Farris said. "They can still just keep increasing the rent and eventually we can't afford it."

The rent increases come despite the Del Medio apartments already being quite profitable, even under the city's new rent control program. Last year, the property earned more than \$1 million after expenses, according to filings made to the city.

The point isn't the dollar amount, but rather the fact that the return on the property is now capped and will decrease over time, said Elizabeth Lindsay, who owns Del Medio with about 12 other investors. Her father, uncle and grandfather built the 105-unit apartment complex in 1974.

Lindsay points out that the cost of vendors, contractors, employees and pretty much everything else is steadily rising in spite of rents being restricted. She describes the push for rent increases as the only recourse left for her and her partners.

"No investment that has a cap on it is a good investment. That means you can't have upward mobility on your investment," she said. "Every month that I'm not getting rent increases, I'm just bleeding money."

Pretty much everyone can agree it wasn't supposed to be this way. Back in 2016, a groundswell of concern about mass displacement from rising housing costs led Mountain View voters to pass Measure V, a rent control law that basically tied rent increases on older apartments to the cost of inflation.

The measure was hugely controversial, especially among apartment owners long accustomed to operating with a degree of freedom. They challenged the law through a political campaign, lawsuits and policy meetings. This pitched battle has now moved to a new flash point — a complicated petition process that would allow additional rent increases if approved by city-hired adjudicators.

In recent weeks, the city's Rental Housing Program has received 13 petitions, mostly from landlords seeking to raise rents higher than typically allowed.

Officially, the petition process is intended for special cases when landlords need to raise rents to pay for extra repairs or maintenance issues that pop up in older apartments. California case law has established that even under rent control, landlords are entitled to earn a fair rate of return on their properties, and they shouldn't be expected to effectively subsidize their renters. But in Mountain View, it remains murky what kinds of costs are acceptable to justify higher rents since barely any petitions have been reviewed by the city officials yet.

In the case of Del Medio Manor's petition, the owners are seeking to earn an extra \$320,000 per year by raising rents on about two-thirds of the apartments. These proposed increases range from 9 percent up to 56 percent.

Lindsay, speaking on behalf of the Del Medio Manor owners, emphasized that they are willing to strike a compromise with tenants who would struggle under the rent hikes. In recent days, she has reached a deal with four separate tenants in mediation sessions with city officials. She encourages more to participate.

But many residents at Del Medio Manor have instead decided to wage a campaign against the petition. **The Community Law Services of East Palo Alto, a tenants' advocacy group, has signed up 18 tenants to challenge the proposed petition. The law clinic's attorneys plan to fight the case through the city's adjudication process.**

"At the end of the day, we're trying to uphold Measure V as the voters intended it to be implemented," said Nan McGarry, a Community Law Services attorney on the case. "This landlord is making over \$1 million on this property each year. That raises questions for us about the propriety of this rent increase."

In a legal brief opposing the Del Medio Manor petition, McGarry challenges a range of expenses being used to justify higher rents. For example, Lindsay in her petition included about \$51,000 in costs related to rolling back rents to 2015 rates, as required under Measure V. Much of this cost stems from rent that had to be refunded to tenants after it was determined it had been collected unlawfully, McGarry pointed out. She also takes aim at a series of alleged inaccuracies and errors included in the petition.

For Farris and other tenants faced with steep rent increases, they say it is a matter of being priced out of their homes.

Keith Ellis, a 43-year-old acting housing manager at Stanford University, told the *Voice* he couldn't afford the \$400 a month extra being requested on his apartment. He has lived at Del Medio Manor since 2014.

Marion Pauck, an 89-year-old widow, explained that more than half her income from Social Security and her husband's pension is already going toward rent. If the proposed \$750-a-month rent increase goes through on her apartment, she would have no choice but to move.

"I really don't to want to find a new place to live and start all over," Pauck said. "I would try to find a new place in the general area, but that would be hard. I'm old; I need to be near my doctors at the clinic. They care whether I live or die."

For her part, Lindsay insists even her petition with its steep rent hikes still doesn't account for the true costs of managing the property. The city's process doesn't accurately reflect her family's investment risk or the years when units stayed vacant, she said. Trying to jump through all the rent program's hoops has forced her to work 14 or 15 hour days, and that labor can't be added to the expenses, she said.

What about the \$1 million in income after all expenses? Lindsay points out the the property is worth \$60 million at least. Getting \$1 million a year is like a 1.7 percent return on that value, she said.

"This is only a little better than a savings account," she wrote in an email. "Why would any landlord go through what we do for a 1.7 percent return?"

To be fair, that math doesn't account for the steady increase in property value that the Del Medio Manor has experienced over the years. If the property is sold in the future, the owners will get a much larger return on their investment. Until then, the property is locked into a bargain tax rate of about \$18,000 a year, based on when it was purchased in 1972.

Speaking at city meetings in the past, Lindsay has repeatedly warned that landlords would look to sell off their properties and exit Mountain View if rent control proved to be too burdensome. She and her partners don't want to take that action, she said, but it remains an option. In the coming days, she and her partners expect to submit additional petitions to raise rents at two other Mountain View apartment properties they own.

"Our primary goal is to have tenants and landlords find common ground, and we don't need lawyers to do that," Lindsay said. "We like our tenants, but we feel like this has put a wedge between us."

A hearing to review the Del Medio Manor petition has not yet been scheduled.