

**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 Profits of Ellis Act Eviction Property Sales
Date: March 17, 2014



Summary of Requested Action

Your office requested that the Budget and Legislative Analyst conduct an analysis on the level of profit landlords have made when they sell a building after evicting tenants using the Ellis Act over the last ten years.

Executive Summary

- Adopted by the California State Legislature in 1986, the Ellis Act allows evictions in instances when landlords elect to take their rental properties off the market. When this type of eviction occurs, the owner can return the units to the rental market at any time. However, if the owner returns the units to the market within five years of evicting the tenants, the owner must first offer the units to the evicted tenants and cannot charge any tenant more than the rent the evicted tenants paid prior to being evicted. If the owner returns the units to the market after the five-year period expires, the above restrictions do not apply.
- Median home prices in San Francisco have increased dramatically in recent years. In the years between just 2011 and 2013, median home prices rose from \$702,990 to \$897,338, an increase of 27.6 percent.
- The Budget and Legislative Analyst determined that the average profit earned from selling properties that underwent Ellis Act evictions was \$1,545,949, or 116 percent on average. This average represents inflation-adjusted profits, ranging from -\$278 to \$4,785,522 per property. Profits on building sales are generally correlated with the number of units in the building, with higher unit buildings generating a larger profit compared to lower unit buildings or single family homes. The amount of dollar value profit earned for a building was determined by comparing the original purchase price to the sale price after an eviction has taken place and does not account for any expenditures for improvements of the properties between sales.
- Data for this report was provided by the San Francisco Rent Board and the Office of the Assessor-Recorder. After reviewing deed transfer documents for buildings that underwent Ellis Act evictions, the Budget and Legislative Analyst learned that many of

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these buildings have not yet been sold. Because these buildings have not yet been sold, a profit calculation could not be performed and were not included in this report. This reduced the overall number of buildings used as data for this report.

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

I. Background

The Ellis Act

The Ellis Act was enacted by the California State Legislature in 1986 to require municipalities to allow property owners to go out of the residential rental housing business.¹ Under the Ellis Act, a landlord may ask all of the tenants of a residential building to permanently vacate so that the landlord may exit the rental market and convert the building to owner-utilized housing or for other purposes. For example, property owners can use the Ellis Act to go out of the rental business and evict tenants in order to turn the housing units into tenancies-in-common (TIC)² with the potential to convert the housing units to condominiums.

Under the Ellis Act, if any of the units are rented again during the five-year period immediately after the Ellis Act evictions, they must be offered back to the departed tenants at the same rent.³ If the tenants do not reoccupy, then the units may be rented to new tenants, but at the same rent that was paid by the departed tenants at the time the units were first removed from the rental market, adjusted under the inflation guidelines. If the units are rented after the five-year period ends, they may be rented at full market value. Tenants are entitled to 120 day notice and monetary relocation assistance as shown in Exhibit 1 below. Additionally, if the tenant is protected, they are eligible for an additional eight-month extension (for a total of one year) having to vacate.

¹ California Government Code Section 7060-7060.7.

² A tenancy-in-common (TIC) is a shared ownership of a building.

³ Following an Ellis Act eviction, property owners must keep a property off the market for at least two years from the date of withdrawal or be subject to possible legal damages.

Exhibit 1: Relocation Payments for Evictions Under the Ellis Act: 3/1/14 – 2.28/15

Relocation Amount Due Per Tenant	\$5,265.10
Maximum Relation Amount Due	\$15,795.27
PLUS Additional Amount for Each Elderly (62+) or Disabled Tenant Per Unit	\$3,510.06

San Francisco Home Prices

For context on changes in residential property prices in San Francisco, Exhibit 1 below shows median market home value data collected and reported by Zillow.com. for the years 2000 through 2013. Exhibit 2 presents median home sales amounts from Zillow.com for 2010 through January 2014. Zillow data are based on the price of sold residential properties and are reflective of residential property sales under market conditions for the years shown. These data represent all sales in San Francisco within a particular calendar year and are not separated by property type, location or other attributes.

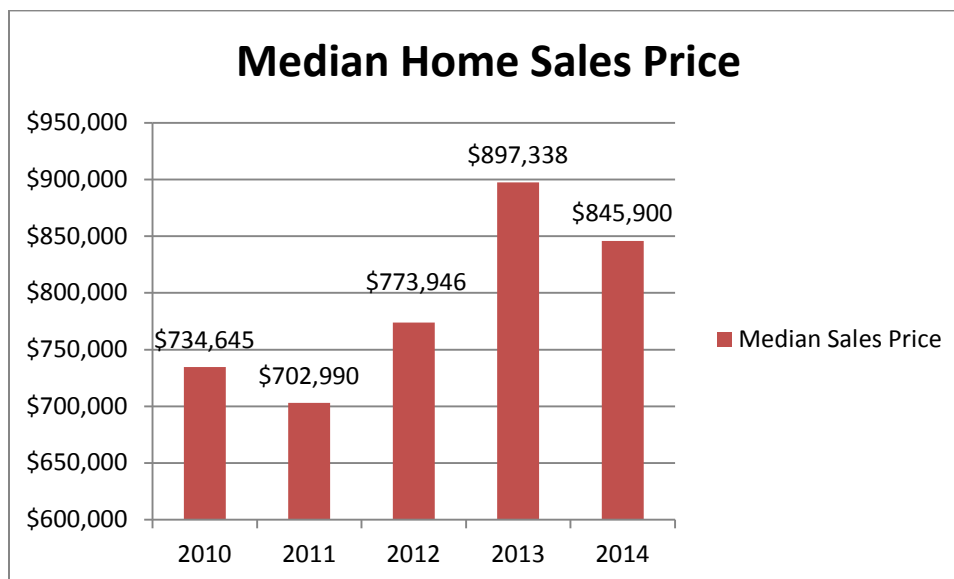
As shown in Exhibit 1, the median value of residential properties in San Francisco increased by 52.9 percent between 2000 and 2013, from \$587,020 and \$897,338. The increase between just 2011 and 2013 was \$194,348, or 27.6 percent.

Exhibit 1: Change in Median Home Value 2000 - 2013	
Year	Median Home Value
2000	\$587,020
2001	595,332
2002	588,782
2003	623,139
2004	722,933
2005	832,623
2006	824,983
2007	856,983
2008	830,614
2009	735,828
2010	734,645
2011	702,990
2012	773,946
2013	897,338
\$ change: 2000-2013	\$310,318
% Change	52.90%
\$ change: 2011-2013	\$194,348
% Change	27.6%

Source: Zillow.com

Exhibit 2 below shows the median home sale price listed by year as reported by Zillow.com, for just the years 2010 through January 2014.

Exhibit 2: San Francisco Median Home Sales Price: 2010 – Jan. 2014



Source: Zillow.com

II. Results

The Budget and Legislative Analyst collected sales price data for 15 properties for which tenants have been subject to Ellis Act evictions. The data collected reflects a broad range of properties in San Francisco. Sale prices and resulting profits vary based on the differences in market conditions at time of sale, building size, building use, location, amenities and other factors that go into the valuation of property. The sample of 15 properties used for this report is not meant to be representative of San Francisco properties as a whole, nor is the data meant to compare Ellis Act properties to all other property transactions in San Francisco. Rather, this report aims to show the value of 15 randomly selected properties that underwent Ellis Act evictions in the San Francisco housing market.

The sample of properties is small and, as a result, the data presented could be prone to distortions of outlying data. The results from this report should be seen as a snapshot of profitability for the randomly selected properties that were subject to Ellis Act evictions.

Average Profits from Ellis Act Property Sales

Based on the data collected by the Budget and Legislative Analyst, the average level of profit owners earned selling their properties after Ellis Act evictions was \$1,545,949 or 116 percent. Inflation-adjusted profits ranged from -\$278 to \$4,785,522 for the properties reviewed. The median period between sales for these properties was 3.4

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years. This return rate does not account for any owner expenditures for improvements made to the properties. The calculations of profit are not adjusted for the impact of elapsed time between the original purchase of the property and post-eviction sale.

The Budget and Legislative Analyst inflated the property sales price data to reflect inflation through 2013. The resulting values are in 2013 dollars (representing the most recent data available) so the changes presented in the data reflect the increase driven by the demand for housing in San Francisco as opposed to inflation. Details on methods to adjust the price data are provided in the Methods section below.

Table 3 shows the profit amounts for properties analyzed for this report.

Table 3: Average Profits for 15 Ellis Act Eviction Properties

Purchase Date	Purchase Price	Post-Eviction Sale Date*	Post-Eviction Sale Price**	Number of Units	Profit Amount	% Change
6/8/2010	\$1,078,889	8/14/2013	\$5,864,410	12	\$4,785,522	444%
10/23/2008	\$4,151,707	3/13/2012	\$7,163,484	12	\$3,011,776	73%
3/7/2008	\$2,305,041	5/3/2012	\$5,276,912	9	\$2,971,871	129%
5/28/2010	\$1,915,028	10/12/2012	\$4,428,623	7	\$2,513,595	131%
11/12/2010	\$732,566	8/31/2012	\$2,964,508	1	\$2,231,942	305%
5/11/2007	\$2,896,194	4/27/2012	\$4,683,990	6	\$1,787,796	62%
4/11/2011	\$1,020,519	1/7/2014	\$2,719,069	6	\$1,698,550	166%
9/20/1995	\$171,729	8/31/2012	\$1,658,466	2	\$1,486,737	866%
5/12/2009	\$1,494,634	5/22/2012	\$2,701,576	6	\$1,206,942	81%
2/24/2010	\$1,747,800	2/24/2012	\$2,280,391	2	\$532,591	30%
8/3/2012	\$373,155	2/14/2014	\$680,000	2	\$306,845	82%
4/26/2011	\$353,709	9/19/2013	\$650,000	1	\$296,291	84%
3/10/2010	\$421,719	8/13/2013	\$670,000	1	\$248,281	59%
8/8/2000	\$424,227	4/4/2013	\$535,000	1	\$110,773	26%
8/31/2004	\$835,278	11/15/2013	\$835,000	1	(\$278)	0%
Average						
Prices/Profit	\$1,328,146		\$2,874,095		\$1,545,949	116%

Source: Rent Board and Assessor-Recorder

*The post-eviction sale date for multi-unit buildings was the date of the most recent sale of a unit in the building.

** Post-eviction sale price for multi-unit buildings reflects the total of all unit sales in the building. If all units were not yet sold, the Budget and Legislative Analyst applied the average sales price of the sold units to the unsold units to derive a price for the total property.

Profit variation by building size

Within the sample of properties collected, the data indicates, not surprisingly, that larger buildings with more units for sale command higher prices and provide higher average dollar value profits for those property owners. The average dollar value profit for single family homes in the sample was \$577,402 while the average profit for properties of 10 units or more was \$3,898,649. Specifically, properties in which owners purchased the property and sold individual units as condominiums elicited the highest level of dollar value profit. Table 4 below shows the relationship between building size and dollar value profits.

These calculations of dollar value profit are not the same as measuring rate of return for property owners. That would be calculated based on the difference between the initial investment, or purchase price, compared to the resale value, considering the amount of time between sales and other cost factors such as expenditures on improvements between sales.

Table 4: Building size and associated profits

Number of Units in building	Number of properties in sample	Average Profit
Single Family Homes	5	\$577,402
2	3	\$775,391
6-9	5	\$2,035,751
10+	2	\$3,898,649

III. Methods

For purposes of this report, the Budget and Legislative Analyst defined profit as the difference in purchase and resale prices of a single property by the same owner. In order to determine the amount of profit made by selling properties that undergo Ellis Act evictions, the Budget and Legislative Analyst attempted to obtain: (1) the price for which a property was purchased, and (2), the price for which the same property was resold by that owner after filing eviction notices. Data for such an analysis was obtained from the San Francisco Rent Board, which collects information on all properties that undergo an eviction in San Francisco, including Ellis Act evictions, and the Office of the Assessor-Recorder, which collects data on property sales.

The Rent Board provided the Budget and Legislative Analyst with a report listing all Ellis Act eviction properties for the period beginning on January 1, 2004 and ending on January 31, 2014. Of these, the Budget and Legislative Analyst randomly selected a

sample of 100 addresses from the five year period between Rent Board Year 2008-09 through 2013-14⁴. Of those 100 properties, only 15 had gone through the full eviction process and had records available in the Assessor-Recorder's system of the original purchase price and the most resale price after evictions had taken place.

The Assessor-Recorder's system maintains the price of a property's most recent sale for all properties. The amounts of previous sales are not maintained for all properties in the database. However, those amounts were determined by using the recorded documentary transfer tax, which is a percentage of the sales price on all transferred real property in San Francisco. Current documentary transfer tax rates are included as Appendix 1 of this report. Using these tax rates, the Budget and Legislative Analyst was able to calculate the sales amount paid at the time the deed was recorded.

Determining the profit for multi-unit buildings is complicated by the fact that a given property may be purchased for a single sum, yet may be resold as condominiums or tenancies-in-common. To determine the value of such re-sales, the Budget and Legislative Analyst aggregated the sales prices of all sold units on the property to arrive at a single value for the property. In cases where not all of the units have yet been sold, the Budget and Legislative Analyst took an average of the sales prices of units that have been sold to date and assigned that average to the unsold units to arrive at a total value for the property.

The Budget and Legislative Analyst inflated the property sales price data to reflect inflation through 2013. The resulting values are in 2013 dollars (representing the most recent data available) and the changes seen in the data reflect the increase driven by the demand for housing in San Francisco as opposed to inflation. To inflate the housing values, the Budget and Legislative Analyst used the half-year inflation data from the Bureau of Labor Statistics (BLS) Consumer Price Index (CPI) for housing in the San Francisco market (not seasonally adjusted). This index is included as Appendix 2 of this report.

⁴ Rent Board Years run from March 1 to the last day of February in the subsequent year.

Appendix I: San Francisco Documentary Transfer Tax History

CARMEN CHU
ASSESSOR-RECORDER



SAN FRANCISCO
OFFICE OF THE ASSESSOR-RECORDER

TRANSFER TAX RATE SHEET

- a. 1947 and prior years: \$1.00 per \$1,000.00
- b. 1948 to September 11, 1975: \$1.10 per \$1,000.00
- c. September 12, 1975 to October 16, 1994*: \$5.00 per \$1,000.00
*Except for June 1978 to August 1978: \$15.00 per \$1,000.00
- d. October 17, 1994 to December 31, 2008: \$5.00 per \$1,000.00
(More than \$100.00, but Less Than or Equal to \$250,000.00)
\$6.80 per \$1,000.00
(More than \$250,000.00, but Less Than \$1,000,000.00)
\$7.50 per \$1,000.00
(\$1,000,000.00 or more)
- e. January 1, 2009 to December 16, 2010: \$5.00 per \$1,000.00
(More than \$100.00, but Less Than or Equal to \$250,000.00)
\$6.80 per \$1,000.00
(More than \$250,000.00, but Less Than \$1,000,000.00)
\$7.50 per \$1,000.00
(\$1,000,000.00 or more, but Less Than \$5,000,000.00)
\$15.00 per \$1,000.00
(\$5,000,000.00 or more)

f. December 17, 2010 to present:

If entire value or consideration is:	Tax rate for entire value or consideration is:
a. More than \$100.00, but Less Than or Equal to \$250,000.00	\$5.00 per \$1,000.00
b. More than \$250,000.00, but Less Than \$1,000,000.00	\$6.80 per \$1,000.00
c. \$1,000,000.00 or more, but Less Than \$5,000,000.00	\$7.50 per \$1,000.00
d. \$5,000,000.00 or more, but Less Than \$10,000,000.00	\$20.00 per \$1,000.00
e. \$10,000,000.00 or more	\$25.00 per \$1,000.00

TO DETERMINE SALE PRICE OF DEEDS RECORDED AFTER 10/17/94:

TTX = Transfer Tax P = Purchase Price

- A. For TTX which is less than or equal to \$1,250, P equals TTX/.005
- B. For TTX which is greater than \$1,250 or less than \$6,800, P equals TTX/.0068
- C. For TTX which is greater than or equal to \$6,800, P equals TTX/.0075

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Appendix 2: Bureau of Labor Statistics Consumer Price Index 1995 – 2013

Bureau of Labor Statistics

Consumer Price Index - All Urban Consumers Original Data Value

Serie CUURA422SAH CUUSA422SAH
Not Seasonally Adjusted
Area: San Francisco-Oakland-San Jose, CA
Item: Housing
Base 1982-84=100
Years 1995 to 2013

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual	HALF1	HALF2
1995	152.6	153.2	153.5	153.9	154.4	154.8	154.8	155.0	155.7	155.6	155.5	155.2	154.5	153.7	155.3
1996	155.6	155.9	153.1	153.7	156.8	157.3	158.7	158.9	159.2	159.9	160.0	159.8	157.4	155.4	159.4
1997	161.2	161.7	162.7	163.2	164.5	165.1	165.8	167.0	167.6	169.0	169.3	169.7	165.6	163.1	168.1
1998	169.5	169.5	172.6	172.6	174.4	174.4	176.1	176.1	177.5	177.5	178.7	178.7	174.4	171.8	177.1
1999	181.7	181.7	183.0	183.0	186.0	186.0	186.9	186.9	188.9	188.9	189.6	189.6	185.6	182.7	188.4
2000	192.1	192.1	194.4	194.4	196.4	196.4	197.9	197.9	202.0	202.0	203.8	203.8	197.0	193.5	200.5
2001	211.8	211.8	213.6	213.6	217.9	217.9	219.7	219.7	219.9	219.9	220.2	220.2	216.5	213.3	219.7
2002	219.6	219.6	221.2	221.2	222.6	222.6	222.6	222.6	222.1	222.1	222.7	222.7	221.4	220.9	222.0
2003	224.3	224.3	223.4	223.4	224.1	224.1	224.5	224.5	223.9	223.9	222.2	222.2	223.7	223.6	223.7
2004	222.0	222.0	220.4	220.4	220.9	220.9	221.0	221.0	222.7	222.7	222.3	222.3	221.5	221.2	221.9
2005	223.7	223.7	222.2	222.2	223.0	223.0	223.2	223.2	226.1	226.1	226.1	226.1	223.8	222.9	224.8
2006	229.0	229.0	229.8	229.8	238.659	238.659	238.770	238.770	240.422	240.422	238.429	238.429	230.5	229.0	232.0
2007	236.853	236.853	237.771	237.771	242.174	242.174	244.190	244.190	246.959	246.959	243.029	243.029	242.561	240.469	244.653
2008	239.444	239.444	240.727	240.727	246.673	246.673	247.586	247.586	246.089	246.089	243.651	243.651	246.168	246.363	245.964
2009	244.436	244.436	245.075	245.075	244.696	244.696	246.233	246.233	246.471	246.471	244.370	244.370	245.183	244.648	245.718
2010	245.465	245.465	247.599	247.599	249.137	249.137	250.465	250.465	251.655	251.655	251.302	251.302	248.980	247.002	250.956
2011	253.851	253.851	254.484	254.484	257.030	257.030	259.914	259.914	260.292	260.292	259.286	259.286	257.142	254.643	259.642
2012	262.027	262.027	264.778	264.778	266.964	266.964	268.433	268.433	269.523	269.523	269.289	269.289	266.418	263.948	268.888

Source: Bureau of Labor Statistics

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