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COUNTY OF LOS ANGELES
**DEPARTMENT OF CONSUMER
AND BUSINESS AFFAIRS**

"To Enrich Lives Through Effective and Caring Service"



Joseph M. Nicchitta
Director

Joel Ayala
Chief Deputy

Rafael Carbajal
Chief Deputy

**Hearing Officer/Department of
Consumer & Business Affairs**

Hearing Date
06/24/2019
Agenda Item No.
3

Transmittal Checklist

Petitioner Name: AASW Alliance, LLC
Case Number: RSQ19-02024
Case(s): IRSO Petition for Relief from Moratorium
DCBA Staff: Shannon Louis

- Petition Summary
- Parcel Profile Report (separate attachment)
- Staff Report
- Burden of Proof Statement(s)
- Expense Reports
- Bank Statements
- Rent Rolls
- Monthly Cover Sheets (Petitioner)

Reviewed By: Dana Pratt



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Case Number
RSQ19-02024

Hearing Date
6/24/2019

PETITION SUMMARY

PETITIONER NAME
AASW Alliance, LLC

PETITION DATE
February 21, 2019

PETITION OVERVIEW

Petitioner filed a Petition for Relief from Moratorium, requesting to increase rent in excess of the allowable limit as outlined in the Interim Rent Stabilization Ordinance, Ordinance Number 2018-0045. The Petitioner states that he is not receiving a fair return on the property.

PROPERTY ADDRESS

11517 Obert Avenue Whittier, California 90604

KEY ISSUES

- The Petitioner closed on the property in August 2018 – one month prior to the implementation of the IRSO
- The Petitioner is requesting an increase of a minimum of \$4,195-4450.00 monthly between the units
- 3 of the 15 units will become vacant by July 31, 2019, which provides the landlord the ability to set rent for the unit without approval from the County per the IRSO
- The Petitioner has already issued 3% rent increases where applicable

STAFF RECOMMENDATION

Denial

DCBA STAFF: Shannon Louis 213-974-4118 SLouis@dcba.lacounty.gov



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June 17, 2019

TO: Gina Natoli, AICP
Hearing Officer

FROM: Shannon Louis

Case No. RSQ19-02024

AASW Alliance, LLC vs. Tenants of 11517 Obert Avenue Whittier, California 90604
Hearing Officer Meeting: June 24, 2019 – Agenda Item: 3

Petition Description

Interim Rent Stabilization Ordinance(IRSO) Petition for Relief from Moratorium

Petitioner is requesting a rent increase above the maximum allowable limit (currently 3%) for the covered rental units located at 11517 Obert Avenue Whittier, California 90604 in the unincorporated area of South Whittier in Los Angeles County.

The Petitioner reports receiving \$84,570.91 annually in income for the property located at the address listed above. The Petitioner reports a total of \$64,127.32 annually in operating expenses. The Petitioner reports the following operating expenses: mortgage, property taxes, property insurance, maintenance and repairs, payroll, pest control, trash, gas, water and electricity. Based on the supporting documentation provided by the Petitioner, DCBA has calculated the monthly income and expenses for the property in Figure 1.

Use Type

Multi-Family Residential; 0500

Year Built/Certificate of Occupancy(COO)

1961

Previous Petitions/History

N/A

Staff Evaluation & Burden of Proof

According to Ordinance No. 2018-0045, DCBA has determined that the property 11517 Obert Avenue Whittier, California 90604 is covered under the Los Angeles County Interim Rent Stabilization Ordinance and is subject to its conditions.

The IRSO covers residential dwellings on properties with two or more units in the unincorporated areas of Los Angeles County with initial certificates of occupancy or equivalent issued on or before February 1, 1995. **Ordinance No. 2018-0045 Section 1(A) and Section 1(B).**

The IRSO limits rent increases to 3% once per 12-month period and applies to any rent increase taking effect on or after September 11, 2018, unless a greater rent increase is authorized in order to allow a landlord to earn a fair return. **Ordinance No. 2018-0045 Section 3(A).**

The IRSO regulates Housing Service Adjustments and indicates that a decrease in Housing Services can be considered an increase in Rent. Rent and Housing Services are defined in Section 2 of the IRSO. **Ordinance No. 2018-0045 Section 3(C).**

The IRSO and implementing rules/regulations define a fair return as ensuring a landlord may maintain the value of the net operating income (NOI) earned from the property prior to the regulation of rents under the IRSO and continue those earnings during the pendency of the IRSO. NOI is defined as gross income less operating expenses. Maintaining the value of the NOI is achieved by ensure NOI increases no less than any increase in the consumer price index (CPI) for the Los Angeles area, as reported monthly by the [U.S. Department of Labor, Bureau of Labor Statistics \(BLS\)](#). To maintain NOI, the County compares a landlord's NOI prior to the IRSO and at the time the landlord petitions the County for a rent increase, to ensure the NOI received when the petition is submitted has increased in value equal to the change in CPI. This evaluation is summarized in [Figures 1 and 2](#), below and discussed thereafter.

The proposed monthly increase of \$4,195-4450.00 would increase the total rental income for the property by \$50,340-53,400.00 annually. It should be noted that the Petitioner's reported rental income of \$84,570.91 is for an 8-month period and not an entire 12-month period – based on the date the property was purchased. The Petitioner is requesting to increase rents as a result of needing to refinance the property and operating at a loss due to the mortgage expense. According to the ordinance, the landlord may already be allowed to increase the rental income by 3%, depending upon the date of the most recent rent increases for the units. **Ordinance No. 2018-0045 Section 3(A)(1).**

Figure 1: DCBA Staff Income and Expense Calculations

DCBA Findings: AASW Alliance, LLC - 11517 Obert Avenue Whittier, CA 90604									
Column1	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	Total
Income	\$ 10,115.00	\$ 10,115.00	\$ 10,115.00	\$ 11,058.00	\$ 9,463.40	\$ 10,326.01	\$ 10,325.50	\$ 10,353.00	\$ 81,870.91
Expenses	\$ 2,341.04	\$ 3,496.25	\$ 1,637.23	\$ 3,925.92	\$ 7,068.00	\$ 5,829.47	\$ 9,919.78	\$ 1,656.08	\$ 35,873.77
NOI	\$ 7,773.96	\$ 6,618.75	\$ 8,477.77	\$ 7,132.08	\$ 2,395.40	\$ 4,496.54	\$ 405.72	\$ 8,696.92	\$ 45,997.14
Mortgage	\$ 1,983.26	\$ 5,482.02	\$ 5,482.02	\$ 5,428.02	\$ 5,482.02	\$ 5,482.02	\$ 5,970.50	\$ 5,482.02	\$ 163,741.82
NOI with Mortgage	\$ 5,790.70	\$ 1,136.73	\$ 2,995.75	\$ 1,704.06	\$ (3,086.62)	\$ (985.48)	\$ (5,564.78)	\$ 3,214.90	\$ 5,205.26

Figure 2: Petitioner Income and Expense Calculations

Reported by Petitioner: AASW Alliance, LLC - 11517 Obert Avenue Whittier, CA 90604									
Column1	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	Total
Income	\$ 11,015.00	\$ 11,015.00	\$ 11,015.00	\$ 11,058.00	\$ 9,463.40	\$ 10,326.01	\$ 10,325.50	\$ 10,353.00	\$ 84,570.91
Expenses	\$ 5,764.04	\$ 3,646.25	\$ 4,348.01	\$ 14,180.92	\$ 7,068.00	\$ 5,829.47	\$ 12,619.44	\$ 10,671.19	\$ 64,127.32
NOI	\$ 5,250.96	\$ 7,368.75	\$ 6,666.99	\$ (3,122.92)	\$ 2,395.40	\$ 4,496.54	\$ (2,293.94)	\$ (318.19)	\$ 20,443.59
Mortgage	\$ 5,482.02	\$ 5,482.02	\$ 5,482.02	\$ 5,482.02	\$ 5,482.02	\$ 5,482.02	\$ 5,970.50	\$ 5,482.02	\$ 44,344.64
NOI with Mortgage	\$ (231.06)	\$ 1,886.73	\$ 1,184.97	\$ (8,604.94)	\$ (3,086.62)	\$ (985.48)	\$ (8,264.44)	\$ (5,800.21)	\$ (23,901.05)

Petitioner vs. DCBA Staff Income and Expense Calculations

The Petitioner reports the following operating expenses: mortgage, property taxes, property insurance, maintenance and repairs, payroll and salaries, pest control, trash, and gas, water, electricity. The Petitioner reports an income of \$84,570.91 for the months of September 2018-April 2019. DCBA was able to substantiate an income of \$81,870.91 based on the rent rolls provided by the Petitioner. The Petitioner reported a rental income of \$11,015.00 in the months of September, October, and November 2018, but the rent rolls demonstrated \$10,115.00 in rental income. The Petitioner did not purchase the property until August 2018 – thus no information was available for the Base Year (prior to September 2018). The evidence provided includes the property management company’s expense report, canceled checks, utility bills, bank statements and maintenance receipts/invoices provided by the Petitioner. DCBA used the property

management company's expense report to identify expenses and cross-referenced these numbers against canceled checks, utility bills, bank statements and maintenance receipts/invoices provided by the Petitioner. Because of the large amount of expenses that were reported, the property management company's expense report allowed DCBA to capture all transactions related to the reported expenses that occurred over several months and that may have been split over time. Please note that any deviation in the numbers reported in Figures 1 and 2 are as a result of the Petitioner not providing documentation to substantiate the reported total expenses on the property management company's expense report. The differences between Figures 1 and 2 are explained below.

- September 2018: DCBA was unable to substantiate the Petitioner's reimbursement check for insurance in the amount of \$3,423.00 as the documentation provided for the claim does not demonstrate a relationship to what has been reported. Additionally reported a mortgage payment of \$5,482.02, but the bank statement only demonstrated a payment of \$1,983.26 on the mortgage.
- October 2018: DCBA was unable substantiate the Petitioner's petty cash claim of \$150.00 as it was indeterminable what this was being used for and it does not mean that an expense has been incurred.
- November 2018: DCBA was unable substantiate the Petitioner's property tax claim in the amount of \$2,710.78 as no documentation was provided related to this expense.
- December 2018: DCBA was unable substantiate the Petitioner's landscaping claim in the amount of \$320.00 as no documentation was provided related to this expense. DCBA was also unable to substantiate the \$50.00 bonus expense that was reported. Additionally, the Petitioners claim of \$9,885.00 was unable to be substantiated at the check requests provided do not provide information related to the work the Petitioner claims was performed.
- March 2019: DCBA was unable substantiate the Petitioner's property tax claim in the amount of \$2,700.66 as no documentation was provided related to this expense.
- April 2019: DCBA was unable substantiate the Petitioner's property tax claim in the amount of \$7,110.78 as no documentation was provided related to this expense and the Petitioner paid himself. Additionally, DCBA was unable to substantiate the claim of \$21.58 toward employee training as no documentation was provided related to this expense.

Based on the reported totals and what DCBA was able to substantiate, it has been determined that the Petitioner has an NOI of \$45,997.14. The spirit of the IRSO is that a fair return is determined by reviewing a property owner's NOI before and after implementation of the ordinance. The purpose of this comparison is to determine that a

property owner's return on their property is not negatively impacted and that they are not experiencing undue hardship as a result of the ordinance. The ordinance does not deem financial packages as justification for not receiving a fair return and thus mortgages are not deemed as an eligible expense under the IRSO. As previously mentioned, the basis of this particular petition is to allow the Petitioner to increase rents in order to refinance the property. In Figure 1, DCBA calculated the Petitioner's NOI with the inclusion of the mortgage. It was determined that the Petitioner's NOI changed to \$5,205.26 – which would mean that the Petitioner is still receiving a return on the property, even with the implementation of the IRSO.

As a result, DCBA believes that the petition should be denied on technicality and spirit of the ordinance. With the constraints of the ordinance and reviewing NOI between years, we are unable to determine if the landlord is not able to receive a fair return as no operation occurred prior to the implementation of the ordinance. However, DCBA understands that it is within the Hearing Officer's discretion to make an alternative determination as it relates to this petition.

Proof of Service/Notice of Hearing

The Petitioner, AASW Alliance, LLC, returned the Proof of Service form to DCBA on February 21, 2019. The DCBA sent the original Notice of Hearing on March 27, 2019.

Public Comments

N/A

Fees/Deposits

N/A

Staff Recommendation

The following recommendation is made prior to the public hearing and is subject to change based upon testimony and/or documentary evidence presented at the public hearing:

Staff recommends DENIAL of the Interim Rent Stabilization Ordinance Petition for Relief from Moratorium – Case Number RSQ19-02024.

SUGGESTED STATEMENT

I, THE HEARING OFFICER, CLOSE THE PUBLIC HEARING AND FIND THAT THE INTERIM RENT STABILIZATION ORDINANCE PETITION FOR RELIEF FROM MORATORIUM CASE NUMBER RSQ19-02024 IS **DENIED**, SUBJECT TO THE ATTACHED CONDITIONS.

Suggested Denial Statement

Prepared by Shannon Louis

Staff Report
RSQ19-02024

Reviewed by Dana Pratt

Attachments

Initials JMN:DP: sl
(6/17/19)

BURDEN OF PROOF STATEMENT

Section IV: Reason for Petition *(explain in detail why you are requesting a hearing)*

WE PURCHASED THE PROPERTY AT 1517 OBERT AVE, 90604 ON 8/20/18 FOR \$2,200,000.
SEE ATTACHED

IS THIS MATTER URGENT?

Yes No

REASON FOR URGENCY *(must attach relevant documents in order to be considered):*

SEE ATTACHED

Section V: Signature of Petitioner

WEICHAO CHANG

Petitioner Name (Print)

LANDLORD

Petitioner Title (Tenant, Landlord, Mobilehome Homeowner or Park Owner)

7146120946

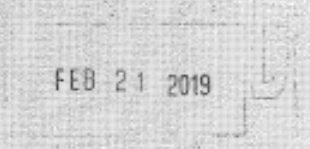
Petitioner Telephone Number



Signature

2/21/2019

Date

OFFICE USE ONLY		DCBA RECEIVED
Case No:		
Proof of Service filed on:		
Service Complete	<input type="checkbox"/> Yes <input type="checkbox"/> No	
Hearing Date:	Time:	
Hearing Notice Mailed To:		
Hearing Notice Mailed On:		
Hearing Location:		
Hearing Officer:		

Section IV: Reason for Petition *(explain in detail why you are requesting a hearing)*

We purchased the property at **11517, OBERT AVE, WHITTIER 90604** on 8/20/2018 for \$2,200,000. Previous owner owned the apartment for at least 20 years. They kept the rents low but also did little maintenance. Building is in very poor condition. Seller financed \$1,650,000 of the purchase at 4% for 6 month and 5% interest for 18 months. At the end of the 2-year term, if we do not refinance the building, we could lose it and our investment to foreclosure. Due to low rent, we can only get a loan in the amount of \$963,000. We do not have \$687,000 cash to make up the difference. By our estimation, we need to raise rents between \$4,195 to 4,450 per month to achieve the loan amount. Our monthly rent is currently \$10,227. The market rent, based on estimation, is, \$14,870. There is also a lot of expenses, and we have lost **\$2,299** since purchasing the building. At least additional **\$4,200** due soon.

IS THIS MATTER URGENT?

Yes No

REASON FOR URGENCY *(must attach relevant documents in order to be considered):*

The current rents do not cover expenses. Without the ability to raise rents and cover expenses, we also risk further decrease in value due to further wear and tear at the building. We do not want our building to fall into dilapidated condition where it becomes not suitable for habitation. We have no resources to make capital improvements. Since acquiring the building in 2018, we have seen NO profit, and costs are expected to rise in 2019. Our loss to date is **\$2,299.00**, with additional **\$4,200** minimum coming due after fixing a water leakage issue. Our projected loss for 2019 is **\$43,487**.

FEB 21 2019