



City Council Staff Report

From: City Manager

Report Type: **CONSENT CALENDAR**

Lead Department: Planning and Development Services

Meeting Date: **May 1, 2023**

Report #:2302-1024

TITLE

Rental Residential Vacancy Rate Determination for Three Plus Dwelling Units for 2022

RECOMMENDATION

This is an informational report and City Council action is not required.

EXECUTIVE SUMMARY

This report transmits the biannual reporting of the vacancy rates of three or more residential rental units for December 2022. The vacancy rate is 1.16%. When the vacancy rate is less than the 3% threshold, applications to convert residential rental units to ownership units through the subdivision process are not eligible for consideration.

BACKGROUND

Planning staff prepares the Residential Vacancy Rate Determination Report twice a year to meet the requirements of Palo Alto Municipal Code Section 21.40.040, Determination of Vacancy Rate and Surplus. Section 21.40.040¹ states the following:

"In April and November of each year, the director of planning and community environment shall determine from the city utility meter records the vacancy rate and the vacancy surplus, if any, within the city limits. New market-priced rental units available to the general public, for which a certificate of use and occupancy has been issued since the last vacancy survey, shall be added on a unit-for-unit basis either to reduce the vacancy deficiency or to increase the vacancy surplus."

All conversions involving a change in the type of ownership of three or more rental units are subject to the provisions of this chapter. Vacancy surplus in this section of the Municipal Code is defined as the number of rental units being offered for rent or lease in excess of the 3% vacancy rate. No application for consideration of a tentative or preliminary parcel map for a subdivision

¹ Municipal Code Chapter 21.40: https://codelibrary.amlegal.com/codes/paloalto/latest/paloalto_ca/0-0-0-19994

created from a conversion may be filed with the city unless there is a vacancy surplus of 3% or more as of the most recent determination pursuant to Section 21.40.040.

The purpose of this reporting effort is to seek a reasonable balance of rental and ownership housing in the city in a variety of individual choices of tenure, type, price, and location of housing. It is also to protect the supply of multi-family rental housing stock in the city for low- and moderate-income families, and to reduce and avoid displacement of tenants, particularly seniors and families.

ANALYSIS

Staff prepared this report per the directions provided in Municipal Code Section 21.40.040, using the City of Palo Alto's utility meter records to access the total number of "active" multi-family apartments and to determine the percentage of "vacant" multi-family apartments.

In November 2020, the City's Utility Department upgraded its old data recording system which permitted address reconciliation between the Utility accounts database and the City's GIS address database creating a more accurate analysis. This cross-department effort created a link between the two databases which facilitated a more accurate unit count focused on rental multifamily utility accounts instead of all multifamily accounts. The collaboration successfully identified most Utility accounts associated with 3+ rental units; however, for various reasons, not all accounts could be identified (e.g., the GIS address may not exactly match Utility account addresses on corner lots or address formatting discrepancies between the GIS address and Utility account databases). Staff will continue to research discrepancies on a case-by-case basis to further enhance both datasets.

As part of this reconciliation effort, staff recognized that rental multifamily properties could have different types of utility accounts. There are instances where a property has one utility meter for all rental units or individual unit accounts billed to the property manager or owner regardless of unit occupancy. Additionally, staff found that some 3+ rental housing units' individual utility accounts have been 'inactive' or have not had a utility bill for some time and it is difficult to determine whether the rental unit is vacant or no longer available to rent altogether.

Latest Vacancy Rate

For the December 2022 data reporting cycle, the multifamily rental vacancy number is 1.16% percent. This number is significantly lower than the percentages reported before December 2020 but is about the same as the numbers reported after the system upgrade. Further details can be found in Table 1.

Table 1: Average Annual Rental Vacancy Rates

Year	Estimated Housing Units ²	Utility Accounts Deemed “Vacant”	Estimated Vacancy Rate (yearly average) ³
2015	7,901	92	1.22%
2016	7,912	118	1.45%
2017	7,928	131	1.58%
2018	7,928	132	1.52%
2019	7,931	141	1.83%
2020	8,057	226	2.8%
2021	8,057	55	1.13%
2022	8,057	56	1.16%

FISCAL/RESOURCE IMPACT

Planning staff prepares this report biannually and there are no resource impacts.

STAKEHOLDER ENGAGEMENT

This is an informational report for the City Council and does not require any stakeholder engagement.

ENVIRONMENTAL REVIEW

This project is exempt from environmental review under Section 15061 of the California Environmental Quality Act Guidelines.

ATTACHMENTS

None.

APPROVED BY:

Jonathan Lait, Planning and Development Services Director

² The U.S. Census Bureau Decennial Census 2010 data is used as a baseline for the total rental stock data in Palo Alto and changes (addition or demolition) to the total rental dwelling unit stock are tracked by staff biannually using the City of Palo Alto’s land use management system (Accela) to generate the vacancy rate. Staff expected to update the baseline with the release of the 2020 Decennial Census; however, the U.S. Census Bureau decided to discontinue the rental data point and staff will continue to use the original methodology.

³ This percentage is the number of utility accounts deemed “vacant” divided by the utility accounts sample size.