



THE PRESIDENT'S MESSAGE

A seat at the table

By Noni Richen, SPOSF/SPOSFI President

In mid-October, we emailed our members a statement from the president of our statewide coalition, CalRHA, explaining how working together with small-to-medium-size property owners all over California has given us a “seat at the table” in discussions with legislators when rental housing is the topic. We can now express how proposed policies affect small owners. The big guys, CAA and affiliates, are not burdened in the same way as we are. Neither are single-

“The big guys have an annual turnover rate of residents of about 10% to assist them in keeping up with increased expenses.”

family houses owned by their residents who may rent out a couple of other houses: realtors® (CAR) have their back. The big guys have an annual turnover rate of residents of about

10% to assist them in keeping up with increased expenses. We small owners, who may have one vacancy every several years, if that, are more severely affected by rent control. Some of the other affiliates are far larger than SPOSFI; some are smaller. We all have roles to play in the coalition. Someone at our CalRHA board meeting in Sacramento recently acknowledged our ability to “put butts in the chairs” at legislative committee hearings. Due to our proximity to the Capitol and our work with other groups who help fund our efforts, we can bring crowds to hearings. As CalRHA’s membership and influence have expanded, we can meet on an equal footing with other housing provider organizations and with business leaders who employ our renters.

The biggest threat

We in San Francisco, however, know that the biggest threat to our businesses and to the supply of housing here is the committee of 11 district supervisors, who persist in adding more and more layers of onerous and unnecessary regulations and penalties, ►► Cont’d next page

CHALLENGING RENT CONTROL

Opportunities and hurdles in challenging rent control based on the Fifth Amendment’s Takings Clause

Apartment owners and associations around the nation are hopeful that the new makeup of the U.S. Supreme Court—more amenable to takings challenges—will agree to review lawsuits based on this key argument.

By Frank A. Weiser, Esq.

On October 8, 2019, Governor Gavin Newsom signed into law Assembly Bill 1482, enacting rent control as a statewide measure in California for the first time. Once the law goes into effect on January 1, 2020, the state will begin to regulate how much tenants’ rent may be increased annually, limiting it to 5% plus the local rate of inflation. The new rules, however, will vary for municipalities and local governments that already have rent control laws. Governor Newsom has stated that with AB 1482, California will have the “nation’s strongest statewide renter protections.”

Property owners are pushing back

At the same time, property owners throughout the state are pushing back with new legal challenges to

“Governor Newsom has stated that with AB 1482, California will have the ‘nation’s strongest statewide renter protections.’”

recently-enacted rent control laws. These challenges include claims that the government rent control regulations either unreasonably interfere with the economic value of a property, in violation of the **Just Compensation**

Clause of the Constitution’s Fifth Amendment Takings Clause, or constitute, under some tenant relocation fee payment laws, “private takings” of property in violation of the **Public Use Clause**.

To be sure, the present legal landscape in Fifth Amendment takings law is a vast and complex subject that cannot be discussed adequately in this article. But property owners need to be aware of the general landscape of some of the recent opportunities and remaining legal procedural and substantive challenges in making a takings claim to rent control ordinances.

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with no documentation or other proof to show that they are actually addressing real problems. They hear of a sad event affecting one or two renters, and spring reflexively into action with new legislation. At the same time that they fund “legacy businesses,” they pass laws that discourage our “old-school” ones—the small mom-and-pop landlords that provide the majority of the city’s housing. Thousands of rentals have become condos and TICs, not a bad outcome for homebuyers, but a loss for renters. ***Our supervisors simply don’t care!*** They seek the fawning adoration of the misnamed “tenant protection” forces; they want the votes. We continue our efforts at dialogue with them, we testify locally, and advocate for all of us. We never give up the fight, but we’re also realistic. In years past, we looked to Sacramento for some legislative sanity. Today, we can only look to the courts.

Among the articles in this issue of our newsletter is an informative and comprehensive look at the current landscape of rent control litigation, especially claims based on various clauses of the U.S. Constitution’s Fifth Amendment. Rest assured, when it comes to challenging rent control in the courts, and keeping you informed, SPOSFI is at the forefront.

Our November newsletter and our November 12 members’ meeting are our last for 2019. Please enjoy the season. It’s the time of year when many of us celebrate the holidays. It should be a time of warm feelings and putting aside some of our burdens. We wish you all a very happy and healthy New Year, and look forward to seeing you again in 2020.🏠

Owners to contest court’s rejection of challenge to lifetime lease requirement

By Sarah M.K. Hoffman, Esq., and Justin A. Goodman, Esq.

Peyman Pakdel and Sima Chegini (the Pakdels) purchased an interest in a six-unit tenancy-in-common (TIC) building in San Francisco. Any group of owners can collectively purchase property, but “TIC” is conventionally used to describe co-ownership of a multi-unit building, coupled with a contract-based interest in the possession of a single unit.

TIC-to-condo conversion in San Francisco

TIC agreements in San Francisco work like CC&Rs for condos—they describe who gets what unit, who pays for common expenses, what happens when the building needs unanticipated repairs, etc. One important difference:

“Most San Francisco TIC owners contemplate condo conversion as the ‘goal’ of the agreement.”

Most San Francisco TIC owners contemplate condo conversion as the “goal” of the agreement. The goal makes sense. Even when a condo isn’t a stand-alone

structure, it’s a “subdivided” parcel, with its own parcel number, property tax assessment, and ability to be mortgaged or sold separately. Condos are a recognized property interest, so they’re worth more.

Why wouldn’t every TIC owner just condo-convert? In some places they can. In San Francisco, it’s more complicated. California regulates condos under the “Subdivision Map Act,” but it expressly allows local governments to control when (or whether) it happens. In other words, conversion is a privilege, not a right.

San Francisco allows conversion sparingly, because it equates condo conversion with tenant displacement and loss of rental units from the highly regulated rental housing stock. Condos and TICs are often owner-occupied, and even if they are rented out, the owner has a constitutional right to “physically occupy” in a way that owners of apartment buildings do not. (“Protected tenants” cannot be displaced by an owner move-in eviction, but even tenants qualified for this protection lose it where there is only one rental unit in the building owned by the landlord.) Even older condos can escape rent control through the **Costa-Hawkins Act**. So the city imposes conditions and limitations on the potential and permanent loss of affordable rental housing.

When the Pakdels bought their interest, a “lottery” was held whereby only 200 units/year got to convert. Over time, a large backlog of units eager to convert built up. So in 2013, the City suspended the lottery and enacted its “Expedited Conversion Program” (ECP): owners could pay a fee of \$20,000 per unit and offer the tenant the right to purchase or sign a lifetime lease.

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Volume 21/Issue 10

NOVEMBER 2019

www.smallprop.org

Editor: Gideon Kramer **Copy editor:** David Brownell
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Deadline for newsletter submissions: The 20th of each month.
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Institutional investors might absorb this massive wealth transfer, but the Pakdels purchased their TIC interest in 2009 with the goal of living in the unit once they retired. They rented the unit to a tenant in 2010—before the blanket requirement to offer a lifetime lease as a condition of condo conversion went into effect. At that point, the Pakdels had the right to perform an owner move-in eviction or quit the rental business under the state Ellis Act, but under the 2013 ECP code, they would lose the right to move into their own home.

Pakdels sue to challenge ECP Code

The Pakdels inevitably converted, but asked that the City not enforce the lifetime lease requirement, or provide compensation. The City refused, so the Pakdels offered the lifetime lease (which was accepted) and subsequently sued in Federal Court to challenge the Code and recover possession of their condo. They sued under various grounds—takings, violations of the due process and equal protection clauses, and unreasonable seizure under the Fourth Amendment. Both the U.S. and California Constitutions provide that a government agency cannot take private property without just compensation. This doctrine extends to “regulatory” takings, where a government agency changes the rules about how property can be used, effectively depriving its owners of any economically reasonable use or value for their property. Here, the Pakdels have argued that the lifetime lease requirement “effectuates a taking of their property by requiring them to surrender one of the essential sticks in their bundle of property rights, the right to possess their own property.”

Court dismisses Pakdels’ takings claim

The District Court dismissed the Pakdels’ takings claim as being unripe because the Pakdels hadn’t exhausted their remedies in state court first. It also ruled that their state law claims were time-barred, and dismissed the other causes of action for failure to state a claim. The Pakdels appealed to the Ninth Circuit, arguing that the court incorrectly dismissed the takings claim under *Williamson County Regional Planning Commission v. Hamilton Bank of Johnson City* (1985) 473 U.S. 172, which allowed discretion in letting a case proceed when the circumstances warranted—a tough standard to meet. They argued that the Federal Court should not have required them to follow the *Williamson County* rule that a takings claim cannot be brought in Federal Court until the plaintiff has exhausted his state law options. In other words, an aggrieved plaintiff must first challenge the taking or seek compensation via any

NEXT MEMBERS’ MEETING: TUESDAY, NOV. 12 , 6:15 P.M.



St. Mary’s Cathedral

1111 Gough St. at Geary Blvd.

Refreshments served.

Always plenty of free parking!

GUEST SPEAKERS:

David Chesnosky will give an update on the rental market and tips for owners leasing out their rental properties.

Will Low, from BinCleaners, will discuss his company’s service of cleaning Recology garbage totes.

Get your legal questions answered by the experts!

THIS MONTH’S LEGAL PANEL:

With attorney **Andrew M. Zacks**
of Zacks, Freedman & Patterson, PC

applicable administrative appeals, and the state courts, before bringing a claim in Federal Court. This doctrine effectively closed the federal courthouse doors to takings plaintiffs.

A ray of hope

The Pakdels argued that the Supreme Court would be considering *Knick v. Township of Scott* (see page 3 of our September 2019 issue for more on this case)—a case

“This case (*Knick*) made its way to the Supreme Court, which ruled that a property owner may bring Fifth Amendment takings claims in federal court without first pursuing state court remedies.”

that might reverse *Williamson*. In *Knick*, a property owner challenged a local law requiring that any property owners with a private cemetery on their land provide free access to members of the public. This case made its way to the Supreme Court, which ruled that a property owner may bring Fifth Amendment takings claims in federal court

without first pursuing state court remedies.

In the *Knick* of time

The Supreme Court overturned the *Williamson* ripeness rule before the Pakdels’ oral argument. It seems probable that the District Court’s dismissal of the Pakdels’ claims will be reversed, at least with regard to the ripeness issue. This would mean that the Pakdels can litigate their takings claim in federal court. If they win on this point, it doesn’t ensure their success; it simply means that they’re allowed to stay in the court. It’s likely the Court of Appeal will remand the case back to the District Court for further fact-finding and argument as to whether the lifetime lease requirement effectuated a taking of the Pakdels’ property rights. 🏠

Cont'd from pg. 1: **Challenging rent control**

The Fifth Amendment and types of "taking"

The Fifth Amendment to the U.S. Constitution forbids the government from taking private property for public use without just compensation. The Supreme Court has generally recognized three categories of governmental regulatory action in its takings jurisprudence.

"The Fifth Amendment to the U.S. Constitution forbids the government from taking private property for public use without just compensation."

The first type of taking occurs when the government causes an owner to suffer a permanent physical invasion of his property—however minor. The second type of taking concerns regulations that completely deprive an owner of all economically

beneficial use of his property. These two categories are referred to as **per se takings**. The third category of taking concerns government regulation that interferes with but does not completely destroy the economic value of a property.

Traditionally, the federal courts, and here in California, the Ninth Circuit, have stated that they are generally reluctant to intrude upon "sensitive areas of social policy" such as local land-use regulations. See *San Remo Hotel v City & County of San Francisco*, 145 F.3d 1095, 1104 (9th Cir. 1998). This fact, coupled with previous Supreme Court precedents that held that an owner whose property has been taken by local government has not suffered a violation of his Fifth Amendment rights—and thus cannot bring a federal takings claim in federal court until a state court has denied his claim for just compensation under state law (*Williamson County Regional Planning Commission v Hamilton Bank of Johnston City*, 473 U.S. 172 (1985))—have made challenges to rent control ordinances unusually difficult, even for the seasoned practitioner in this area of the law.

An extremely complex area of the law

The intersection of federal and state court jurisdiction in takings jurisprudence created an exceedingly complex area of the law, one that essentially foreclosed Fifth Amendment takings claims in federal court after the state inverse condemnation counterpart under the California Constitution was litigated. **Inverse condemnation** describes a situation in which the government takes private property but fails to pay the compensation required by the Fifth Amendment, so the property owner has to sue to obtain the required just compensation. I think it's fair to say that most practitioners in this area found that in regulatory takings challenges, California law places an additional barrier not found under federal law, that requires a property owner to, in effect, overturn the regulation in question before he

could seek damages for inverse condemnation. Traditional rules concerning California **mandamus** challenges to local regulations set a very high legal and factual bar for an owner to overcome. (Mandamus is a judicial remedy in the form of an order from a court to any government, subordinate court, corporation, or public authority, to do some specific act which that body is obliged under law to do, and which is in the nature of public duty, and in certain cases, of a statutory duty.)

Knick: a momentous decision

However, last term, the U.S. Supreme Court in *Knick v Township of Scott, Pennsylvania*, 139 S.Ct. 2162 (2019), announced a new rule, overturning its previous precedent in the *Williamson County* case: now a property owner may seek compensation directly in federal court

"The Knick decision has remedied a long-standing procedural barrier and injustice, opening the federal courts to Fifth Amendment claims that should never have been closed in the first place."

under the Fifth Amendment without first seeking such compensation under state inverse condemnation laws in state court.

The *Knick* decision has remedied a long-standing procedural barrier and injustice, opening the federal courts to Fifth Amendment claims that should never

have been closed in the first place. But although *Knick* changed the landscape for federal takings challenges, some traditional procedural and substantive legal hurdles remain.

The hurdles in challenging rent control

First, the Supreme Court in *Knick* itself stated that even if plaintiffs are successful in their takings claim, compensation, not equitable relief, such as invalidating the ordinance, is the correct remedy. Therefore, many takings challenges may be limited in only seeking compensation but will not necessarily be able to overturn the regulation in question. I don't believe that all takings challenges are so limited, as there certainly may be challenges which claim that the taking is unconstitutional *per se*, and that no amount of compensation can remedy it. In such cases, a property owner or an association of owners might argue that only by invalidating the regulation itself can the unconstitutional violation be remedied.

"... many takings challenges may be limited in only seeking compensation but will not necessarily be able to overturn the regulation in question."

Are tenant relocation fees a "private taking?"

Regulations requiring owners to pay tenant relocation fees are the basis for some of the more creative challenges recently filed in California after *Knick*. These challenges argue that rent control ordinances that require

property owners to pay relocation fees to tenants who move out of their units, with or without cause, are wholly unconstitutional as “private takings” of property in violation of the **Public Use Clause** of the Fifth Amendment, and can be remedied only by invalidating

“... a property owner or association may seek to invalidate the regulation itself rather than requesting compensation to particular owners.”

the ordinance itself (*Ed: see article on page 2*). But on the whole, I believe that more traditional rent control challenges claiming that a rent control ordinance unreasonably deprives an owner of his investment-

backed expectation in his property will be limited to compensation damages without invalidating the regulation in toto.

Another hurdle: the “finality requirement”

Another procedural hurdle that remains after *Knick* is that the Supreme Court in *Knick* only overruled *Williamson County's* state compensation exhaustion requirement. But the **finality requirement**, which is concerned with whether the initial governmental decision-maker arrived at a definitive position on the issue that inflicts an actual, concrete injury on a property owner, remains untouched (See *Knick*, 139 S.Ct. at 2169). The finality requirement provides that a claim isn't ripe (i.e., ready to be litigated) until the government entity charged with implementing the regulations has reached a final decision regarding the application of the regulations to the property at issue.

“After *Knick*, local governments are already arguing, and will continue to argue in future rent control challenges, that certain Fifth Amendment takings claims are not ripe for adjudication...”

After *Knick*, local governments are already arguing, and will continue to argue in future rent control

challenges, that certain Fifth Amendment takings claims are not ripe for adjudication because the property owner has not yet sought a final administrative determination as to how the ordinance applies to his particular property.

Challenging the ripeness doctrine

I don't think that such ripeness challenges are insurmountable in all takings claims. The Ninth Circuit long ago ruled that the ripeness doctrine does not apply to takings challenges that claim that the adoption of the ordinance, irrespective of its application to a particular property owner, constitutes a per se taking. In such challenges, as discussed earlier, a property owner or association of owners may seek to invalidate the regulation itself rather than requesting compensation to particular owners.

Further, I believe that creative practitioners may

challenge the ripeness doctrine itself in certain cases where it can be plausibly argued that even interim governmental decisions constitute a “temporary” taking of property compensable under the Fifth Amendment and under existing Supreme Court precedent.

An important Ninth Circuit decision

A fairly recent Ninth Circuit decision held that city regulation of rent increases does not constitute a regulatory taking under the Fifth Amendment. The court reasoned that the purpose of rent control programs counsels against finding a Fifth Amendment taking because “rent control is a public program that adjusts the benefits and burdens of economic life to promote the common good.” See *Colony Cove Properties, LLC v City of Carson*, 888 F.3d 445 (9th Cir. 2018).

“A fairly recent Ninth Circuit decision held that city regulation of rent increases does not constitute a regulatory taking under the Fifth Amendment.”

Despite this ruling, however, I don't think that *Colony Cove* and precedents like it are necessarily the final word in rent control challenges. Presently, landlord groups in the State of New York and in New York City have filed a federal constitutional challenge to New York's rent regulations. The suit alleges that state and city governments have, in effect, taken over nearly a million regulated apartments with their new law. It seeks to overturn New York's system of rent regulation that dates back to federal price controls during World War II. The new rent law makes it more difficult for apartment owners to increase rents and eliminates rules that in the past allowed owners to free thousands of apartments from rent regulation.

Conclusion

Apartment owners and associations throughout the United States are hopeful that the present makeup of the Supreme Court, that is clearly more amenable to takings challenges, will eventually review the New York lawsuit, and suits like it. Lawsuits here in California will most likely make similar arguments in challenging AB 1482.

The final word on rent control takings challenges remains to be written. 🏠

*Mr. Weiser is a civil rights attorney practicing in Los Angeles. He specializes in municipal law as it relates to the motel and apartment owners industry. He has represented various motel and apartment owners and associations throughout California for over 35 years, and his cases have been published widely in the federal and state reporters. He was lead counsel of record before the U.S. Supreme Court in *City of Los Angeles v Patel*, 135 S.Ct. 2443 (2015), in which the Court affirmed a Ninth Circuit en banc (full court) decision that found a motel records search ordinance facially unconstitutional under the Fourth Amendment.*

Sales market for 2-4 units remains strong, but 2019 trend makes future uncertain

By Terrence Jones, SPOSFI Business & Board Member

Recent news of weakening in the Bay Area's sales market seems to apply less to the market for 2-4 unit buildings in San Francisco. Here we continue to see average price per sale above \$2 million. The third quarter of 2017 is the last time we had an average sale price below \$2 million. Prices have fluctuated during the past eight quarters between \$2.1 and \$2.3 million, but we've seen a downward shift in average sales price in 2019: a 4% drop from Q1 to Q2 and another 3% from Q2 to Q3. Although the movement is downward, it's premature to say whether it's a pause in the market or a real trend.

What factors have affected the market?

- **Trade war with China.** The trade conflict between the U.S. and China is not overpowering the market, but with so much political chaos and a looming impeachment,

“The important all-cash buyers from China have disappeared; Hong Kong buyers are still in the market, but at a less frenetic pace.”

China is feeling no pressure to make any concessions on trade prior to the 2020 election, a situation that doesn't bode well for our nation. The important all-cash buyers from China have disappeared; Hong Kong buyers

are still in the market, but at a less frenetic pace. In August, I sold a 4-unit building with a vacant flat to a Hong Kong buyer at the list price of \$2.9M (\$691/sq. ft.)—the only offer! At this same time last year, I would have gotten multiple offers over list price.

- **No “IPO boom effect.”** Another factor impacting the 2-4 unit apartment market was the absence of an “IPO boom effect.” The millions of stock-option dollars from Uber's June IPO are in employees' accounts, but since then, its share price has plummeted. That along with WeWork's postponed IPO has led to less irrational exuberance from tech buyers—a big factor last year's real estate market.

And in San Francisco, we see troubling developments that may take some steam out of the market by making it harder to rent units to all those young tech people with high-paying jobs:

- **Traffic congestion.** The city's anti-car movement is having a big impact on the city's livability, with vehicles of all types congesting our streets. To make matters worse, the city's “street improvement programs” push cars, busses, bikes, and taxis onto a confusing array of special red and green lanes. Recently, SFMTA approved a new motor-

ized scooter program that will put more scooters on the roads, sidewalks, and bike lanes, a move that will make driving a car or taking a tech bus more of a pain. Looking at all the traffic engineering and massive, seemingly never-ending construction (e.g., the Van Ness Avenue Improvement Project), San Francisco is becoming increasingly difficult to access by workers who

“These and other factors have led to a slowing rental market; slowing rentals mean lower rents and lower sales prices for properties.”

don't take BART. These and other factors have led to a slowing rental market; slowing rentals mean lower rents and lower sales prices for properties.

- **The Community Opportunity to Purchase Act (COPA),** is a confusing new city law that gives qualified non-profits (QNP's) the right of first offer and/or the refusal to purchase eligible properties. The supposed aim, to “prevent tenant displacement and create long-term affordability,” has had the effect of slowing down the sales market. On a recent notification I sent for a listing, no one responded, not even a “got your offering but we're passing.” Additionally, it's hard to tell what the QNP's want to buy. COPA may help in the future, but for now it's simply confusing, and confusing is not good for sellers or the free market.

- **Property crime and the homeless crisis.** It's increasingly difficult to live in a city where you can buy a \$10 avocado toast on one corner in an upscale neighborhood and see homeless people shooting up with city-provided needles on the other. Perhaps the Homeless Industrial Complex will show some improvement after the November election, but it's unlikely. There are just too many people on the city payroll who benefit from milking the problem to ever actually want to solve it. At the same time, San Francisco is experiencing an epidemic of property crime, especially car break-ins. These persistent problems have impacted the city's quality of life and reputation; declining quality of life lessens the desire of people to live and work here and the willingness of organizations to hold their annual conventions in San Francisco.

The value of vacancy

But one thing hasn't changed in the world of San Francisco real estate: *the value of vacant units*. Vacant units are still a premium in San Francisco, commanding substantially higher sales prices. A vacant unit allows a new owner to move into a building or rent it to a tenant of their choice, without the uncertainties and likely problems associated with doing an OMI eviction. If you have one or more vacancies in your building and are considering selling, **DON'T RE-RENT THEM!** Consult an experienced broker to discuss your options, as you may not have a similar opportunity for many years to come. 🏠

Terrence Jones is a Sr. Broker Associate with Zephyr Commercial. Contact him at (415) 786-2216 or terrence@terrencejonesSF.com.

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Figures effective March 1, 2019 —> February 29, 2020



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MARK YOUR CALENDAR



NEXT MEMBERS' MEETING

TUES., NOV. 12, 6:15 P.M.

GUEST SPEAKERS:

David Chesnosky: update on the rental market and tips for owners when leasing out their rental properties.

Will Low, BinCleaners, on his company's Recology garbage bin cleaning service.



— STARTING WITH OUR POPULAR —
LEGAL PANEL
WITH ATTORNEY ANDREW M. ZACKS

Published monthly except August and December. SPOSF members can also download the newsletter from our website. The next four members' meetings take place on:

- **Tuesday, November 12**
- **Tuesday, January 14, 2020**
- **Tuesday, February 11**
- **Tuesday, March 10**

Note: Questions for the Legal Panel must be in writing and submitted before the Panel begins at 6:15 p.m.

YES. I WANT TO JOIN THE FIGHT TO PRESERVE THE RIGHTS OF SMALL PROPERTY OWNERS

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Mailing address: _____ City: _____ State: _____ Zip: _____

Employer: _____ Occupation: _____ ☐ Self-employed ☐ Retired

How many units do you own? _____ In which Supervisorial District (1-11) do you reside? _____ OK to share your e-mail with NAA? ☐

Sign me up as: ☐ **\$100-Regular member** ☐ **\$150-Supporter** ☐ **\$200-Sponsor** ☐ **\$400-Business member** (includes listing in Resource Guide)

DONATIONS TO SPOSF: I'd also like to make a separate donation to SPOSF (please make *separate* check payable to SPOSF and mail to the same address). Enclosed is my contribution of: ☐ \$50 ☐ other: _____

PLEASE NOTE: While SPOSF membership dues are tax-deductible as a charitable contribution to the extent allowed by law, donations to SPOSF are not tax-deductible as charitable contributions.