



RENT STABILIZATION DIVISION

Los Angeles Housing Department

**LAHD**

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June 25, 2009

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The Honorable Antonio R. Villaraigosa  
Mayor, City of Los Angeles  
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Attn: Pamela Findley, Legislative Coordinator

**COUNCIL TRANSMITTAL: REPORT ON ECONOMIC STUDY OF THE RENT STABILIZATION (RSO) ORDINANCE AND THE LOCAL HOUSING MARKET**

**SUMMARY**

This transmittal outlines the major findings and recommendations of the 2009 Economic Study of the Rent Stabilization Ordinance and the Local Housing Market (Study). On April 25, 2007, the City Council authorized the Los Angeles Housing Department (LAHD) to execute a contract with the Economic Roundtable for a study on the Rent Stabilization Ordinance (RSO). The Study was conducted between June 2007 and June 2009 and provides 28 recommendations related to the administration of the RSO and related programs.

**RECOMMENDATIONS**

The General Manager, LAHD, respectfully recommends:

- 1) That your office schedule this transmittal at the next available meeting of the appropriate City Council committee(s) for consideration and forward it to the City Council for review and approval thereafter.
- 2) That the City Council approve the following recommendations:
  - a. DIRECT the LAHD to report back on its landlord/tenant outreach plan to expand communication and education for both landlords and tenants and to provide the specific information described in recommendations 1 through 5; publicize the availability of the Just and Reasonable provisions of the RSO; encourage all landlords to use written leases; provide technical assistance workshops targeting owners of properties of 4 or less units;

- b. RETAIN the current scope of coverage of the RSO and the Consumer Price Index (CPI) as the basis for setting the annual allowable rent increase under the RSO;
- c. DIRECT the LAHD to report back on the restructuring of the RSO capital improvement, primary renovation and tenant habitability plan provisions of the RSO;
- d. DIRECT the LAHD to report back on a recommended methodology and cost of replacing the current passthrough provision for the gas and electricity utility allowance;
- e. INSTRUCT the LAHD to conduct an evaluation of the delivery of services and adequacy of the number of hours under the contract scope of work for the tenant relocation assistance contract;
- f. DIRECT the LAHD to continue housing inspector training in standardized procedures to ensure consistency in the inspection process; and
- g. DIRECT the LAHD to report back on the need to increase the annual rental unit registration fee to implement these recommendations.

3) That the Mayor concur with the actions of the City Council.

### **BACKGROUND**

In September 2006, the City Council approved the release of the LAHD's Request for Proposals (RFP) for an Economic Study of the Rent Stabilization Ordinance (RSO) and the Local Housing Market (Study) (CF# 04-0777). The City Council authorized up to \$957,000 in CDBG and Rent Stabilization Trust Funds to complete the Study. On June 13, 2007, the LAHD executed a contract with the Economic Roundtable, a non-profit, public benefit corporation, selected through a competitive RFP process. The Study was completed in June 2009 (Attachment 1).

In December 2007, the City Council authorized the Chair of the Housing, Community and Economic Development Committee to convene a Rent Stabilization Ordinance Study Oversight Committee (Oversight Committee). Committee members were selected from rental housing advocacy groups representing landlord and tenant rights organizations and were tasked with the following:

- a. Attend quarterly meetings to receive updates on the Study's progress.
- b. Monitor the consultant's progress and compliance with the Scope of Work/Contract.
- c. Assist in recruiting and recommending participants for the 28 focus groups to ensure that all points of view are considered by the consultant.
- d. Assist with the planning and outreach of community meetings.
- e. Provide feedback on the contractor's performance at project completion.

Since the inception of the RSO in 1979, the City has undertaken three prior reviews/studies (1984, 1988, and 1994) to assess the impact of the Ordinance. The most recent study was published in December 1995.

### ***The RSO***

The RSO was adopted in May 1979 and covers four broad categories:

1. Registration of rental units (LAMC 151.05);
2. Allowable rent increases (LAMC 151.06);
3. Legal reasons for eviction (LAMC 151.09);
4. Relocation assistance payable to the tenants for certain types of evictions (LAMC 151.09 G).

The RSO covers 66 percent of the City's rental housing inventory. This represents 638,051 housing units in 118,254 rental properties. The RSO inventory of units can be divided into thirds according to property size: a third are on properties with 4 or less units, a third are on properties with 5 to 19 units, and a third are on properties with 20 or more units. Most small properties (1 to 4 units) were built before 1940.

**Percent of Renter Occupied RSO units by Area Planning Commission (APC)**  
 (City of Los Angeles, 2006)

APC	All Renter-Occupied Housing Units	Renter Occupied Housing Units Built Before 1980	Percent under RSO (built before 1980)
Central Los Angeles	221,012	167,452	76%
South Valley	145,974	98,008	67%
West Los Angeles	84,401	55,514	66%
Harbor Area	31,889	20,770	65%
South Los Angeles	132,878	81,284	61%
East Los Angeles	75,421	43,532	58%
North Valley	72,622	36,235	50%

The LAHD is responsible for administering the RSO, which is funded entirely by the Rent Trust Fund through the collection of the annual rental registration fee of \$18.71 per unit. As funding is fee-based, administration of the RSO does not impact the General Fund.

**THE STUDY**

***Economic Roundtable's Report and Data Sources***

The Study, completed in June 2009, includes: a profile of the rental market; surveys of Los Angeles renters and property owners; impact of the RSO on apartment investments; comparative analysis of rent increase standards in California rent-stabilized jurisdictions; a rental market analysis based on housing market dynamics, development financing, and growth trends. The report also provides Policy Recommendations and an Executive Summary.

The Economic Roundtable utilized a variety of data sources including: renter and owner surveys conducted between 2007 and 2008, real estate industry data through 2007, 2006 Census data, proprietary City data for 2007 and 2008 and focus group data from 2007 and 2008. The consultants surveyed 2,948 renters living in RSO units and 1,257 in market-rate units. The renter survey was conducted in Spanish, English and Korean. The distribution of survey participants was comparable to the proportion of rental units in the City's 35 Community Plan Areas. In addition, a total of 2,036 owners of rent-stabilized properties were surveyed. Focus groups with both owners and renters were conducted at the start and completion of the Study.

**SUMMARY OF MAJOR FINDINGS**

- 1) **Performance of RSO Investments:** On average, investments in RSO apartments have performed *superior* to the average performance of investments in apartment buildings in the United States and *comparable* to non-RSO apartments in the Los Angeles region.
- 2) **Net Operating Income:** Since 1999, the Net Operating Income (NOI) for RSO property owners has exceeded the CPI increases.

- 3) **Apartment Values:** The RSO has not had a significant impact on the average rate of appreciation of apartment buildings.
- 4) **Apartment Investments and the Housing Slump:** The rate of return on apartment investments today depends largely on the purchase date.
- 5) **RSO vs. Non-RSO Rental Rates:** Rent differentials between RSO and non-RSO units ranged from a high of \$500 to virtually no difference.
- 6) **Rent Increases:** The current method of determining the RSO's annual allowable rent increase utilizing the CPI is *the best available economic benchmark* for setting rent increases, as well as the best available measure of an allowance for increases in rental property operating costs.
- 7) **Rent Burden:** 27 percent of Los Angeles households report being rent burdened, and 31 percent were severely rent burdened. Low-income households, seniors and disabled persons are the most vulnerable, with over 60 percent of seniors severely rent burdened (as of 2006).
- 8) **Operating Costs:** Apartment operating costs range from 25 to 35 percent of rental income.
- 9) **Cost Increases for Utilities:** The RSO's allowable one percent pass-through for gas and electricity is disproportionate to the actual cost increases for these services.
- 10) **Overcrowding:** Between 2000 and 2006, rates of severe overcrowding fell 65 percent.
- 11) **Turnover and Tenure:** On average, RSO properties have an annual turnover rate of 23 percent.
- 12) **Evictions:** Fifty-four percent of no-fault evictions recorded by the LAHD between 1998-2007 were related to condo-conversions. Landlord Declarations of Intent to Evict peaked in 2005, with over 5,000 cases filed.
- 13) **Systematic Code Enforcement Program (SCEP):** Property owners' opinions on the Systematic Code Enforcement Program (SCEP) differ by property size.
- 14) **RSO Knowledge:** Both tenants and landlords are not well informed on the RSO.

## **MAJOR FINDINGS**

### **1. Performance of RSO Investments**

On average, investments in RSO apartments have performed *superior* to the average performance of apartment buildings in the United States and *comparable* to non-RSO apartments in the Los Angeles region.

### **2. Net Operating Income**

The reasonableness of rent restrictions may be measured by comparing the rate of increase in net operating income (NOI) of RSO apartments with the CPI's rate of increase. Since 1999, the NOI for Los Angeles apartment owners has exceeded the rate of increase in the CPI. Between 1999 and 2006, the CPI increased by 26.6 percent while the NOI for Los Angeles apartments ranged from as high as 111 percent to as low as 33 percent, all above the CPI.

### **3. Apartment Values**

The RSO has not had a significant impact on the average rate of appreciation of apartment buildings. The rates of appreciation and increases in value between RSO buildings and non-RSO buildings are similar. On average, between 2001 and 2006, the value of all apartments in the City increased by 99 percent, with the average value of RSO apartments increasing by 134 percent.

Among 40 metropolitan regions, Los Angeles' RSO properties have the second highest rate of appreciation. The sales price of RSO apartment buildings with five or more units tripled from 1999 to 2006, from an average of \$40,701 to \$127,484. In the East, South and Harbor Area APCs, RSO apartment values increased from an average of \$34,347 per unit in 1999 to \$90,411 in 2006. In the Central APC, the average RSO apartment value increased from \$36,779 to \$123,120. Although there are differences in price, the rates of appreciation in apartment values from 1999 to 2006 were similar among properties throughout the City, regardless of age.

#### **4. Apartment Investments and the Housing Slump**

Despite the current foreclosure crisis, apartments have retained their value, mainly because demand for apartments has increased.

With the recent boom and subsequent collapse of the housing market, the rate of return on apartment investments today depends largely on the purchase date. Owners who purchased apartments prior to 2003 paid lower prices relative to prices in 2008. In addition, some owners refinanced their mortgages at more favorable interest rates and have substantial cash flows.

The housing slump has had a markedly negative impact on apartment buildings with 5 or more units that were purchased in 2005 or later (approximately 25 percent of the rental housing stock). Owners who purchased in 2005 or later may have large mortgage obligations that leave them vulnerable to changes in expenses and rental income.

#### **5. RSO and Non-RSO Rental Rates**

Rent differentials between RSO and non-RSO units ranged from a high of \$500 to virtually no difference. The median monthly rent for an RSO unit was \$113 less (\$1,356 less/year) than the median rent for a non-RSO unit, and the average monthly rent for an RSO unit was \$142 less (\$1,704 less/year). Based on a 96 percent occupancy rate of RSO units, the average monthly differential of \$142 in 2006 represents an annual savings for all RSO renters of \$1.04 billion.

Because the RSO has always permitted vacancy decontrol, its impact is tempered by tenant turnover. Approximately 50 percent of tenants move within a five-year period, so the average RSO owner may obtain unlimited rent increases for half the units in a building within a 5-year period.

The greatest disparity between the rental rate of an RSO unit and a market-rate apartment occurred in 1989 if a long-term tenant occupied the unit since 1979 (the year the RSO became effective). The RSO rent rate for these tenants in 1989 was 65 percent of the market level rent. Any gaps in rent rates greater than 35 percent are likely the result of other factors, such as years when owners did not increase rents for RSO units located in neighborhoods where rents increased less rapidly than the average market-rate rent.

#### **6. Rent Increases**

The Study found that the current method of determining the annual allowable rent increase utilizing the Consumer Price Index (CPI) is *the best available economic benchmark* for setting rent increases. The RSO permits an annual rent increase of 3 percent (minimum) to 8 percent (maximum) based on the CPI.

When compared to trends in the United States, RSO rent increases have been generous. In 23 of the past 29 years, the RSO annual allowable rent increase exceeded or roughly equaled the percentage increase in national rents. Over the past eight years, RSO annual rent increases exceeded market rent increases in 15 of 23 metropolitan areas in the U.S.

In Los Angeles, throughout all of the 1980's and from 1999 to 2007, rent increases for RSO units were lower than increases for market-rate apartments. From 2000 to 2007, the cumulative rent increases for market-rate apartments was 49.1 percent, compared to 26.7 percent for RSO units. However, between 1990 and 2000, the rent increases for RSO units were greater than the average rent increases for market-rate apartments. During those years, allowable rent increases totaled 39.7 percent for RSO units, compared to an average of 18.2 percent in market-rate units.

Census data demonstrates that RSO tenants with extended tenancies generally receive smaller discounts on rents than non-RSO tenants. Owners of RSO properties are less likely to defer allowable rent increases because the annual rent adjustment is forfeited. In the non-RSO rental stock, owners report more flexibility with rent increases because these rents are already at or near market rates. A majority of RSO tenants (63 percent) report that their rent increased every year, while only 54 percent of non-RSO tenants report yearly rent increases.

A little over 25 percent of RSO tenants may have received excessive or unauthorized rent increases. These tenants are likely to be low-income renters, earning less than \$25,000 per year, and reported the lowest starting rents (averaging \$513/mth) when compared to tenants receiving increases at or below the RSO allowable increase. The regions in the City with a large number of tenants reporting increases beyond the allowable rate were the North Valley (37 percent) and East Los Angeles (33 percent).

### **7. Rent Burden**

The majority of City households reported being rent burdened. 27 percent reported being rent burdened (paying 30 to 49 percent of their gross monthly income on rent) and 31 percent were severely rent burdened (paying 50 percent or more of their gross monthly income on rent). From 1990 to 2006, severely rent-burdened households in Los Angeles increased by 23 percent.

In South Los Angeles and the North Valley, 40 percent or more of households are severely rent-burdened and spend most of their income on rent. Low-income populations, seniors and disabled persons are most vulnerable. In 2006, a quarter of senior households were living in poverty and over 40 percent of all senior renters were severely rent burdened. The economic recession and the fall in home prices that ensued as the Study was concluding contributed to declining rents in Los Angeles and may have decreased the rent burden for all Angelenos.

### **8. Operating Costs**

The bulk of operating expenses for apartment buildings is attributable to management, maintenance, and property taxes, while insurance and utility expenses each average less than 2 percent of rental income. Nationally, apartment operating costs range from 35 to 60 percent, 30 to 40 percent in California, and in Los Angeles, from 25 to 35 percent of rental income. Small buildings report costs of less than \$300 per apartment per month, while larger buildings average expenses ranging from \$350 to \$434. This variation reflects differences in operating strategies among owners of smaller versus larger buildings, with owners of larger properties preferring to maximize rents, while owners of smaller properties opt to minimize costs associated with turnover.

The CPI is an objective and widely accepted benchmark for apartment operating cost changes. There are no other systematic sources that measure these types of expenses, except for industry reports for very large professionally managed buildings, which do not reflect the makeup of the majority of RSO buildings. Additionally, because apartment operating cost studies are derived from limited segments of rental owners, they may be perceived as arbitrary or political. For these reasons, the use of the CPI is the best and most reliable source.

### **9. Cost Increases for Utilities**

The analysis of the annual utility allowance of one-percent for gas and one-percent for electricity in master-metered buildings indicates that the passthrough is disproportionate to the annual cost increases for these services. Increases in electricity and gas rates have fluctuated substantially, rather than increased steadily during the past decades. There is no connection between the annual master-metered increase authorized by the RSO and actual cost increases.

### **10. Overcrowding**

The City experienced a dramatic decline in overcrowding between 2000 and 2006, with severe overcrowding (more than 1.5 occupants per room) falling 65 percent. This decline left 8 percent of all renters living in severely overcrowded housing and 11 percent in overcrowded conditions. The decline in overcrowding is likely due to the growing stock of larger units built in recent years. The problem, however, remains prevalent among low-income renters and large households. Latino households are also disproportionately affected by overcrowding. Latinos account for over 75 percent of severely overcrowded households and are the only group increasing in this category. Seventy percent of 5-person households live in overcrowded or severely overcrowded units with 4 rooms or less, and nearly 90 percent of households with 6 or more people live in inadequate housing.

### **11. Turnover and Tenure**

In general, turnover is lower in RSO units than in non-RSO units. The average annual turnover rate for RSO properties is 23 percent. Overall, 51 percent of RSO tenants moved into their units within the past 5 years. Among the various RSO building types, the turnover rate in buildings with 2 to 9 dwelling units was slightly lower (49 percent of tenants moved in within the past 5 years) than the rate for buildings with 10 or more units (53 percent of tenants moved in within the past 5 years). Citywide, 70 percent of the renter survey respondents have lived in their current units less than ten years. Only 8 percent of RSO units have been occupied by the same tenant for 15 or more years.

### **12. Evictions**

Based on the renter surveys and focus groups, it is clear that many tenants are unaware of the safeguards against illegal evictions and relocation assistance for no-fault evictions. It is likely that illegal evictions and failure to pay relocation assistance are taking place in RSO units. Many landlords are also unaware that the RSO does not restrict evictions for nuisance or illegal activities and that these types of evictions do not require the filing of a landlord declaration of intent to evict, except in limited cases (illegal drug or gang activity).

The RSO requires owners to file a "Landlord Declaration of Intent to Evict" with LAHD when the owner seeks to vacate the unit for reasons outlined in the RSO. 54 percent of evictions recorded by the LAHD are related to condo-conversions. Landlord Declarations of Intent to Evict increased and peaked in 2005, with over 5,000 cases filed. The increase in no-fault eviction cases paralleled the trend in the Los Angeles housing market. From 1998 to 2007, East and

West Los Angeles recorded disproportionately more cases of no-fault evictions. By 2007, evictions for condo conversion declined partly due to scarce financing resources available to owners.

### **13. Systematic Code Enforcement Program (SCEP)**

Although not a principal focus of the Study, the Systematic Code Enforcement Program (SCEP) is the most frequent point of contact between the LAHD and landlords. While the program has been recognized for its success in improving the habitability of rental housing in Los Angeles, property owners have mixed opinions on SCEP. About half of owners, particularly small owners, view the SCEP program as a useful service and a source of technical assistance for maintaining their properties. Owners with 10 or more units often view it as an "unnecessary expense" and intrusion into the management of their properties.

### **14. RSO Knowledge**

34 percent of renters were incorrect or unaware of their unit's RSO status. Additionally, low-income renters (earning less than \$35,000 annually) are less likely than higher income renters to know that the RSO limits rent increases and evictions. 48 percent of renters with an annual household income of less than \$25,000 know that the RSO regulates the reasons for eviction.

The RSO offers cost recovery programs for RSO owners, but many property owners are unaware of these provisions. Half of RSO owners do not know about the capital improvement passthrough program; during the last five years, only one percent of RSO owners filed capital improvement applications to recover costs of upgrading and maintaining their rental properties.

The reduced level of rent paid by long-term RSO tenants can significantly impact the NOI of owners of small properties, for whom a single unit provides a quarter to half of total rent revenue. The Just and Reasonable provision is the avenue available for RSO property owners to adjust rent levels when their net operating income has declined disproportionately. However, 99.9 percent of owners have not sought relief through the Just and Reasonable rent increase provisions.

## **ECONOMIC ROUNDTABLE RECOMMENDATIONS**

The Economic Roundtable offers several recommendations intended to strengthen the RSO benefits for both tenants and landlords. These are presented in detail in the attached "Conclusions and Policy Recommendations," Chapter 7. The recommendations are organized here by categories: Communication with Renters and Landlords, Rent Increases, Evictions and Tenant Relocation, Systematic Code Enforcement Program, Affordable Housing, and Administration of the RSO.

### ***Communication with Renters and Landlords***

- 1) Mail an annual letter (in multiple languages) to all RSO units providing information that their unit is covered by the RSO, tenant protections and responsibilities, eviction safeguards, relocation assistance and how to obtain additional information, including customized information on the nearest Housing Department public counter.
- 2) Augment the annual mailing to RSO property owners to provide summaries of major provisions of the RSO including: allowable rent increases, allowable passthroughs such as capital improvements and just and reasonable rent increases, legal reasons for

evictions and relocation. Inform landlords that the RSO does not restrict evictions for disruptive or destructive behavior.

- 3) Include information for both tenants and landlords on how to access available resources such as the Rent toll free hotline, LAHD office locations, and materials available online on the LAHD website, such as the Landlord-Tenant handbook. Provide information in Spanish and how to request information in other languages.
- 4) Encourage all landlords to use written leases when renting units.
- 5) Provide technical assistance workshops focused on owners of small properties (1 to 4 units) to provide information about RSO rent adjustment provisions and RSO procedures including evictions of disruptive tenants.

### **RSO Rent Increases**

- 6) Retain the Consumer Price Index (CPI) as the best available economic benchmark for setting rents.
- 7) Authorize utility increases periodically when significant gas and/or electricity cost increases occur, rather than an unchanging fixed percentage annual increase.
- 8) Condition the right to gas and electricity passthroughs on an owner submitting one year of gas and electricity bills for the apartment building one time only (or once every five years).
- 9) Continue to use the Capital Improvement Passthrough program as the principal tool for providing additional income to owners to offset the cost of capital improvements and primary renovations that allow tenants to occupy their units from 5:00 pm to 8:00 am and do not expose them to hazardous material.
- 10) Streamline and simplify the tenant habitability component of the Primary Renovation Program and the process for determining whether tenants are able to remain in their units making the application eligible for the Capital Improvement Passthrough Program.
- 11) Simplify the tenant habitability planning process by holding a single review that covers all tenants affected by an application, rather than allowing separate appeals by multiple tenants.
- 12) Increase the capital improvement passthrough amount as follows:
  - a. 75 percent for work that meets current criteria for the passthrough program but does not meet the criteria for primary renovation
  - b. 100 percent for work that addresses systemic structural, plumbing, electrical, or mechanical requirements of RSO properties
  - c. 100 percent for either capital improvements or primary improvements for owners of properties with up to 4 units.
- 13) Extend the term of payment for the tenant's share of costs to up to 10 years to keep rent increases below \$25 per month for as many tenants as possible.

- 14) Index the \$55 monthly rent-increase ceiling for capital improvement passthroughs to the Los Angeles region's Consumer Price Index – All Urban Consumers and adjust the ceiling annually beginning with the annual RSO rent adjustment in 2010.
- 15) Track the cumulative amount of capital improvement passthroughs approved for each property to ensure that tenants do not receive rent increases that exceed the RSO ceiling amount.
- 16) Publicize the availability of the Just and Reasonable provisions of the RSO as a means to adjust rent levels; include this information in annual mailings.
- 17) Allow owners to bank annual rent adjustments and apply them in combination with the annual increase permitted under the RSO, with a combined 10% cap.
- 18) Eliminate the 3 percent floor on annual rent adjustments while retaining the current 8 percent ceiling on RSO annual rent increases.

#### ***Evictions and Tenant Relocation***

- 19) In annual informational letter to owners, inform owners that the RSO does not restrict or monitor evictions for disruptive or destructive behaviors.
- 20) In annual tenant mailing, inform renters about RSO eviction safeguards and relocation assistance.
- 21) Evaluate the delivery of tenant relocation services to determine whether the contracted scope of work is being properly implemented.
- 22) Evaluate the level of service to determine whether the number of hours of counseling needs to be increased to achieve the goal of finding replacement housing for displaced tenants.

#### ***Systematic Code Enforcement Program (SCEP)***

- 23) Continue to train code inspectors in standardized procedures to ensure consistent outcomes from inspections.
- 24) Adopt a "Joint Code of Landlord-Tenant Responsibilities" and enforce the Code by holding tenants accountable for code violations that they cause.

#### ***Affordable Housing***

In addition to an analysis of the impact of the RSO, the Study's Scope of Work included a review of citywide housing policy issues. The Study's Chapter 6 provides a rental market analysis and several recommendations in support of affordable housing. As the City is already engaged in these initiatives, this transmittal focuses on the recommendations which directly impact the administration of the RSO.

#### ***Administration of the RSO***

- 25) Retain the current scope of coverage by the Rent Stabilization Ordinance.

- 26) Streamline RSO administrative requirements for owners of 4 or less units, including:
- a. Increasing the capital improvement passthrough allowance.
  - b. Providing technical assistance workshops and other training focused on small owners to provide information about the capital improvement passthrough program, applying for just and reasonable rent increase, and RSO procedures, including eviction of disruptive tenants.
- 27) Expand the yearly registration renewal to require the rent amount for each unit and whether the unit has been vacated and decontrolled in the past year. Provide an option for owners to submit this information electronically.
- 28) Increase the annual rental unit registration fee by the amount necessary to pay for these additional responsibilities.

### **LOS ANGELES HOUSING DEPARTMENT RECOMMENDATIONS**

The LAHD concurs with the following recommendations and will report back on implementation and the need for additional resources.

#### ***Communication with Renters and Landlords (Recommendations 1 – 5)***

A major issue identified is the need for enhanced communication, outreach, and education for both tenants and landlords on their rights and responsibilities under the RSO. The LAHD fully supports this recommendation and has already started this process by completing an RFP process to develop a comprehensive Landlord/Tenant Outreach program. The goal is to create a multi-faceted housing rights and responsibilities education program utilizing traditional outreach methods, media and new technologies. In order to replicate effective programs and leverage limited resources, the outreach campaign will also include a "train the trainer" component. In developing the outreach program, the selected consultant will evaluate the most effective methods to reach our target audiences. Together with the outreach consultant, the LAHD will work to identify the most effective methods to provide the information points identified in the Study. Funding for the outreach consultant is included in the LAHD's 2009-2010 budget.

The recommendations for an annual notice to tenants, as recommended by the Economic Roundtable, will be considered as part of the outreach program. The LAHD estimates it will cost \$64,000 to upgrade its current database capacity to include individual unit addresses for all 638,051 RSO units and \$230,255 annually for printing and mailing. The LAHD will report back on the need for additional resources, once the plan has been completed.

#### ***RSO Rent Increases***

##### ***a) Methodology for Calculating the Annual Allowable Rent Increase (Recommendations 6)***

An important finding is that the current method of determining the annual allowable rent increase utilizing the CPI is the best available economic benchmark for setting rent increases and the best available measure of an allowance for increases in operating costs. The current CPI standard fairly balances the interest of renters and owners.

**b) Capital Improvement Passthrough Program (*Recommendations 9-15*)**

The LAHD substantially concurs with the Capital Improvement program recommendations.

The Department is currently completing a review of the two programs which allow for the recovery of costs associated with upgrades and improvements to rental properties (the Capital Improvement and the Primary Renovation programs) and will submit a comprehensive report including program revisions in a separate transmittal.

**c) Just and Reasonable Rent Increases (*Recommendation 16*)**

The LAHD concurs with the recommendation to publicize the Just and Reasonable Rent Increase application process. This item will be included in the report back on the Landlord/Tenant Outreach Plan.

***Evictions and Tenant Relocation (Recommendations 19 –22)***

The LAHD concurs with the need to provide increased education to both landlords and tenants on the legal reasons for evictions and requirements for relocation assistance. LAHD also agrees with the need to conduct an evaluation of the delivery of services and adequacy of the number of hours in the scope of work for the tenant relocation assistance contract.

***Systematic Code Enforcement Program (SCEP) (Recommendation 23)***

The Department concurs with the recommendation to continue providing standardized training to its housing inspectors to ensure consistent inspections and outcomes. SCEP has already started addressing the consistency issue by conducting quarterly all-hands training. As a follow-up, training is conducted on a weekly basis at each field office to reinforce the material discussed at the quarterly training sessions.

***Scope of Coverage of the RSO (Recommendation 25 - 26)***

The LAHD concurs with the recommendation to retain the current scope of coverage of the RSO. The Department supports the expansion of education initiatives for property owners with 4 or less units, as well as streamlining of administrative requirements for all landlords when feasible.

***Rent Increases for Utilities (Recommendations 7 – 8)***

The LAHD will report back on a recommended methodology to determine the utility allowance and cost estimates for implementation.

Based on the finding that the annual utility allowance for gas and electricity in master-metered buildings of one-percent has no relation to the actual cost of these utilities, the Consultant recommends changing the method for the utility passthrough.

This recommendation would require an amendment to the RSO and new procedures for the processing of utility passthroughs. This would include the development of a new methodology and additional staff resources for data gathering and development of the necessary systems. We estimate the one-time systems development costs at \$74,000. Once the system is developed, at least one new Management Analyst and a clerical support position would be required to process the rent increase application. LAHD will report back in greater detail on a recommended methodology and cost.

### ***Fees for Administration of the RSO (Recommendation 28)***

The LAHD will report back on the need for an annual rent increase to support additional services. The Economic Roundtable is recommending a fee increase to implement the additional responsibilities outlined in the following recommendations:

- technical assistance workshops for owners of small properties;
- expansion of a database to facilitate mailing of annual educational letters to renters and owners;
- a higher level of relocation services (if borne out by an assessment of relocation services);
- collection and analysis of cost data for gas and electric utilities;
- creation of a rent database for all RSO units (rent-tracking).

### **STUDY RECOMMENDATIONS NOT SUPPORTED BY THE LAHD**

The LAHD cannot support the following recommendations because these are either difficult to enforce and/or the implementation is cost prohibitive.

#### ***Capital Improvement Passthroughs for 4 Units or Less (Recommendations 12c)***

The LAHD concurs with the recommendation to increase the allowable cost recovery, which is currently 50% of approved costs, to 75% - 100% of approved costs (depending on the category of work) for all landlords. However, the LAHD does not support the proposal to regulate capital improvement passthroughs differently based on property size. This recommendation would result in the disparate treatment of tenants for no reason other than the size of the property. Instead, the LAHD plans to use the expanded outreach program to enhance training and education opportunities for "mom and pop" property owners to inform them of the avenues available for cost recovery for improvements to their rental properties.

#### ***Joint Code of Responsibility for Landlords and Tenants (Recommendation 24)***

The Department concurs with the recommendation to encourage landlords to use written lease agreements, but opposes the proposed Joint Code of Responsibility because it is ambiguous and unenforceable. It fails to clearly delineate responsibilities and remedies for violation of the code-related issues and would not be enforceable in Court or under the RSO. State and local law already delineate landlord and tenant responsibilities under the California Civil Code, the California Health and Safety Code and the Los Angeles Building Code. The Los Angeles Housing Code already has a process in place for enabling landlords to hold tenants accountable for the violations they cause. The Joint Code may result in the imposition of additional landlord and tenant responsibilities that conflict with those existing under State and local law, or the parties' contractual obligations pursuant to a written lease. As a result, the Joint Code would confuse existing tenant and landlord regulations and may undermine the City's housing code enforcement system, a nationally recognized program which has achieved exemplary levels of compliance.

#### ***Banking Rent Increases (Recommendations 17-18)***

Because of the scale of the Los Angeles RSO unit inventory, the LAHD could not track and monitor rent increases without dedicating additional staff resources and developing new systems upgrades. While other rent-control jurisdictions allow rent banking, these cities have far fewer rental units and higher staff ratios per units monitored than Los Angeles. In addition, the jurisdictions which allow rent banking have tracked rent levels since the adoption of their rent

control laws. By contrast, Los Angeles has never required disclosure of individual unit rent levels.

The recommendation would require the City to track annual allowable rent increases in each of the 638,051 RSO units every year. This would include: verifying the information provided by the landlord with each tenant, correcting any disagreements, tracking any additional rent increases approved through the RSO's cost recovery programs, and monitoring the exact percentage that is banked per unit. These verifications would be required annually for each RSO unit.

One of the principle benefits of the RSO is that it moderates rent increases during inflationary periods. Allowing landlords to impose banked increases at one time would expose tenants to unanticipated and steeper rent increases. This would adversely impact low-income tenants, particularly families with children, seniors and the disabled.

**Information Needed for Administering the RSO - Rent Tracking (Recommendation 27)**

The Economic Roundtable recommends that the annual rental unit registration renewal be expanded to include the rent rate for each unit, any vacancies and/or subsequently rent-decontrol over the past year, with the option to submit this information electronically. This recommendation represents a major change in the administration of the Los Angeles RSO and would have a significant impact on LAHD operations.

In the 30 years since the adoption of the City's RSO, information on rent levels for individual units has never been collected. Instead, the LAHD investigates illegal rent increases on a complaint-driven basis. While other major rent-control jurisdictions in California already register and track rent levels, these cities also impose significantly higher fees and maintain higher staff/per rental unit ratios.

**Staffing Comparison - Rent Stabilized Jurisdictions**

City	Annual Budget	Registration Fee	Rent Stabilized Units	# Rent Staff (Unit Ratio)
Berkeley	\$3,500,000	\$170/unit	19,000	19 (1,000)
Santa Monica	\$300,000	\$156/unit	28,000	29 (966)
West Hollywood	\$1,146,144	\$120/unit	15,000	18 (833)
Los Angeles	\$12,567,000	\$18.71/unit	638,000	90 (7089)

This task would require the development and maintenance of a comprehensive system, as well as the cooperation of landlords and tenants to obtain and update the rent levels for each of the more than 638,000 RSO rental units in the City. Additionally, the Department would need to create a new electronic system to update rent levels whenever a rent increase takes place or a unit is vacated. Implementation of this recommendation would also require close monitoring and tracking of all units with either permanent or temporary exemptions from the RSO. We estimate that such a system would require dedication of substantial staff resources, both temporary and permanent, and 6 to 12 months to develop, test and implement.

The estimated one-time costs associated with the implementation of this recommendation include:

Systems Development	\$ 221,867
Rent Tracking – Initial Data Collection	\$ 457,000
Initial Mailing to Landlords	\$ 38,855
	<u>\$ 717,722</u>

The LAHD estimates that the ongoing costs of managing a rent-tracking system would require approximately 22 new positions, at an annual cost of \$1,911,842 (See Attachment 2). As illustrated in the following chart, the proposed funding and staffing levels would be well within the norm for other rent stabilized jurisdictions that track rent levels.

**Proposed Staffing Comparison with Rent Tracking**

City	Annual Budget	Registration Fee	Rent Stabilized Units	# Rent Staff (Unit Ratio)	# Staff for rent tracking/rental unit registration (Unit Ratio)
Berkeley	\$3,500,000	\$170/unit	19,000	19 (1,000)	5 (3,800)
Santa Monica	\$300,000	\$156/unit	28,000	29 (966)	2 (14,000)
West Hollywood	\$1,146,144	\$120/unit	15,000	18 (833)	4 (3,750)
Los Angeles	\$12,567,000	\$18.71/unit	638,000	90 (7089)	15 (42,533)
L.A. w/rent tracking	\$14,479,875	\$24.13/unit	638,000	112 (5,696)	37 (17,243)

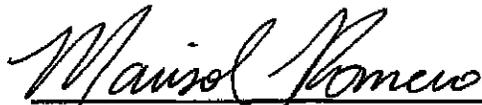
**CONCLUSION**

The LAHD recommends that the City Council and Mayor approve recommendations a-g listed on pages 1-2.

**FISCAL IMPACT**

There is no fiscal impact on the General Fund.

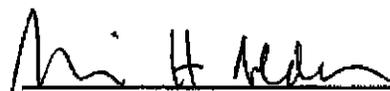
Prepared by:

  
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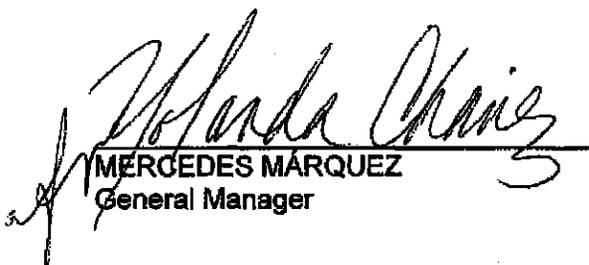
Reviewed by:

  
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Assistant General Manager

Approved by:

  
YOLANDA CHAVEZ  
Executive Officer

Approved by:

  
MÉRCEDES MÁRQUEZ  
General Manager

**Attachments:**

Attachment 1 Study of the Rent Stabilization Ordinance & the Los Angeles Housing Market  
Prepared by the Economic Roundtable

Attachment 2 Rent Tracking Cost Analysis

# JUST AND REASONABLE GUIDELINES

Rent Adjustment Commission Regulations • Section 240.00 •  
Amended Effective September 1, 2005

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- 240.00 GUIDELINES TO BE USED BY HEARING OFFICERS FOR DETERMINING A JUST AND REASONABLE RETURN
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- 242.00 DETERMINATION OF ELIGIBILITY FOR RENT INCREASES PURSUANT TO THE 1977 BASE YEAR FORMULA
- 243.00 DETERMINATION OF ELIGIBILITY FOR RENT INCREASES WHEN 1977 NET OPERATING INCOME AND EXPENSES ARE NOT AVAILABLE
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- 246.00 PROCEDURES FOR LANDLORDS APPLYING FOR A JUST AND REASONABLE RENT INCREASE
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- 248.00 PROCEDURES FOR APPEALING THE DECISION OF A HEARING OFFICER TO THE RENT ADJUSTMENT COMMISSION APPEALS BOARD.



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ANTONIO R. VILLARAIGOSA, MAYOR  
MERCEDES M. MARQUEZ,  
GENERAL MANAGER



### 240.00 GUIDELINES TO BE USED BY HEARING OFFICERS FOR DETERMINING A JUST AND REASONABLE RETURN (LAMS 151.07 B1)

The following words and phrases, whenever used in these Guidelines, shall be construed as defined in this section. Words and phrases not defined herein shall be construed as defined in the Rent Stabilization Ordinance.

**Appeals Board:** Three or more members of the Rent Adjustment Commission acting as an Appeals Board. (LAMC 151.07 B4c)

**Base Year:** As more fully described in Sections 242.00 and 243.00, the Base Year is either 1977 or the earliest year for which a property's financial records are available.

**Current Year:** The most recent calendar or fiscal year prior to the date of the Just and Reasonable application.

**Department:** The Housing Department of the City of Los Angeles.

**LAMC:** Los Angeles Municipal Code.

**Net Operating Income:** As described in Section 241.01, the figure arrived at by subtracting the property's Operating Expenses from the Total Gross Income.

**Operating Expenses:** As more fully described in Sections 241.09 thru 241.18, these are the expenses incurred operating the property. Operating Expenses do not include debt service expense or depreciation unless the debt service relates to financing obtained prior to June 1, 1978 and if it contains either a balloon payment or variable rate provision.

**Ordinance:** The Rent Stabilization Ordinance of the City of Los Angeles (LAMC 151.00 et. seq.).

**RAC:** Rent Adjustment Commission of the City of Los Angeles consisting of members who are neither landlords nor tenants of residential rental property. (LAMS 151.03)

**Total Gross Income or Gross Income:** As more fully defined in Sections 241.02 thru 241.07, this is all of the income generated by the property for which the application has been filed, before deducting Operating Expenses.

**240.01** The Ordinance as amended, and Regulations and Guidelines promulgated by the RAC, contain a number of provisions which normally assure a Just and Reasonable return on rental units subject to the ordinance. These provisions include:

- A. Automatic annual rent increases
- B. Vacancy decontrol
- C. Exemption of luxury apartment units
- D. Pass through of capital improvement costs
- E. Pass through of rehabilitation work costs
- F. Pass through of special assessment costs
- G. Adjustments for units with seasonal rents

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- H. Increases based on additional persons occupying a unit
- I. Pass through of costs of conversion to individual utility meters
- J. Special utility increases in master-metered buildings
- K. Primary Renovation

**240.02** The Ordinance authorizes Hearing Officers to grant rent increases or surcharges where the maximum rent or maximum adjusted rent does not constitute a Just and Reasonable return in accordance with such Guidelines as the RAC may establish.

**240.03** The RAC presumes that the net operating income received up to May 1978 provided landlords with a Just and Reasonable return on their rental units, unless there is clear and convincing evidence to the contrary. In most cases the automatic increases allowed by the Ordinance and the property tax savings resulting from Proposition 13 provide sufficient additional operating income to landlords to maintain at least the same net operating income they experienced in 1977 adjusted by an inflation factor. However in some cases landlords may have incurred reasonable operating expenses which exceed the rent increases allowed by the Ordinance and the tax savings resulting from Proposition 13. Therefore, landlords who have had such reasonable increased operating expenses shall be able to maintain the same level of net operating income as they experienced in 1977, plus a Price Level Adjustment as determined by the RAC from time to time.

## **241.00 DETERMINATION OF THE NET OPERATING INCOME**

**241.01** Net Operating Income is determined by subtracting the annual Operating Expenses from the property's Total Gross Income.

**241.02** Total Gross Income is determined by adding the following:

- A. Actual Residential Unit Income
- B. Garage and Parking Income
- C. Store and Office Income
- D. Adjusted Income for Below Market Rental
- E. Miscellaneous Income

**241.03** Actual Residential Unit Income is the total annual income received from all the dwelling units in the rental complex.

**241.04** Garage and Parking Income is the additional income received for parking services in the garage or parking spaces on the grounds of the rental property.

**241.05** Store and Office Income is the total annual income received from any stores or offices located on the rental property. If income from stores or offices is reported in the Base Year but not in the Current Year, then such reported income will be eliminated in computing the Base year's net operating income.

**241.06** Adjusted Income for Below Market Rentals is an amount representing the difference between the actual rent collected and what the landlord could have collected if the units had been rented at their full market value. Examples of below market rents include but are not limited to units occupied by the landlord, the landlord's family,

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or the unit of a resident manager. The below market rent is determined by the rent level of the highest comparable unit in the rental complex. Where there is no exact comparable unit, the below market rent is determined on the basis of the highest rent for a unit in the same rental complex, adjusted for differences in size, amenities, etc. Where there is no comparable rental unit within the complex, the rent of a comparable unit in the immediate neighborhood may be used. The burden of proof is on the applicant to establish a reasonable basis for estimating the below market rent.

- A. In the Base Year a landlord is permitted to make an upward adjustment of Gross Income only for a unit occupied by the landlord, landlord's family, or by a manager, agent, or employee where, in the Base Year, either no rent was charged or a rent level below that of a comparable unit can be demonstrated.
  - B. In the Current Year, a landlord must make an upward adjustment in the Gross Income for any unit occupied by the landlord, the landlord's family or by a manager, agent, or employee where the unit is rent-free or where the rent is lower than the rent in the building for a comparable unit.
  - C. In addition, the Current Year Gross Income must be adjusted upward to reflect lost rent or below market rents for units permanently removed from rental housing use.
- 241.07** Miscellaneous Income is determined by adding all actual revenues received from such sources as maid services, gas and electricity sold to tenants, commissions from telecommunication and/or cable services, laundry and vending machines, signs on the building or property of the rental complex, air conditioning charges, special charges for the use of amenities, income from oil, gas, or other minerals on the rental complex property, location use payments by motion picture or television production companies, special rentals for occasional use of recreating rooms or other common areas, any interest derived from tenant money held as security deposits, and any income derived from the operations of the rental complex.
- 241.08** Vacancies in both the Base Year and the year for which the application is made are not calculated. However, in cases where the Hearing Officer finds unusual vacancy patterns, the Hearing Officer will have the discretion to adjust the Gross Total Income where the vacancies have been the result of a landlord withholding rental units from the market.
- 241.09** Operating Expenses are determined by adding the following:
- A. Management and Administrative Expenses
  - B. Adjustment for landlord performed services
  - C. Operating Expenses for:
    - 1) Supplies
    - 2) Heating Expenses
    - 3) Electricity
    - 4) Water and Sewer
    - 5) Gas
    - 6) Building Services

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## 7) Other Operating Expenses

### D. Maintenance Expenses including:

- 1) Security
- 2) Grounds Maintenance
- 3) Maintenance and Repairs
- 4) Painting and Decorating

### E. Taxes and Insurance Expenses including:

- 1) Real Estate Taxes
- 2) Other Taxes, Fees and permits
- 3) Insurance

### F. Service Expenses

### G. Other Payroll Expenses

**241.10** In determining operating expenses, all debt service expense, depreciation and expenses for which a landlord has been reimbursed or was eligible for reimbursement but failed to obtain reimbursement must be excluded.

**241.10** Management and Administrative Expenses include: Wages of Administrative Personnel, including agency fees for administrative services and the use value of any rental unit offered in compensation for such services calculated according to Section 241.06 above, advertising of rental units, legal costs involving operation of the property, auditing fees for the operation of the rental complex, fees and dues in professional property management organizations except that if the landlord owns more than one rental complex, such expenses must be apportioned among the rental complexes owned, telephone and building office expenses used for rental operations and office supplies, but excluding:

- A. Advertising for the sale of condominiums or for the sale of the rental property as a whole;
- B. Legal and auditing costs engendered by the purchase or sale of the rental complex;
- C. Legal costs resulting from the legal defense of the landlord from criminal charges filed against the landlord by local, state, or federal authorities or litigation costs stemming from judgments or settlement agreements demonstrating the landlord's liability for injuries or damages due to the landlord's failure to maintain the property in a habitable conditions, or legal fees incurred by the landlord in challenging the legality of the Ordinance or the RAC's Guidelines.

**241.12** An adjustment of Management and Administrative Expenses shall be allowed where the landlord performs management or administrative functions of self-labor in operating and /or maintaining the property. In addition to the actual Management and Administrative Expenses listed in Section 241.11 above, where the landlord performs such services, the landlord may calculate an expense figure representing the value of such unpaid management and administrative services. However, the total cost of Management and Administrative Expenses including the foregoing adjusted



expense cannot exceed 7% of the Total Gross Income as described in Section 241.02 above. Where the landlord has performed substantially similar services in both the Base year and the Current Year, the foregoing adjusted expenses must be calculated for both the Base year and the Current Year at the same percentage of Total Gross Income.

When the landlord performs different services in the Base Year and the Current Year, an adjustment will be allowed for such differences to the extent that the landlord shall document the amount of such differences. In the event that administrative services (including legal and auditing) are performed by a relative of the landlord, the landlord must obtain written evidence of competitive bids for these services, and the cost for such services must be completely documented. However, as detailed above, in no event shall the costs of Management and Administrative Expenses exceed 7% of the property's Total Gross Income.

**241.13A** Operating Expenses include:

- 1) Supplies, including janitorial services, light bulbs, uniforms for employees, etc.
- 2) Heating Expenses include coal or oil used for heating the building.
- 3) Electricity Expense includes all landlord-paid electricity for both rental units and common area.
- 4) Water and Sewer Expenses include all landlord-paid expenses for the rental complex.
- 5) Gas includes all gas charges paid by the landlord for both rental units and common areas.
- 6) Building Services include expenses for window washing, lobby directory, exterminating, rubbish removal, TV antenna service, cable, and/or telecommunication services.

**241.13B** Operating Expenses Do Not Include:

- 1) Penalties and Late Fees imposed by the Ordinance
- 2) Penalties and Fines imposed by any governmental agency for the failure or delay in paying taxes and fees or for illegal activities committed by or culpably not prevented by the landlord and for the failure by the landlord to maintain the property in a safe and habitable condition.
- 3) Prohibitions by the City or State against the landlord passing through otherwise eligible operating expenses or capitalized Capital Improvement expenditures; (for example, following administrative hearings where the landlord has been denied expense pass-through rights due to inclusion in the City's Rent Escrow Account Program (REAP) or Rent Reduction Program, or the State's limitations on tax deductions to owners of "substandard" properties).
- 4) Self-Labor expenditures unless the landlord meets the conditions imposed by RAC Regulations 211.07.
- 5) Costs for which a landlord has already received a rent increase based on the Capital Improvement Regulations (RAC Regulation 210.00 et seq.) or other RAC regulations.

**241.14** Maintenance Expenses include:

- A. Security Expenses such as wages of any security personnel, contracted security expenses, door guards, and the operating costs of security equipment.

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- B. Grounds Maintenance Expenses include wages of groundskeepers, gardeners, plant materials, external building lighting, sidewalk, and parking lot maintenance costs.
- C. Maintenance and Repairs include all general maintenance and repair both inside and outside the building, elevator maintenance, plumbing and electrical service, fire protection and smoke detector servicing, plastering and masonry repair, carpentry, heating and/or air conditioning repair, roofing and tuck pointing.

However, Capital Improvements are not annual expenses. Landlords who did work which constitute Capital Improvements under the RAC's Guidelines must capitalize such expenses in accordance with the following:

- 1) If the work required a permit from the Department of Building and Safety and consisted of one or more of the following:
  - a) The replacement of existing water or gas supply lines, the replacement of existing drain waste lines, or the installation of additional new supply or waste lines;
  - b) The replacement of electrical wiring or circuits, the replacement of an electrical service panel, or the addition of new wiring or circuits;
  - c) The replacement or upgrading of a heating, ventilation, or air conditioning (HVAC) system or the replacement, upgrading, or initial installation of an elevator system;
  - d) The addition, modification or improvement to the foundation or the structure (including the roof) that exposed the building frame or compromised the building's security, weather protection or fire protection; or
  - e) The abatement of hazardous materials, such as but not limited to lead-based paint and asbestos, in accordance with the applicable federal, state and local laws.

The cost associated with the above must be amortized over a period of fifteen years (180 months) and the landlord may only charge six and two thirds percent (6.67%) in the year such expense occurred and for the next successive fourteen years until fully amortized.

- 2) For all other work which constitutes a Capital Improvement, such expenses must be capitalized on the basis of a five-year (60 months) Amortization and only one-fifth of the total expenses may be charged in the year such an expense occurred and for the next successive four years until fully amortized. In the event there were capital expenditures in the 1977 base year or in any of the four years prior to 1977 (1973-1976), the capitalized value of the capital improvement expenditures (20% for each year must be carried into the Base Year as a capitalized expense). The same capitalization requirement applies to Base Years from 1978 through 1982. In the event an

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applicant uses an alternative Base year of 1983 or later, the applicant must include as a capitalized expense 20% of the cost of any capital improvements approved by the Department in any of the four years immediately preceding the alternative Base year.

- D. Painting and Decorating include all costs including wages and materials, and contracted labor painting and decorating the interior or exterior of the building, including the cost of paint, wallpaper, brushes, wall washing and replacement costs related to floor covering, draperies, and light fixtures all of which will be amortized as in subsection (C) above.
- E. A landlord who is a licensed contractor may include as an expense any self-labor costs connected with capital improvement, rehabilitation, or maintenance work by fully complying with the self-labor provisions of RAC Regulation 211.07 and RAC Regulation 251.06 which state that:
  - 1) If labor for work which requires a permit under the Los Angeles Municipal Code is provided by the landlord, the landlord's family member, or the landlord's agent or employee, such labor costs are not allowable unless the person contracting to perform the work is a state licensed contractor for the type of work performed. Proof of state licensing must be included with the application. In addition, the landlord must submit a minimum of two estimates or bids by non-related licensed contractors specifying both material and labor cost. Labor costs on these bids must be identified by the type of labor performed, the number of hours to perform the work, and the rate paid for the work.

Documented time cards must be submitted for all work performed by the landlord, family member, agent or employee.

- 2) If labor for work which does not require a permit under the Los Angeles Municipal Code, nor the services of a state licensed contractor, is provided by the landlord, the landlord's family member, or the landlord's agent or employee, such labor costs are allowable if documented time cards are submitted for all work performed by the landlord, family member, agent or employee, such labor costs are allowable if documented time cards are submitted for all work performed by the landlord, family member, agent or employee. Documented time cards must specify the number of hours spent on each task and identify the specific building on which the work was performed. In addition, for work costing over \$200.00, the landlord must submit a minimum of two estimates or bids, by non-related contractors, specifying both material and labor costs.

## **241.15** Taxes and Insurance include:

- A. Real Estate Taxes include all local or state taxes as well as non-capitalized assessments.
- B. Other Taxes, Fees and Permits such as the Rent Registration fee, Systematic Code Enforcement Program Fee, City of Los Angeles Gross Receipts tax,

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personal property taxes, applicable to the property, franchise and business taxes, sign and permit fees, etc.

- C. Insurance including all one-year charges for fire, liability, theft, boiler explosion, rent fidelity bonds, and all insurance premiums except those paid to FHA for mortgage insurance or employee benefit plans. Whenever a premium is multi-year, it must be pro-rated to all applicable years.

**241.16** Service Expense include the annual cost of maintaining recreational amenities such as saunas, gymnasiums, billiard rooms, pools, Jacuzzis, and tennis courts. Such costs include payroll, contractual services, materials and supplies, and minor non-capitalized equipment replacement. Improvements qualifying as Capital Improvements must be amortized as described in Section 241.14C above.

**241.17** Other Payroll Expense include any payroll expenses not included in any of the categories previously listed, such as janitors, maids, elevator operators, telephone switchboard operators, and rental agents.

**241.18** Operating expenses must be reasonable. Whenever a particular expense exceeds normal industry standards in the Base Year or in the Current Year for which the application for a rent increase is made, the Hearing Officer shall determine whether the expense is reasonable. In cases where the Hearing Officer determines that a particular expense is unreasonable, the Hearing Officer shall adjust the expense to reflect the normal industry range for that year. The Hearing Officer shall indicate the reason for such an adjustment in the determination.

**241.19** In case the financial data necessary for preparing the Net Operating Income have been lost or are unavailable, the landlord applying for a Just and Reasonable rent increase must be prepared to supply or assist fully the Department or RAC in obtaining such financial data as may be available in records kept by the landlord, accountants, tax prepares, bookkeepers, escrow companies, real estate brokers or agents, former owners, etc. The failure of a landlord to supply such records or to assist the Department or RAC in obtaining such records as may exist shall be factors that will be used in determining if there is "clear and convincing evidence" as required in Sections 243.02, 243.02, 243.02A or elsewhere where the Net Operating Income must be supplied.

**242.00 DETERMINATION OF ELIGIBILITY FOR RENT INCREASES PURSUANT TO THE 1977 BASE YEAR FORMULA**

**242.01** The Base Year shall be 1977 when the financial information for that year is available.

**242.02** Determine the 1977 Net Operating Income.

**242.03** Determine the Current Year Net Operating Income in accordance with the provisions of Sections 241.01 - 241.07. The Current Year shall be the most recent calendar or fiscal year prior to the date of the application.

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- 242.04** Add to the Net Operating Income for 1977 the Price Level Adjustment according to the formula published on the Price Level Adjustment Calendar Matrix maintained by the Department.
- 242.05** The Net Operating Income from the Current Year is compared to the 1977 Net Operating Income plus the Price Level Adjustment:
- A. If the Current Year Net Operating Income is larger than the 1977 Net Operating Income plus the Price Level Adjustment, the landlord is ineligible for a Just and Reasonable rent increase based on this formula.
  - B. If the Current Year Net Operating Income is less than the 1977 Net Operating Income plus the Price Level Adjustment, the landlord is eligible for a rent increase that will allow the Current Year Net Operating Income to equal the 1977 Net Operating Income plus the Price Level Adjustment.
- 242.06** Landlords who did not own the rental property in 1977 shall use the 1977 Net Operating Income of the landlord of record in 1977 if the financial information is available.
- 243.00** **DETERMINATION OF ELIGIBILITY FOR RENT INCREASES WHEN 1977 NET OPERATING INCOME AND EXPENSE INFORMATION IS NOT AVAILABLE**
- 243.01** In the event that the 1977 financial information is not available, and where the unavailability of such records can be substantiated by clear and convincing evidence, a Just and Reasonable applicant who was the landlord of record in 1977 may substitute as a Base Year the first year following 1977 for which records are available.
- 243.02** In the case of a new landlord who did not own the rental property in 1977 and where 1977 records are not available from a previous landlord, the present landlord may, when the unavailability of the 1977 records can be substantiated by clear and convincing evidence, substitute as a Base Year the first year following 1977 for which a previous landlord's records are available.
- 243.03** In the event that no financial records are available from a previous landlord, the current landlord is eligible for a Just and Reasonable rent increase only when the landlord has two complete years of operating income and expenses. The first year Net Operating Income for such landlords will be the Base Year.
- 243.04** Repealed by the RAC on March 17, 2005.
- 243.05** The Current Year Net Operating Income is subtracted from the Base Year Net Operating Income plus the Price Level Adjustment.
- 243.06** If the Current Year Net Operating Income is larger than the Base Year Net Operating Income plus the Price Level Adjustment, the landlord is ineligible for a Just and Reasonable rent increase based on this formula.

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- 243.07** If the Current Year Net Operating Income is less than the Base Year Net Operating Income plus the Price Level Adjustment, the landlord is eligible for a rent increase that will allow the Current Year Net Operating Income to equal the Base Year Net Operating Income plus the Price Level Adjustment.
- 244.00 EXCEPTION FOR CIRCUMSTANCES WHERE A LANDLORD IS SUFFERING A NET OPERATING LOSS**
- 244.01** To ensure that no landlord suffers a net operating loss because of the provisions of the Ordinance, the Hearing Officer shall grant a rent increase sufficient for a landlord to reach a break-even point in the Current Year for which the application is made.
- 244.02** All the criteria contained in Sections 241.00 through 241.18 shall be followed.
- 245.00 DETERMINATION OF THE RENT INCREASE FOR EACH INDIVIDUAL RENTAL UNIT**
- 245.01** The rental increase permitted is determined by using one of the following listed formulas:
- A. The 1977 Base Year (Sections 242.00 - 242.06)
  - B. When the 1977 Base Year Data is not available (Sections 243.00 - 243.07)
  - C. The Net Operating Loss Circumstance (Sections 244.00 - 244.02)
- 245.02** To obtain the rent increase for each rental unit at the property, the dollar amount the total rent can be raised according to one of the above 3 formulas is divided equally by the number of rental units in the property. This is the annual increase for each unit. To obtain the periodic increase (monthly, weekly, etc.) The annual unit increase is divided by the frequency of the rental payments. For example: if paid monthly the annual increase is divided by 12; if paid weekly the annual is divided by 52. The result of these calculations is the dollar amount the rent can be raised in each rental unit. The legal rent used in these calculations is the current rent at the time of the application provided this rent does not exceed the amount permitted by the Ordinance and any Regulations or Guidelines issued by the RAC.
- 245.03** No rent increase granted pursuant to the above shall be construed to permit landlords to raise their rents in violation of any terms or provisions of a written lease.
- 246.00 PROCEDURES FOR LANDLORDS APPLYING FOR A JUST AND REASONABLE RENT INCREASE (LAMC 151.07 B3)**
- 246.01** Landlords should examine carefully the Guidelines to be used by Hearing Officers for determining a Just and Reasonable return (Section 240.00 et seq. above). The conditions covering eligibility for a Just and Reasonable return are listed in those sections which describe the various alternative methods available to the property owner. The property owner should also examine the Guidelines for Appeals to the RAC (Section 248.00 et seq. below) which describe appeals from the decision of a Hearing Officer and the special circumstances where the standards described in Section 240.00 et seq. may be applicable.

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- 246.02** Landlords are advised to examine the most current Price Level Adjustment Calendar Matrix.
- 246.03** Before a landlord may increase rents on the basis of Just and Reasonable Guidelines, the landlord must first obtain the written approval of a Hearing Officer or the RAC. (LAMC 151.07 B1)
- 246.04** The landlord may request a Just and Reasonable increase by completing the City's standard "Application for Rent Increase under Just and Reasonable Guidelines." Either the Comparative Profit and Loss Statement form, which is a part of the application, or "Schedule E" from the Federal tax return for the relevant year(s) may be used. The completed application shall be delivered to the City of Los Angeles in accordance with instructions given on the application. (LAMC 151.07 B1, B3)
- 246.05** There is a \$25 fee for filing an application for a Just and Reasonable rent increase. (LAMC 151.07 B3a). Very low-income landlords can be exempted from the \$25 filing fee by filing an indigence exemption form which is available from the Department. (LAMC 151.14 C)
- 246.06** The landlord may not collect any rent increase based on a Just and Reasonable application until such time as the Hearing Officer approves the request. Such increase may not go into effect until after compliance with statutory notice requirements.
- 246.07** In no case will the Hearing Officer authorize a rent increase beyond the amount requested by the landlord in the application. (LAMC 151.07B3d)
- 246.08** In the event that an application lacks the required documents or that there are major errors in the mathematical computations showing the individual rent increases, the application will be returned to the landlord with an explanation as to why the application cannot be accepted. (LAMC 151.14 A)
- 246.09** If an application is returned by the Department because of error or missing documents, the landlord may re-submit the application without an additional filing fee after correcting the error or obtaining the necessary documents. (LAMC 151.14 A)
- 246.10** Photocopies of all relevant documents must be attached to the completed application.
- 246.11** Whenever a Just and Reasonable rent increase application has been accepted for processing and at a later date it is determined that the application lacks complete documentation and/or required information, the case may be suspended prior to the hearing for a 30 day period commencing upon the date of mailing the notification to the landlord of the documentation and/or information needed. If at the end of this 30-day period the requested information has not been supplied, the application will be denied without prejudice. The landlord may re-submit the application without an additional filing fee after obtaining the necessary documents or information.
- 246.12** In no event will an application for a rent increase be considered until the landlord has established that the rental units for which an increased rental is sought have been duly registered as required by law. (LAMC 151.05A)

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- 246.13** Landlords should submit photocopies rather than original documents. Materials attached to the application will not be returned to the landlord. However, the landlord must, upon request by the Department, show to the Department or to a Hearing Officer the original document from which a photocopy was made. (LAMC 151.07 A2a)
- 247.00 PROCEDURES AFTER THE LANDLORD SUBMITS AN APPLICATION**
- 247.01** The Department will notify each tenant listed in the landlord's application that the landlord has requested a Just and Reasonable rent increase. The notification will include the amount of the proposed increase and the landlord's justification for the request. (151.07)
- 247.02** Both the landlord and the tenants will be notified of the public hearing at which the determination will be made on the landlord's application. The hearing will take place neither less than ten days nor more than forty-five days after the date of mailing such notice.
- 247.03** The Department will prepare an analysis of the application for the Hearing Officer. The analysis will summarize the information supplied by the landlord. It will also note any errors and missing information and indicate any points where the application may be in conflict with the RAC guidelines. A copy of the analysis will be sent to the applicant and all other affected parties. The sole purpose of the analysis will be to facilitate the hearing. The analysis is not binding on the Hearing Officer.
- 247.03A** Repealed by the RAC on March 17, 2005.
- 247.04** Both landlords and tenants may offer documents, testify, or provide written declarations of evidence as may be pertinent. The Hearing Officer shall hear and receive all evidence submitted by any party at the hearing. (LAMC151.07 B3c)
- 247.05** Either the landlord or the affected tenant(s) may challenge, in writing or at the hearing, any portion of the Department's analysis of the application.
- 247.06** If the landlord and/or affected tenant(s) did not receive the Department's analysis in time to prepare a response, the Hearing Officer may continue the hearing for a reasonable amount of time to allow for the submission of written responses and/or to prepare oral testimony, subject to the time limit set forth in RAC Regulation 247.09, unless the applicant is willing to waive the time limit.
- 247.07** Unless a continuance has been granted, if the applicant fails to appear at a scheduled hearing, the Hearing Officer will render a decision based on the application, evidence contained in the administrative record, and/or evidence, if any, presented at the hearing.
- 247.08** If at the hearing the landlord fails to present documentation or information requested by the Department before or during the hearing, the hearing may be continued no more than 30 days. If the landlord does not supply the requested documentation and/or information by the new hearing date, the Hearing Officer shall render the decision based on the application and whatever evidence is available at the close of the hearing.

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- 247.08A** All evidence, written and oral, submitted at the hearing will be under oath. (LAMC 151.07 B3a)
- 247.09** A determination with written findings will be made by a Hearing Officer within 75 days of the filing of an application. Any suspension for purposes of obtaining additional information pursuant to Section 246.11 will not be included in computing the 75 days. The determination may be for less than the amount requested (LAMC 151.07 B3d). If the Hearing Officer determines the decreased Net Operating Income in the Current Year is likely to be permanent, the Hearing Officer shall grant a permanent rent increase that will become part of the Maximum Adjusted Rent. If the Hearing Officer determines that the decreased Net Operating Income is caused by expenses in the Current Year which are extraordinary and as such unlikely to re-occur, the Hearing Officer shall grant an increase for one year only. Such a limited increase is to be considered a surcharge, and will not become part of the Maximum Adjusted Rent. In the event a surcharge would exceed \$55.00 per month, the Hearing Officer shall extend the length of time for collecting the surcharge at a rate of \$55.00 per month until the full amount is recovered.
- 247.10** The Department will mail copies of the Hearing Officer's findings to the landlord and tenants. The determination will be final unless an appeal is filed with the RAC within 15 days of mailing of findings. (LAMC 151.07 B3e)
- 247.11** Upon approval by a Hearing Officer, a Just and Reasonable rent increase or surcharge can go into effect after the landlord has complied with statutory notice requirements, regardless of the filing of an appeal to the RAC.
- 248.00** **PROCEDURES FOR APPEALING THE DECISION OF A HEARING OFFICER TO THE RAC APPEALS BOARD (LAMC 151.07 B 4)**
- 248.01** An appeal of the determination of the Hearing Officer must be made on the form prescribed by the Department. An appeal must be accompanied by a \$50 filing fee. Very low-income tenants and landlords can be exempted from the \$50 filing fee by filing an indigence exemption form which is available from the Department. (LAMC 151.07 B4a, 151.14 C)
- 248.02** The appeal must state specifically why the appellant is entitled to an appeal hearing. The grounds for an appeal are:
- A. Error committed by the Hearing Officer, or;
  - B. Abuse of discretion committed by the Hearing Officer, or;
  - C. The existence of new, relevant information which was not submitted to the Hearing Officer at the time of the initial determination due to mistake, surprise, inadvertence, or excusable neglect, and which information would have affected the determination of the Hearing Officer if it had been submitted earlier.
- 248.03** Repealed by the RAC on March 17, 2005.
- 248.04** If the decision of the Hearing Officer is appealed to the Appeals Board and documentation and/or information previously requested of the landlord has not been

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included with the application for an appeal hearing, the Appeals Board may continue the case for a 30 day period commencing upon the date of mailing to the landlord during which the landlord may submit the requested documentation and/or information. If at the end of this 30-day period, the landlord has not supplied the documentation and/or information, the Appeals Board shall hear the appeal on the basis of the record compiled by the Hearing Officer and any additional evidence which the Appeals Board may elect to accept at the appeal hearing.

- 248.05** The filing of an appeal by a tenant will not delay the rent increase approved by the Hearing Officer. If the tenant appeal is successful, the landlord must forthwith refund any rent increases collected on the basis of the Hearing Officer's determination. (LAMC 151.07 B4a)
- 248.06** Prior to the appeal hearing, Department staff may communicate with the landlord, the tenants, the previous owner, or persons connected to any firm or agency indicated in the documentation supplied by the landlord or appellant to verify the contents of such documentation or the absence of documentation. Such individuals may also be invited to testify at the appeal hearing.
- 248.07** The Department will prepare an analysis of the appeal for the Appeals Board. A copy of the analysis will be sent to the appellant and all affected parties.
- 248.08** Both landlord and/or the affected tenant(s) may challenge, in writing or at the hearing, any portion of the Department's analysis.
- 248.09** Repealed by the RAC on March 17, 2005.
- 248.10** Landlords and tenants will be notified of the appeal hearing at least ten days prior to the date set for the appeal hearing. (LAMC 151.07 B4c)
- 248.11** The hearing and the determination by the Appeals Board will take place within 60 days of the expiration of the 15-day appeal period or within such extended period of time as may be mutually agreed upon by the appellant and the designated Appeals Board, provided by RAC Regulation 247.10. (LAMC 151.07 B4c)
- 248.12** If the landlord and/or affected tenant(s) did not receive the Department's analysis in time to prepare a response, the RAC may continue the hearing a reasonable amount of time to allow the submission of a written response and/or to prepare oral testimony, subject to the time limit set forth in RAC Regulation 248.11, unless the appellant is willing to waive the time limit.
- 248.13** Unless a continuance has been granted, if the appellant fails to appear at a scheduled appeal hearing the Appeals Board will render a decision based on the application, the appeal, evidence contained in the administrative record, and/or evidence presented at the hearing.
- 248.14** If at any time there is new evidence presented on the appeal the Appeals Board may, at its discretion, refer the matter to a Hearing Officer to receive, analyze and report back the findings of said hearing, subject to the time limit set forth in RAC Regulation 248.11, unless the appellant waives the time limit.

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- 248.15** All testimony-at the hearing shall be under oath. (LAMC 151.07 B3a)
- 248.16** The Appeals Board may affirm, modify or reverse the determination of the Hearing Officer. It may modify or reverse such determination only upon making written findings setting forth specifically either (i) wherein the action of the hearing officer was in error or constituted an abuse of discretion, or (ii) that the new information not available at the time of the hearing upon which the appellant relies, and supporting its own determination. (LAMC 151.07 B4d)
- 248.17** If the Appeals Board modifies or reverses the decision of the Hearing Officer, it shall set forth specifically how the Hearing Officer was in error or what constituted an abuse of discretion. (LAMC 151.07 B4d)
- 248.18** The Appeals Board decision shall be concurred in by a majority of the Appeals Board hearing the appeal. (LAMC 151.07 B4d)
- 248.19** A copy of the Appeals Board's written findings will be mailed to the landlord and all affected tenants. (LAMC 151.07 B4d)
- 248.20** If the Appeals Board fails to act within the time limits set by the ordinance, the decision of the Hearing Officer becomes final.
- 248.20A** Upon approval by the Appeals Board, a Just and Reasonable rent increase or surcharge can go into effect after the landlord has complied with statutory notice requirements.
- 248.21** There is no administrative appeal from the decision of the Appeals Board.