



City of San Jose

Advisory Committee for the Apartment Rent Ordinance

Duplexes & Consultant Scope of Work

Wednesday, October 14, 2015

Roosevelt Community Center



Item C – Unfinished Business from October 7

Inclusion of Duplexes

Purpose

- Directed by Council on September 1
- Increase the supply of apartments available under the ARO by including duplexes

Cities with duplexes under ARO

- Berkeley
- Beverly Hills
- East Palo Alto
- Los Angeles
- Oakland*
- San Francisco

*All units in building exempt when owner occupies one unit

Duplexes in San Jose

- County Assessor's Data
 - 5,514 duplexes total = 11,028 units
 - Nearly all built before 1996 = 5,460 duplexes or 10,920 units
- Represents up to a 23% increase of ARO supply

Impact if Duplexes included in ARO

- Increase the supply of apartments under ARO
- Duplex owners/managers
 - Would have same responsibilities as owners of apartments currently under the ARO
- City
 - Likely to have more mediation/arbitration hearings
 - Additional staffing needs
 - Increased RRRP fees

Focus Questions

- Is the inclusion of duplexes consistent with the goals and purpose of the ARO?

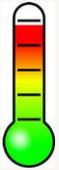
Focus Questions

- What might be the unintended consequences?
 - *From 10/7 Discussion:*
 - Large-scale owner re-occupation may lead to lower yield
 - Difficult to regulate, would need sufficient staffing to monitor
 - Granny/In-Law Units impacted
 - **New construction and new rentals would not be covered by new regulations**

Focus Questions

- What are the pros and cons of including duplexes?
 - **Pros**
 - Increase the supply of ARO apartments
 - **Cons**
 - Unintended consequences
 - High impact to new owners who didn't believe they would have regulations placed on property

Temperature Check



Should the City continue to explore the inclusion of duplexes in the ARO?

Item D – Consultant Scope of Work

Purpose of Agenda Item

- Directed by City Council to initiate consultant study of ARO
- Provide information to the Advisory Committee on consultant scope of work, related tasks, and methodology
- Understanding of the scope of work will provide framework to discuss subsequent items such as annual allowable increase
- Draft report available mid- to late-November 2015
- Advisory Committee review early- to mid-December 2015

Analytic Tasks

- Study four key areas:
 - Characteristics of renters and the rental market
 - ARO housing inventory characteristics
 - Financial outcomes & fair returns for owners
 - Debt-service pass-through
- Supplemented by staff analyses of case studies and best practices

Task 1: Characteristics of Renters & Rental Market

- Public and Council input on who lives in ARO apartments
- Analyses of:
 - Incomes
 - Rent burden
 - Tenant mobility
 - Overcrowding
 - Outcomes by geography, income, and ethnicity
 - Comparison of ARO rents v. Non-ARO rents

Task 1: Methodology

- Utilize Census/American Community Survey (ACS) data for general rental market analysis
- Utilize custom dataset from ACS and apply filters to distinguish between ARO and non-ARO apartments

Task 2: ARO Housing Inventory

- Public and Council input on how ARO and non-ARO apartments may differ
- Analyses of:
 - Comparison of ARO and non-ARO rents
 - Physical characteristics (# of properties/units, age, quality)
 - Length of time building held by same owner
 - Property valuation trends
 - Vacancy rate and turnover

Task 2: Methodology

- Match County Assessor dataset to addresses of ARO apartments provided by Housing Department to identify relevant buildings for analysis of physical characteristics
- Utilize public and industry data to assess length of time building held by same owner, property valuation trends, and tenant turnover rates
- Analyses will help inform Task 3 regarding financial outcomes and fair returns

Task 3: Financial Outcomes & Fair Returns

- Key analytic task in order to inform exploration of potential modifications to annual allowable rent increase
- Analyses of :
 - Trends in apartment operating costs (by type of cost), rents, and net operating income
 - Comparison of allowable rent increases in San Jose with other rent control jurisdictions, Statewide trends, national trends, ARO v. non-ARO apartments, Consumer Price Index (CPI), and constitutional standards
 - Distinguish between property classes, age, size, location (subject to limits on data availability)

Task 3: Financial Outcomes & Fair Returns

- Analysis will consider:
 - Portion of rental income used for operating expenses, and if proportion has changed over time
 - Financial outcomes for rental property owners in terms of growth in net operating income and appreciation
 - Comparison of returns for ARO & non-ARO apartments
 - Expense and return data by building/unit size and age (to the extent that data are available)
 - Trends in market-rate rents compared to allowed ARO increases
 - Factors to consider for annual rent adjustment standard

Task 3: Methodology

- Analyze operating costs and trends
 - Utilities
 - Management
 - Maintenance
 - Property taxes
 - Insurance
 - Replacement costs
- Compare costs with increases in rents to determine trends in net operating income

Task 4: Analysis of Cost Pass-Through

- Builds on the analysis of financial outcome/fair returns
- Analyses of:
 - Outcomes of the ARO includes analysis of pass-through provisions
 - Outcomes of debt-service petitions

Task 4: Methodology

- Utilize sales transaction data & link addresses to ARO apartments
- Compare the number of ARO sales transactions to number of debt-service petitions filed
- Analyze Housing Department's pass-through petitions
- Determine if other cities allow debt-service pass-throughs, and reasons why or why not

Public Comment

For more information visit:

<http://www.sanjoseca.gov/index.aspx?nid=4744>

Scan code with your smart phone/device to sign up
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Open Forum

This time is reserved for comment
on items not on the Agenda

Meeting Schedule

Date	Time	Location
Wednesday, September 30	6:00 – 8:30pm	Roosevelt Community Center
Wednesday, October 7	6:00 – 8:30pm	Roosevelt Community Center
Wednesday, October 14	6:00 – 8:30pm	Roosevelt Community Center
Saturday, October 17	10:00am - 2:00pm	San Jose City Hall Council Chambers
Wednesday, October 21	6:00 - 8:30pm	City Hall Wing Rooms 118-120
Saturday, October 24	10:00am – 2:00pm	San Jose City Hall Council Chambers
Wednesday, October 28	6:00 - 8:30pm	San Jose City Hall Council Chambers
Saturday, October 31	10:00am - 2:00pm	San Jose City Hall Council Chambers
Wednesday, November 4	6:00 - 8:30pm	Roosevelt Community Center
Saturday, November 7	10:00am - 2:00pm	San Jose City Hall Council Chambers
Monday, November 9	6:00 - 8:30pm	San Jose City Hall Council Chambers

Next Meeting:

Saturday, October 17

10:00am

San Jose High School – Cafeteria

Topic: Alternative Standards for
the Annual Allowable Increase