



City of San Jose

Advisory Committee for the Apartment Rent Ordinance

**Alternative Standards for Allowable
Annual Rent Increase**

Saturday, October 17, 2015

San Jose High School



Item E – Alternative Standards for Annual Allowable Rent Increases

Ground Rules

- Speak candidly and listen openly
- Question ideas, respect Committee members
- One person speaks at a time
- Stay focused on focus questions

Shared Principles

Owners/Managers

Tenants

Education	Education
Monitoring & Enforcement	Monitoring & Enforcement
Fairness (economic return)	Fairness (how they are treated)
Predictability & Certainty (running a business)	Predictability & Certainty (living situation)

Purpose of Agenda Item

- Council direction to explore potential modifications to annual allowable increase
- Today is to provide information on alternative types of standards and methodologies, discuss alignment with ARO purpose, and discuss pros and cons
- Today is to receive input from Committee and public on the alternative standards
- Today is NOT to pick a standard or rate of change

Existing Allowable Annual Increase in ARO

- Based on date of last increase
- Maximum annual rent increase of 8% every 12 mos
- If more than 24 mos w/o increase, 21% increase is allowed

Existing ARO Mechanisms to Cover Costs

- Separate process in ARO to recover costs
 - Operations & maintenance pass-through
 - Capital improvements pass-through
 - Rehabilitation pass-through
 - Debt-service pass-through

Scenario

<u>Base Rent</u>		<u>8% Increase</u>		<u>New Base Rent</u>
\$1,000	+	\$80	=	\$1,080/month

Focus Question

- What costs does the City's ARO state are to be covered by the annual allowable rent increase? ie, What is the stated purpose of the allowable increase?

How are Costs Covered in the ARO?

- The ARO covers many costs through the operations & maintenance pass-through, including but not limited to:
 - Real estate taxes
 - Business taxes and fees
 - Insurance
 - Sewer service charges
 - Utilities
 - Janitorial services
 - Professional property management fees
 - Interest cost of variable interest rate mortgages
 - Pool maintenance
 - Exterior building and grounds maintenance
 - Supplies
 - Equipment
 - Refuse removal
 - Elevator service
 - Security systems or services

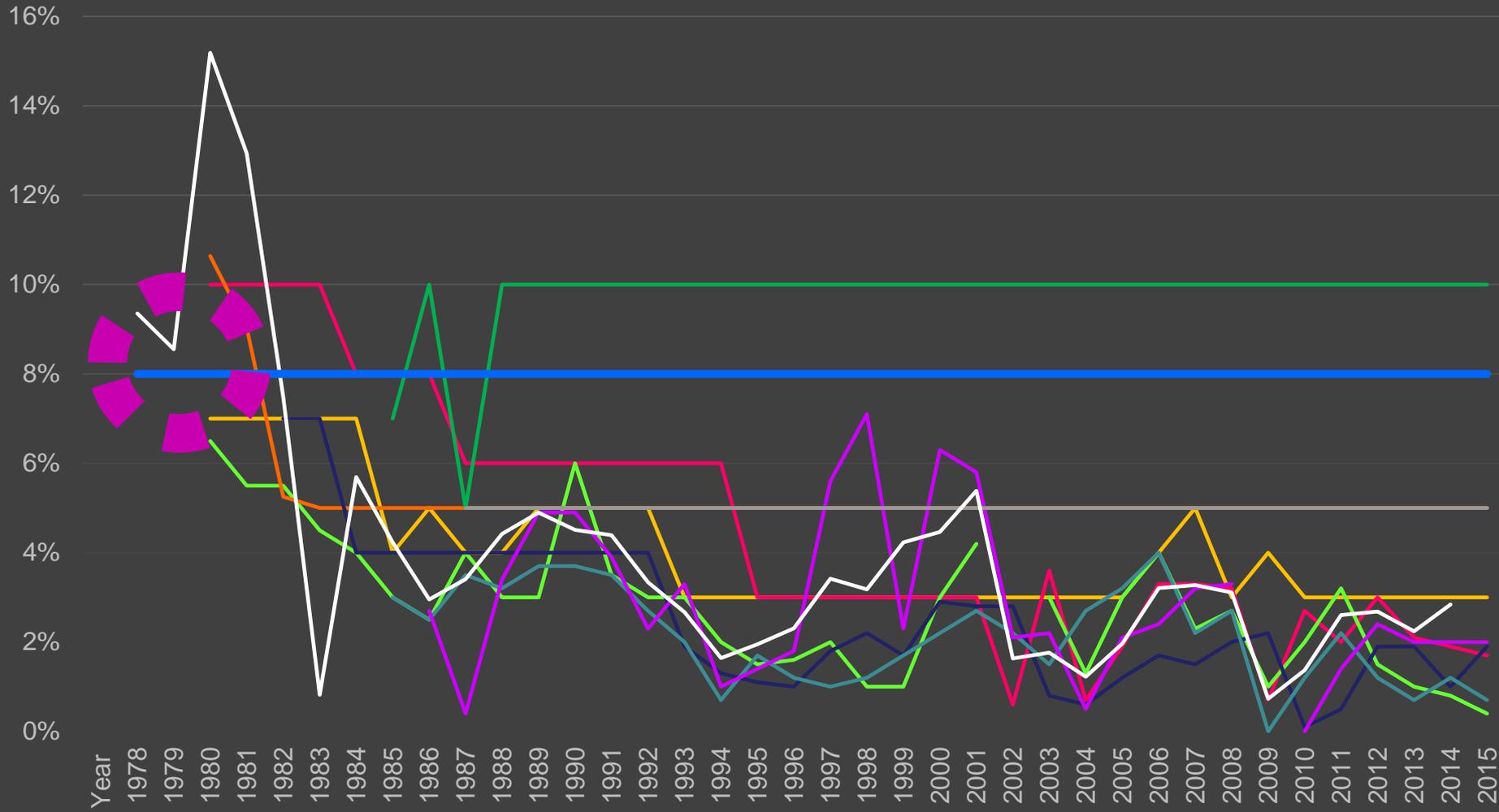
Focus Question

- Does the annual allowable rent increase meet the public purposes as stated in the ARO?
 - Prevention of excessive and unreasonable rent increases
 - Alleviation of undue hardship upon individual tenants
 - Assurance of a fair and reasonable return on the value of their property

Alternative Standards - Annual Allowable Increase

- Annual Increase Based on Fixed Percentage/Rate
- Annual Increase Based on Inflation
- Annual Increase Based on Operating Cost Study

Annual Allowable Rent Increase by California City



- Los Angeles
- Oakland
- Santa Monica
- Los Gatos
- San Francisco
- West Hollywood
- Beverly Hills
- East Palo Alto
- Hayward
- SF-Oak-SJ All-items Index
- San Jose

Annual Increase Based on Fixed %

- Fixed maximum annual limit amount set by City
- In San Jose, not tied to a stated methodology, rationale, or index

Ordinances with Fixed Percentage Annual Increase		
Jurisdiction	Annual Increase Standard	Utility Adjustments for Master-Metered Units
Beverly Hills	10% / year*	None
Hayward	5% / year	None
San José	8% / year	None

Scenario

Ordinances with Fixed Percentage Annual Increase				
Jurisdiction	Base Rent	Annual Increase Standard	Increase	New Rent Per Month
Beverly Hills	\$1,000	10% / yr*	\$100/mo	\$1,100
Hayward	\$1,000	5% / yr	\$50/mo	\$1,050
San José	\$1,000	8% / yr	\$80/mo	\$1,080

Focus Question

- Does a fixed percentage increase standard align with the Advisory Committee's shared principles of
 - Certainty
 - Predictability
 - Fairness

Focus Question

- What are the pros & cons of a fixed annual increase?

Annual Increase Based on Inflation

- Changes in operating costs reflect inflation
- Can include provisions for floors and ceilings and/or utility adjustments
- Typical index used is Consumer Price Index – Urban (CPI-U) All Items; includes rental costs
- San Francisco – Oakland – San Jose Urban Area
- “Circularity” of CPI-U All Items index
 - High rates of change for rents → Higher inflation rate → Higher rent increases
 - Low rates of change for rents → Lower inflation rate → Lower rent increases

Annual Increase Based on Inflation

- Alternative inflation index is CPI-U All Items Less Shelter
- Removes “circularity” of inflation-based rent increases
- Comparison of *All Items* v *All Items Less Shelter*
 - During high rent increases, All Items > All Items Less Shelter
 - During low rent increases, All Items < All Items Less Shelter
- From 1978 to 2007:
 - All Items index increased 233%
 - All Items Less Shelter index increased 197%

Annual Increase Based on CPI-U

Ordinances with Annual Increase Based on CPI		
Jurisdiction	Annual Increase Standard	Utility Adjustments for Master-Metered Units
Los Angeles	100% of CPI 3% floor, 8% ceiling	1% / year gas 1% / year electricity
Berkeley	65% of CPI (until 2006, annual increase based on opening cost study)	None
Oakland	100% of CPI	None
San Francisco	60% of CPI	Gas and electricity – pass through of costs increases for a bldg based on application
West Hollywood	75% of CPI	None

Scenario

Ordinances with Annual Increase Based on CPI				
Jurisdiction	Base Rent	Annual Increase Standard	Actual Increase	New Base Rent
Los Angeles	\$1,000/mo	100% of CPI Minimum 3% Maximum 8%	[2.5%, (\$25/mo)] 3%, \$30/mo	\$1,030/mo
Berkeley	\$1,000/mo	65% of CPI	\$16.25/mo	\$1,016.25/mo
Oakland	\$1,000/mo	100% of CPI	\$25/mo	\$1,025/mo
San Francisco	\$1,000/mo	60% of CPI	\$15/mo	\$1,015/mo
West Hollywood	\$1,000/mo	75% of CPI	\$18.75/mo	\$1,018.75/mo

Assumes Feb 2015 CPI-U: 2.5%

Focus Question

- Does an increase based on an inflationary index align with the Advisory Committee's shared principles of
 - Certainty
 - Predictability
 - Fairness

Focus Question

- What are the pros & cons of an annual increase based on an inflationary index?

Annual Increase Based on Operating Cost Study

- Allow annual allowable increase to reflect changes in operating costs as accurately as possible
- Requires annual, ongoing tracking/analysis of operating costs and annual adjustments of allowable rent increases
- “Weight” different costs because not all costs are the same
 - Bigger costs as percentage of gross rent weigh more
 - Smaller costs as percentage of gross rent weigh less

Annual Increase Based on Operating Cost Study

Annual Increase Based on Operating Cost Study		
Jurisdiction	Annual Increase Standard	Utility Adjustments for Master-Metered Units
Santa Monica	Annual increase determined by Rent Board based on apartment operating cost study	Gas and electricity adjustments in 4 of 30 years based on operating cost studies

Model

Type of Cost/Line Item (a)	Ratio to Gross Rent (b)	Percent Increase (c)	Percent Rent increase Required (b x c)	Measure of Cost Increase (e)
Property Taxes	.0855	2.0%	0.17%	2%/yr or Actual
Trash Collection	.0202	10.0%	0.20%	City Rates
Water & Sewer	.0288	5.5%	0.16%	City Rates
Gas (common areas)	.0299	17.54%	0.52%	Utility Rates
Electricity (common areas)	.0147	0.0%	0.00%	Utility Rates
Maintenance	.1431	4.1%	0.59%	CPI-U All Items Less Shelter
Insurance	.0408	4.1%	0.17%	CPI-U All Items Less Shelter
Self-Labor	.0708	4.7%	0.33%	CPI-U
Management	.0500	4.7%	0.24%	CPI-U
Net Operating Income	.5162	4.7%	2.43%	CPI-U
TOTAL			4.81%	

Focus Question

- Does an operating cost standard align with the Advisory Committee's shared principles of
 - Certainty
 - Predictability
 - Fairness

Focus Question

- What are the pros & cons of a operating cost standard?

Other Annual Allowable Increase Standard?

- Besides the three standards discussed, are there other standards for an annual allowable increase that should be considered?
 - Fixed Percentage/Rate
 - Inflation
 - Operating Cost Study
 - ???

Banking/Multi-Year Rent Increase Standard

- Owners should not be penalized for not collecting increases
- Owners should have an opportunity to recover during down cycles
- Different cities have different policies
 - San Jose allows 21% if no rent increases in over 24 months
 - Other cities also allow banking with limits
 - Some cities allow banking with no limits
 - LA does not allow banking

Focus Question

- Does banking rent increases align with the Advisory Committee's shared principles of
 - Certainty
 - Predictability
 - Fairness

Focus Question

- What are the pros & cons of banking rent increases?

Public Comment

For more information visit:

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

Scan code with your smart phone/device to sign up for email updates on this process.



Select: “2015 Apartment Rent Ordinance”

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 High School
Wednesday, October 21	6:15 - 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:

Wednesday, October 21

6:15pm

San Jose City Hall – Wing 118-120

Topic: Petition Process