



City of San Jose

Advisory Committee for the Apartment Rent Ordinance

Discussion & Presentation of Preliminary Consultant Report

Wednesday, January 27, 2016

San Jose City Hall Wing Rooms 118-120



Item C – Discussion & Presentation of Preliminary Consultant Report

Background

- September 1, 2015: Council approved staff's scope of work
- Economic Roundtable selected
- Consultant analytic tasks
 - Financial outcomes & Fair returns
 - Debt-service pass-through
 - ARO building characteristics
 - Comparison of ARO and non-ARO rents
 - Demographic characteristics of ARO renters
- January 20, 2016: Preliminary report released for 30-day comment period

Preliminary Report Chapters

- Chapter 1: ARO Housing Inventory & Characteristics
- Chapter 2: Rent, Income & Socioeconomic Conditions
- Chapter 3: Renter Demographics
- Chapter 4: Standards for Allowable Rent Increase & Increases in Market Rent Levels
- Chapter 5: Rent Adjustment & Fair Return Standards
- Chapter 6: Financial Outcomes

Data Sources

- US Census and American Community Surveys
- Bureau of Labor Statistics
- CoStar
- Multiple Listing Service
- Institute of Real Estate Management
- RealFacts
- Marcus & Millichap
- Public/private utilities
- Santa Clara County Assessor's Office
- City of San Jose Department of Housing

Chapter 1

ARO Housing Inventory & Characteristics

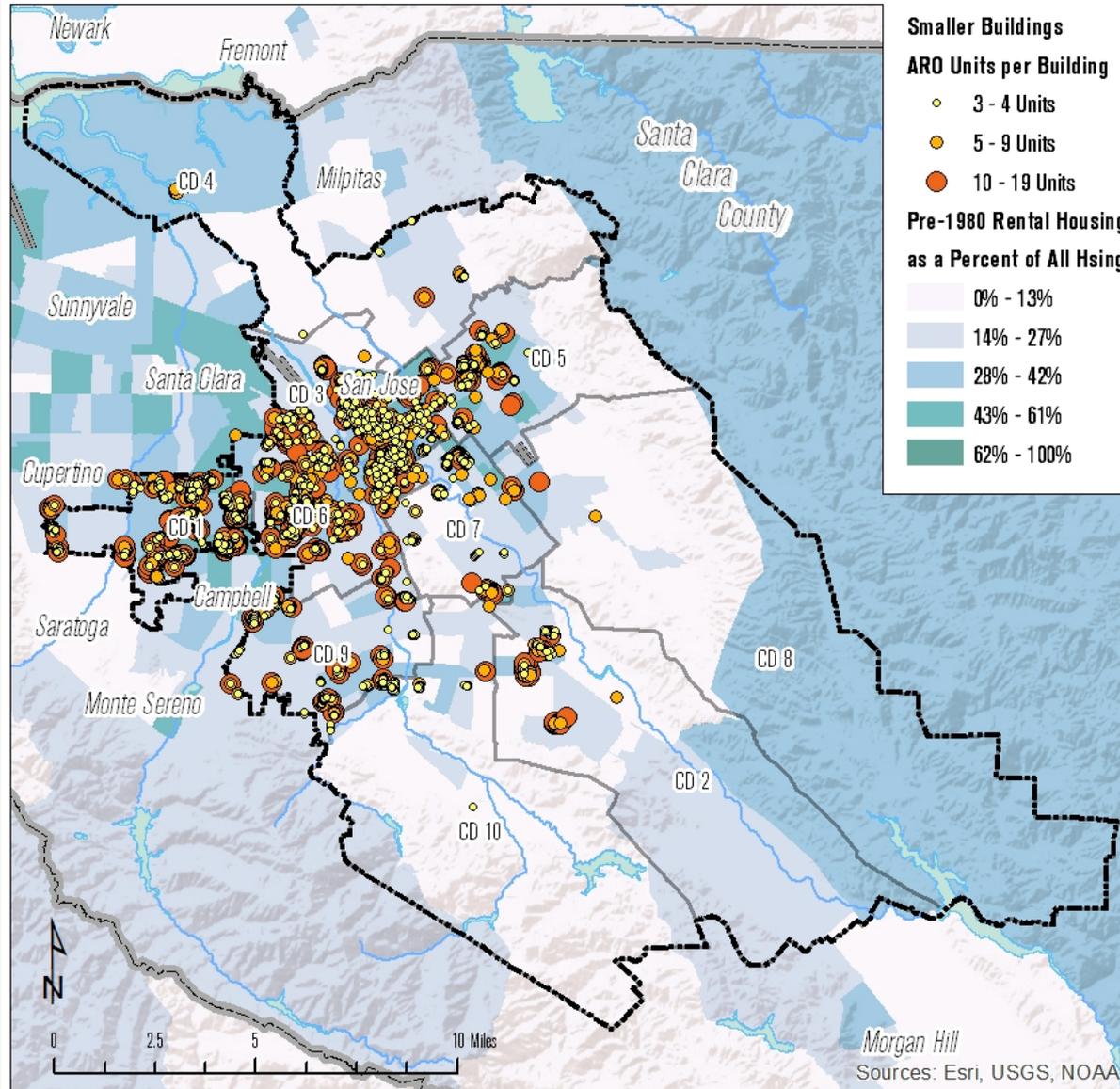
Chp 1: ARO Housing Inventory & Characteristics

- 44,300 ARO apartments
 - Apartments built & occupied before September 7, 1979
 - 3 units and more
 - Other types of renter housing
- Council District (CD) distribution
 - CD 1, 3, and 6: 73%
 - CD 5, 7, and 9: 20%
 - CD 2, 4, 8, and 10: 7%

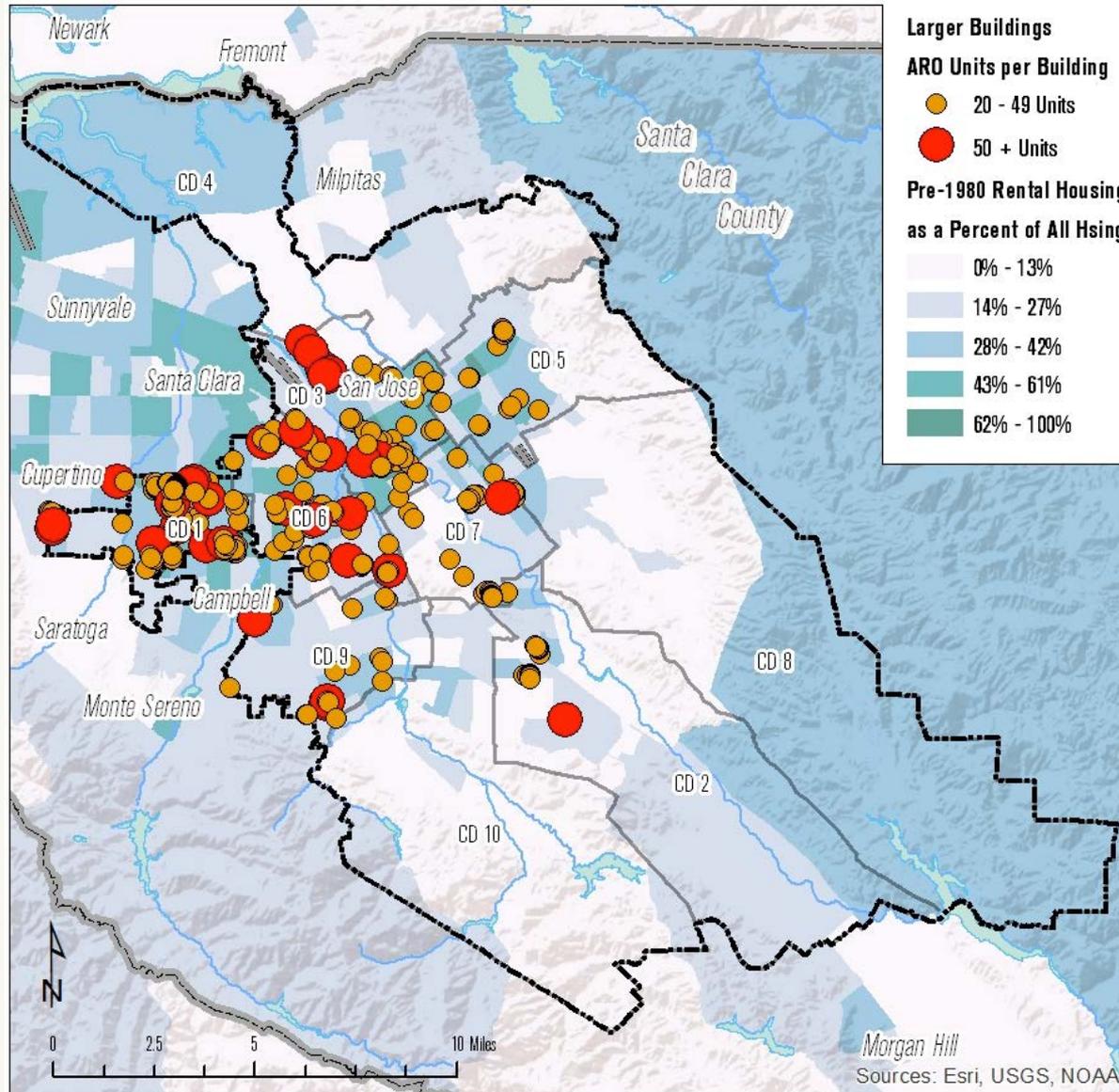
Chp 1: ARO Housing Inventory & Characteristics

- Age built
 - 1970 to 1979: 33%
 - 1960 to 1969: 42%
 - Older than 1960: 24%
- Size
 - 3 to 4 units: 21%
 - 5 to 9 units: 20%
 - 10 to 19 units: 24%
 - 20 to 49 units: 26%
 - 50 or more units: 9%

Chp 1: ARO Housing Inventory & Characteristics



Chp 1: ARO Housing Inventory & Characteristics



Chp 1: ARO Housing Inventory & Characteristics

- ARO apartment quality rated by inspection “Tiers.”

Category	# of ARO Units	% of ARO Units	Definition
Tier 1	11,768	27%	Exempt from inspection
Tier 2	16,841	38%	6-yr inspection cycle, mandatory self-evaluation, less than one code violation per unit
Tier 3	15,674	35%	4-yr inspection cycle, less than two code violations

Chp 1: ARO Housing Inventory & Characteristics

- Age of building
 - Tier 1 tends to be newer ARO apartments
 - Tier 2 relatively distributed by building age
 - Tier 3 tends to be older ARO apartments
- Council District characteristics
 - CD 4 highest proportion of Tier 1 (few ARO units)
 - CD 8 highest proportion of Tier 2 (few ARO units)
 - CD 3, 5, and 10 (few ARO units) highest proportion of Tier 3

Chp 1: ARO Housing Inventory & Characteristics

- Tenant petitions generally increased since 2010
- 910 eligible petitions filed between 2010-15
 - Comprises ~1,500 issues (service reduction, code violation, notice to vacate, rent increase)
 - Service reduction most frequent petition and in conjunction by with rent increase filings
 - Rent increase petitions second most frequent
- CD 1, 3, and 6 had most petitions (also most ARO units)
- Apartments built in 1960-69 had most petitions

Chapter 2

Rent, Income & Socioeconomic Conditions

Chp 2: Rent, Income & Socioeconomic Conditions

- Median overall renter income: \$48,830
- Median ARO renter income: \$46,659
- Median non-ARO renter income: \$56,425
- Gap between ARO and non-ARO income: \$9,766

Chp 2: Rent, Income & Socioeconomic Conditions

- 53% of all renters are rent-burdened (paying 30% or more of income on housing)
- 55% of ARO renters are rent-burdened
- 52% of non-ARO renters are rent-burdened
- Renters in CD 3, 5, 7, 8 have highest proportion experiencing rent burden (56% - 64%)

Chp 2: Rent, Income & Socioeconomic Conditions

- 16% of all rental households are overcrowded conditions (10% overcrowded and 6% severely overcrowded)
- High rates of overcrowding in CD 2, 3, 5, 7 (19% - 29%)
- 39% of ARO renters in overcrowded conditions
- 31% of non-ARO renters in overcrowded conditions

Chapter 3

Renter Demographics

Chp 3: Renter Demographics

- ARO renters slightly younger than non-ARO renters
- CD 1, 5, and 9 have highest proportion of working-age ARO renters (age 35-64), all > 40%
- CD 1, 3, 6, and 9 have highest proportion of young renters (age 15-34)
- CD 2, 3, 5, and 6 have highest proportion of older renters (age 65+)

Chp 3: Renter Demographics

Race/Ethnicity	ARO renters	Non-ARO renters
African American	5%	5%
Asian America/Pacific Islander	24%	30%
Hispanic or Latino	49%	44%
White/Euro, Non-Hispanic	20%	18%
Other, 2+ Ethnicities/Races	2%	2%

Chp 3: Renter Demographics

- ARO renter tenure length
 - 26% moved in 12 months or less
 - 11% moved in 13-23 months
 - 32% moved in 2-4 years ago
 - 20% moved in 5-9 years ago
 - 11% moved in 10 years or more
- Over $\frac{1}{4}$ of ARO renters turnover annually, allowing for vacancy decontrol
- 69% of all ARO units turnover w/in four years, allowing for vacancy decontrol

Chp 3: Renter Demographics

- Census data shows 2-4% vacancy rate for San Jose over time
- RealFacts uses limited sample, shows greater fluctuation in vacancy rate
- Vacancies quickly filled, <1% of all vacancies last more than three months, though this may fluctuate depending on market conditions.

Chp 3: Renter Demographics

Educational Attainment	ARO renters	Non-ARO renters
Graduate Degree	9%	12%
Bachelors Degree	16%	21%
Associates Degree	6%	7%
Some College/No Degree	20%	19%
HD Diploma or GED	23%	20%
Less than HS Diploma	26%	22%

Chp 3: Renter Demographics

English Ability	ARO renters	Non-ARO renters
Not At All	8%	5%
Not Well	24%	22%
Well	21%	19%
Very Well	47%	52%

Summary of Chapters 1-3

- Majority of ARO units (73%) are located in Council Districts 1, 3, and 6
- ARO apartment buildings range in size
- Tenant turnover in ARO
 - 26% annually
 - ~70% within 4 years

Summary of Chapters 1-3

- Profile of ARO renters compared to non-ARO renters:
 - Younger
 - Earn less
 - Disproportionately Hispanic or Latino
 - Less educational attainment
 - Greater proportion of ARO renters with limited English proficiency

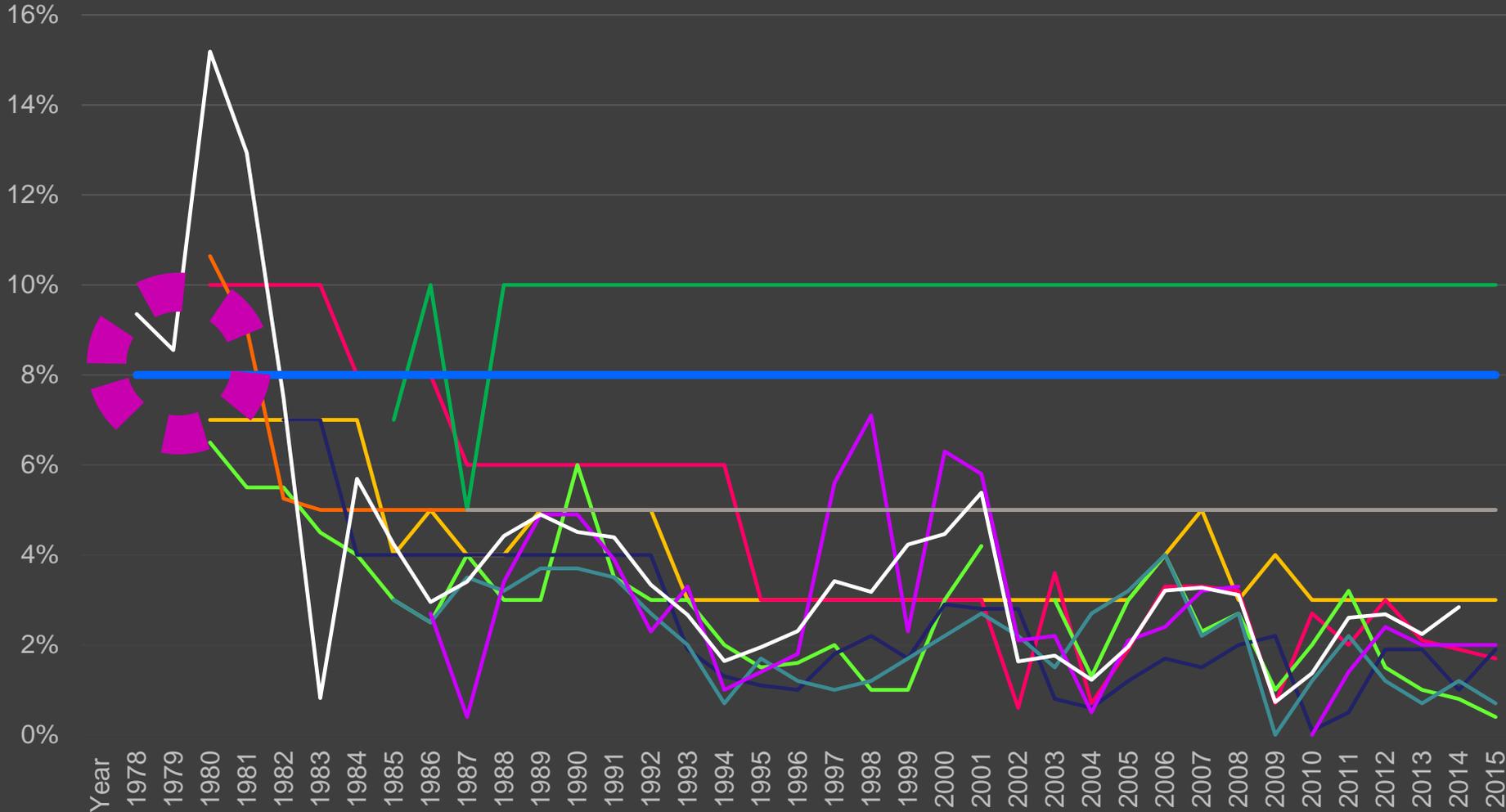
Chapter 4

Allowable Rent Increase Standards

Chp 4: Allowable Rent Increase Standards

<i>Annual Rent Increase Based on CPI*</i>	
<i>Jurisdiction</i>	<i>Annual Rent Increase Standard</i>
Los Angeles	100% of CPI (Minimum 3%, Maximum 8%)
San Francisco	60% of CPI
Oakland	100% of CPI
Berkeley	65% of CPI
Santa Monica	75% of CPI
West Hollywood	75% of CPI
East Palo Alto	80% of CPI
<i>Fixed Percentage Annual Increase</i>	
<i>Jurisdiction</i>	<i>Annual Rent Increase Standard</i>
San José	8%
Hayward	5%
Beverly Hills	10%
Los Gatos	5%

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

Chp 4: Allowable Rent Increase Standards

- 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

Chp 4: Allowable Rent Increase Standards

- Alternative: CPI-U All Items Less Shelter
- Removes “circularity”
- 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%

Chp 4: Allowable Rent Increase Standards

	<i>San José Annual Allowable Increase under ARO</i>	<i>SF-Oak-SJ CPI Rent Index</i>
1980	8%	12.69%
1981	8%	10.20%
1982	8%	9.6%
1983	8%	9.9%
1984	8%	8.4%
1985	8%	8.1%
1986	8%	8.3%
1987	8%	4.6%
1988	8%	4.3%
1989	8%	3.9%
1990	8%	4.7%
1991	8%	3.6%
1992	8%	2.4%
1993	8%	2.7%
1994	8%	1.9%
1995	8%	1.5%
1996	8%	2.6%
1997	8%	6.1%
1998	8%	7.8%
1999	8%	7.0%
2000	8%	7.0%
2001	8%	10.6%
2002	8%	3.8%
2003	8%	0.1%
2004	8%	-0.2%
2005	8%	0.3%
2006	8%	1.5%
2007	8%	3.9%
2008	8%	4.1%
2009	8%	3.2%
2010	8%	-0.1%
2011	8%	2.3%
2012	8%	4.1%
2013	8%	4.5%
2014	8%	5.5%

Chp 4: Allowable Rent Increase Standards

<i>Year</i>	Units Built before 1980	Units Built 1980 or later	Difference in Average Rents Pre- & Post- 1980	All Units
1990	\$628	\$735	\$107	\$655
2000	\$990	\$1,115	\$125	\$1,027
2005	\$1,035	\$1,157	\$122	\$1,082
2006	\$1,041	\$1,174	\$133	\$1,096
2007	\$1,096	\$1,170	\$74	\$1,126
2008	\$1,159	\$1,266	\$107	\$1,204
2009	\$1,136	\$1,366	\$230	\$1,248
2010	\$1,145	\$1,316	\$171	\$1,222
2011	\$1,148	\$1,342	\$194	\$1,234
2012	\$1,248	\$1,396	\$148	\$1,311
2013	\$1,294	\$1,491	\$197	\$1,396
2014	\$1,388	\$1,600	\$212	\$1,490

Chp 4: Allowable Rent Increase Standards

Year	<i>Units built before 1980</i>		<i>Units built 1980 –present</i>	
	Average Rent	Average Rent Moved in within 12 months	Average Rent	Average Rent Moved in within 12 months
1990	\$628	\$666	\$735	\$798
2000	\$990	\$1,075	\$1,115	\$1,250
2005	\$1,035	\$1,089	\$1,157	\$1,237
2006	\$1,041	\$1,058	\$1,174	\$1,278
2007	\$1,096	\$1,184	\$1,170	\$1,284
2008	\$1,159	\$1,298	\$1,266	\$1,365
2009	\$1,136	\$1,239	\$1,366	\$1,424
2010	\$1,145	\$1,209	\$1,316	\$1,447
2011	\$1,148	\$1,226	\$1,342	\$1,480
2012	\$1,248	\$1,398	\$1,396	\$1,603
2013	\$1,294	\$1,442	\$1,491	\$1,688
2014	\$1,388	\$1,500	\$1,600	\$1,963

Chp 4: Allowable Rent Increase Standards

- Between 2004 and 2015 in San Jose
 - ARO rents increased from \$1,035 to \$1,388 (34%)
 - Non-ARO rents increased from \$1,157 to \$1,600 (38%)
 - Rate of non-ARO increase exceed ARO rate by 4%
- Between 2004 and 2015 in Santa Clara County
 - Pre-1980 rents increased from \$1,189 to \$1,714 (46%)
 - Post-1980 rents increased from \$1,278 to \$2,076 (62%)
 - Rate of non-ARO increase exceed ARO rate by 16%

Chp 4: Allowable Rent Increase Standards

- Comparison of other rent metrics
 - RealFacts
 - Sample of buildings of 50 or more units
 - 2014 average asking rent \$2,173
 - Increase from 2010-14 approximately 62%
 - Marcus & Millichap
 - Sample of larger buildings
 - 2014 average asking rent \$2,281
 - Increase from 2010-14 approximately 58%

Chp 4: Allowable Rent Increase Standards

- Rent registry data from East Palo and Berkeley
 - East Palo Alto
 - Median initial rent for new tenants increased from \$1,081 (2010) to \$1,811 (2015), a 68% increase
 - Berkeley
 - Median initial rent for new tenants in 1-br apartment increased from \$1,195 (2010) to \$1,860 (2015), a 56% increase
 - Median initial rent for new tenants in 2-br apartment increased from \$1,600 (2010) to \$2,600, a 62.5% increase

Chp 4: Allowable Rent Increase Standards

<i>Jurisdiction</i>	<i>Type of Banking Provision</i>
San José	21% rent increase authorized if rents have not been increased in over 24 months
Los Angeles	Banking Not Permitted
Berkeley	Unlimited right to bank annual increases
Beverly Hills	<i>Banking not addressed in ordinance</i>
East Palo Alto	Not more than three annual general adjustments may be banked and the overall rent increase cannot exceed 10% in a single year.
Hayward	The Banked adjustment plus the annual adjustment cannot exceed 10% in any year
Los Gatos	<i>Banking not addressed in ordinance</i>
Oakland	Banked adjustments plus annual adjustment implemented in any year cannot exceed three times annual adjustment
San Francisco	Unlimited right to bank annual increases
Santa Monica	Unlimited right to bank annual increases
West Hollywood	Banking Not Permitted Increases since 1996 may not be banked

Chp 4: Allowable Rent Increase Standards

- Potential reasons owners forego annual allowable increase
 - Retain current tenants
 - Improve relations with tenants
 - Desirability of tenants
 - Market will not support it
 - Accumulate ability to pass larger increase to cover capital improvement or debt-service

Chp 4: Allowable Rent Increase Standards

- Other allowable increase considerations
 - Pass through new charges from governmental entities or public utilities
 - Pass-throughs for buildings with master-metered gas and electricity, for newly imposed fees and bonds, for increases in water costs, and/or rent stabilization program fees
 - Conservation objectives
 - Charge for excess water usage
- Mechanisms
 - “Across the board”: uniform pass-through for all buildings
 - “Individualized”: pass-through amount on case by case basis

Chapter 5

Rent Adjustment & Fair Return Standards

Chp 5: Rent Adjustment & Fair Return Standards

- Alternative standards for allowing rent increases in excess of the annual allowable rent increase
- Fair return standards, including:
 - Constitutional
 - Maintenance of net operating income
 - Rate of return
 - San Jose's standard

Chp 5: Rent Adjustment & Fair Return Standards

- Few cost pass-through petitions have been filed in cities with ordinances
 - As long as there has been vacancy decontrol
 - Maintenance of net operating income has been widely adopted by cities, has provided adequate rent increases to cover costs and growth in NOI, and has been accepted by the Courts

Chp 5: Rent Adjustment & Fair Return Standards

- Constitutional standard
 - Owners have constitutional right to “fair return”
 - Notion of “Constitutional Minimum” and broad zone of reasonableness
 - Fair return must balance investor and consumer interests
 - Cities may select fair return formulas for petitions
 - Court is final arbiter whether fair return has been permitted

Chp 5: Rent Adjustment & Fair Return Standards

- Maintenance of Net Operating Income (MNOI) Standard
 - Allows rents to increase in order to cover operating costs, including amortized capital improvements
 - Debt service is not an operating cost
 - Allows growth in net operating income
 - Fair return adjusted by a CPI factor of “base year” NOI
 - Additional rent adjustment allowed if CPI alone does not provide MNOI
- Exists in Los Angeles, Santa Monica, Berkeley, West Hollywood, East Palo Alto rent ordinances
- Exists in San Jose mobilehome rent ordinance

Chp 5: Rent Adjustment & Fair Return Standards

- Sc 1: 50% CPI increase over 10 years exceeds MNOI

	Gross Income	Operating Expenses	Net Operating Income
Base Year (Year 0)	\$100,000	\$40,000	\$60,000
Current Year (Year 10)	\$150,000	\$50,000	\$100,000
Current Year Fair NOI			\$90,000
Rent Adjustment			None. Actual NOI > Fair NOI

Chp 5: Rent Adjustment & Fair Return Standards

- Sc 2: 50% CPI increase over 10 years sufficient for MNOI

	Gross Income	Operating Expenses	Net Operating Income
Base Year (Year 0)	\$100,000	\$40,000	\$60,000
Current Year (Year 10)	\$150,000	\$60,000	\$90,000
Current Year Fair NOI			\$90,000
Rent Adjustment			None. Actual NOI=Fair NOI

Chp 5: Rent Adjustment & Fair Return Standards

- Sc 3: 50% CPI increase over 10 years insufficient for MNOI

	Gross Income	Operating Expenses	Net Operating Income
Base Year (Year 0)	\$100,000	\$40,000	\$60,000
Current Year (Year 10)	\$150,000	\$70,000	\$80,000
Current Year Fair NOI			\$90,000
Rent Adjustment			+\$10,000

Chp 5: Rent Adjustment & Fair Return Standards

- Rate of Return Standard
 - Premised on notion that an investment has an expected or desired rate of return
 - Fair rent should cover operating expenses + allow for rate of return
 - Fair rent = Operating Expense + X% of Investment
- Does not exist in any local apartment rent stabilization ordinances in California

Chp 5: Rent Adjustment & Fair Return Standards

- “Circularity” of Rate of Return Standard because the larger the investment, the larger the “fair” rent

Scenario 1. Operating Expense + X% of Investment = Fair Rent
 $\$70,000 + 6\%(\$1,200,000) = \$142,000$

Scenario 2. Operating Expense + X% of Investment = Fair Rent
 $\$70,000 + 6\%(\$1,500,000) = \$160,000$

- Assuming the same building, fair rent is dictated solely by the amount of the investment.

Chp 5: Rent Adjustment & Fair Return Standards

- Cost Pass-Through Standard
 - Owners can file petitions if annual allowable rent increase insufficient to cover various costs
 - Petitions are reviewed by jurisdiction's rent program
- San Jose, San Francisco, and Oakland use the cost pass-through standard
- San Jose allows operations & maintenance, capital improvement, rehabilitation, and debt service costs
 - Pass-through amount = 5% + allowable cost increase
 - Can cover cost increases over previous 12 month period

Chp. 5: Rent Adjustment & Fair Return Standards

of Pass-Through Petitions Since FY 2009-10

- # of Operations & Maintenance petitions = 0
- # of Rehabilitation petitions = 0
- # of Capital Improvement petitions = 2, one withdrawn
 - 4-unit apartment
 - Base rent: \$1,890
 - Rent increase: \$460
 - New rent: \$2,350 (24% increase)

Chp 5: Rent Adjustment & Fair Return Standards

- SF cost pass-through program similar to San Jose's but:
 - Limits pass-through amount to 7%
 - Applies to apartments with 6 or more units only
 - May not be imposed more than once every 5 years
- Oakland program also similar to San Jose's but has eliminated debt-service pass-through

Chp 5: Rent Adjustment & Fair Return Standards

- ARO allows debt-service pass-through
- 6 of 11 rent stabilization cities without debt-service pass-through: Los Angeles, Oakland, Berkeley, Santa Monica, West Hollywood, East Palo Alto
- San Jose mobilehome rent stabilization ordinance excludes debt-service
- Courts have found that debt-service pass-through has no rational basis, ie, rents for tenants should not be based on when and for how much a property was acquired by an owner
 - Exception in a mobilehome court case that debt-service is allowable if it was in effect at time the property was purchased

Chp 5: Rent Adjustment & Fair Return Standards

- 14 debt-service cases
- Increases from 7% - 78%

Sale Date	Units	Units Served Notice of Rent Increase	Tenants Petitions Filed	Average Rent	Rent Increase Permitted (Debt-Service Pass-Through Amount)	New Average Monthly Rent	Percentage Increase
2008	8	2	2	\$614	\$481	\$1,095	78%
2014	24	17	3	\$1,120	\$89	\$1,209	8%
2015	8	7	5	\$946	\$193	\$1,139	21%
2014	6	6	6	\$598	\$378	\$976	65%
2013	12	12	11	\$902	\$300	\$1,202	33%
2014	25	1	1	\$675	\$114	\$789	17%
2015	7	4	1	\$881	\$335	\$1,216	30%
2014	6	4	2	\$1,298	\$209	\$1,507	16%
2015	6	5	1	\$1,198	\$327	\$1,525	27%
2014	4	4	4	\$1,191	\$408	\$1,599	34%
2015	4	4	4	\$1,700	\$255	\$1,955	15%
2015	4	1	1	\$1,920	\$230	\$2,150	12%
2014	6	4	1	\$871	\$64	\$935	7%
2015	4	1	1	\$2,295	\$305	\$2,600	17%
	124	72	44	\$1,158	\$278	\$1,421	23%

Chp 5: Rent Adjustment & Fair Return Standards

<i>Jurisdiction</i>	<i>Consideration of Purchase Mortgage Interest Expenses</i>	<i>Limitations on Allowance of Debt Service Expenses</i>
Los Angeles	Excluded	
Oakland		Debt service pass-through repealed on April 1, 2014. Pre-repeal purchasers exempted from repeal.
Berkeley		
Santa Monica		
West Hollywood		
East Palo Alto		
Beverly Hills		
San José	Included	Loan to Value Ratio Limited.
Hayward		Standards contain a list of factors to be considered, but not a formula for how they would applied.
Los Gatos		
San Francisco		Increase Limited to 7% of Rent. Buildings of 6 units or more permitted only once every five years

Chapter 6

Financial Outcomes

Chp 6: Financial Outcomes

- Operating costs
 - Typically 30% - 50% of gross income nationwide
 - Typically 25% - 45% of gross income in California
- Includes property taxes, management, maintenance, amortized capital improvements, insurance, refuse collection, utilities
- Debt service not included
 - Considered investment expense, not operating cost

Chp 6: Financial Outcomes

- Operating cost increases historically ~ 33% of rent increases
- Key components
 - Utilities/Public services: typically tied to CPI
 - Individual utility costs comprise small % of overall rental income
 - Property tax is largest expense, limited to 2% increase annually
 - Management/maintenance expenses subject to some discretion
 - Consider levels – not just cost – of maintenance and service

Chp 6: Financial Outcomes

- Larger buildings compared to smaller buildings
 - \$100/mo higher operating costs in larger buildings
 - Larger buildings charge several hundred dollars more in rents
 - Larger buildings may offer more services to maximize rents
 - Smaller buildings may seek to minimize costs and turnover

Chp 6: Financial Outcomes

- Operating cost data for San Jose from multiple sources (ex. MLS, REIS, IREM, City)
 - Operating cost 25% - 45% of gross income
 - Average ratio of 35%

Chp 6: Financial Outcomes

Sample Characteristics							
Source	Type of Bldgs	Bldgs	Units	Avg No. of Units	Average or Median Rent	Monthly Operating Cost/Unit	Ratio Oper. Exp/ Rent
Units Covered by ARO							
Multiple Listing Service for Sale Listings 2013-2015	Constructed before 1980 covered by ARO	96	848	8.6	\$1,226	\$411*	33.5%
Deed-Restricted Housing and Large Professionally Managed Properties							
2014	Deed-Restricted Housing in San José	20	1071	53	Rents are Deed Restricted	\$457	
Reis Inc.	San José Area Large Buildings All Ages-(half pre-1973)	575		152	Not Included in data	Not Included in data	33.2%
Institute of Real Estate Management 2014	San José Area Large Buildings All Ages	16	4132	258	\$1,844	\$591	31.9%

Chp 6: Financial Outcomes

- Property tax
 - Largest cost component
 - Limited to 2% increase annually
 - Reassessed at full value when sold
 - Variations in cost/unit depending on purchased price and year

	1990 Purchase	2015 Purchase
Purchase Price	\$59,000/unit	\$190,000/unit
Current Assessed Value (2% annual increase)	\$96,800/unit	\$190,000/unit
Property Tax (1.2192% of Assessed Value)	\$1,180/unit or \$98/unit/mo	\$2,316/unit or \$193/unit/mo

Chp 6: Financial Outcomes

- Utilities/Public services
 - Includes water, sewer, storm drainage, common area electricity
 - Individual utility costs comprise small % (less than 2% each) of overall rental income
- Water
 - Recent steep increases relative to inflation
 - Comprises approximately 1% of rental income
 - Overall increase of \$20/mo/unit between 2000 and 2015
- Sanitary sewer fees
 - Overall increase of \$10.26/unit/mo since 2006

Chp 6: Financial Outcomes

- Storm sewer fees
 - Overall increase of \$2.20/unit/mo since 2004
- Gas & electricity
 - Some ARO apartments are master-metered
 - Data challenging to access (PGE)
 - IREM data indicates less than 1% of rental income
- Refuse collection
 - \$10-\$21/unit/month; 20% increase since 2010
 - Cost depends on trash bin size, frequency
 - Larger buildings had lower per unit cost than smaller buildings

Chp 6: Financial Outcomes

- Maintenance
 - MLS indicates \$53/unit/mo for listings from 2013-15
 - Debt-service petitions to RRRP indicate \$42-\$84/unit/mo
 - Level of maintenance subject to owner discretion
 - Can be decreased to lower total maintenance cost
 - Can be increased if higher rents can be charged
- Management
 - Typically set at a percentage of rental income
 - CA law requires on-site management for 16 or more units (45% of ARO units)
 - Analysis assumed management cost of 5% of rental income

Chp 6: Financial Outcomes

- Net operating income (NOI) considerations
 - Increase in NOI to increase in CPI has been an accepted standard for measuring reasonableness of rent regulations
 - Courts have determined that providing for increases in NOI equal to 100% of increase in CPI or less than 100% of CPI is constitutional

Chp 6: Financial Outcomes

- Few fair return petitions have been filed in other MNOI jurisdictions with apartment rent stabilization
 - Frequent tenant turnover allows vacancy decontrol to market
 - CPI increases sufficient to cover cost increases and provide NOI growth
- Exceptions that may prevent MNOI from providing fair return
 - When annual allowable increase is less than 100% CPI increase + low turnover
 - When market conditions prevent rents from increasing at equal or greater rate than CPI increases

Chp 6: Financial Outcomes

- Net operating income (NOI) trends
 - Data from 1990-92 indicate NOI of ~ \$400/ARO unit/mo
 - Data from 2000 indicate NOI of ~\$584/ARO unit/mo
 - Data from 2013-15 indicate NOI of ~\$815/ARO unit/mo
 - NOI has doubled from early 1990's to present, compared to CPI increase of 83% since 1992

Chp 6: Financial Outcomes

	# of Sales Reported	# of Units	Avg Price/Unit	Capitalization Rate
1990	77	1,208	\$59,532	7.81%
1991	54	683	\$56,531	8.21%
1992	32	426	\$56,986	8.75%
1993	32	515	\$50,401	8.63%
1994	32	930	\$47,920	9.14%
1995	36	1,105	\$50,927	9.38%
1996	46	1,815	\$65,268	11.02%
1997	51	681	\$66,860	7.64%
1998	90	1,430	\$82,912	7.37%
1999	79	1,077	\$89,906	7.49%
2000	80	1,213	\$107,365	6.66%
2001	52	1,162	\$116,906	6.93%
2002	53	973	\$115,277	7.18%
2003	61	935	\$122,569	6.25%
2004	87	990	\$119,259	6.10%
2005	117	1,721	\$128,430	5.28%
2006	46	914	\$135,934	4.94%
2007	69	2,043	\$150,668	5.10%
2008	32	1,447	\$186,873	5.29%
2009	30	307	\$123,820	6.21%
2010	23	569	\$106,235	6.58%
2011	43	1,710	\$189,170	4.54%
2012	75	1,823	\$168,729	6.06%
2013	68	884	\$164,356	5.16%
2014	63	1,018	\$198,940	5.61%
2015	64	1,073	\$191,463	4.73%

Summary of Chapters 4-6

- Annual allowable rent increase
 - Link to CPI most common and widely accepted model
 - ARO's 8% allowable annual increase significantly higher than allowable increase in other jurisdictions with rent-stabilization programs. Only Beverly Hills has a higher level (10% annual flat rate)
 - Most rent-stabilized jurisdictions use CPI
 - 8% allowable has significantly exceeded the rate of inflation (CPI-U), which has averaged 3.4% annually since 1980.
 - 8% annual allowable has significantly exceeded the rate of market rent increases, which have averaged 4.7% annually since 1980.

Summary of Chapters 4-6

- Fair return standard
 - Most cities use a maintenance of net operating income standard for fair returns
 - San Jose uses the cost pass-through standard
 - Majority of rent stabilized cities do not allow debt-service pass-through

Summary of Chapters 4-6

- Operating cost
 - Ranges between 25-45% of operating income
 - Average operating cost-to-income ratio is 33%
 - Property tax is largest cost, valuation increase capped at 2% of assessed value (except upon sale)
 - Individual utility costs comprise small percentage of income
- Net operating income
 - Increased from ~\$400/unit/mo in early 1990's to ~\$815/unit/mo in 2013-15
- Market Value
 - Increased from \$59,000/unit (1990) to \$191,000/unit (2015)

Public Comment

For more information visit:

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

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Open Forum

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

Schedule

Date	Item	Information
Wednesday, January 20	Release of Preliminary Report	Begin public comment period
Wednesday, January 27	Advisory Committee meeting to discuss Preliminary Report	6-9pm, San Jose City Hall Wing Rooms
Wednesday, February 17 (to be confirmed)	Advisory Committee meeting to comment on Preliminary Report	6-9pm, San Jose City Hall Wing Rooms
Friday, February 19	Close public comment period for Preliminary Report	Written comments due by 5pm
Late February	Release draft recommendations	Begin public comment period
Late February – Late March	Advisory Committee & 3 public meetings to review draft recommendations	TBD
Thursday, March 10	HCDC meeting to review draft recommendations	5:45pm, San Jose City Hall Wing Rooms
Late March	Close public comment period for draft recommendations	Written comments due by 5pm
Thursday, April 14	HCDC meeting (if needed)	5:45pm, San Jose City Hall Wing Rooms
Late April	City Council consideration	Time TBD, San Jose Council Chamber

Next Meeting (to be confirmed):

Wednesday, February 17

6pm

San Jose City Hall – Wing Rooms

Topic: Provide input on Preliminary Report