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March 22, 2024

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From: Fesia A. Davenport FAD
FAD (Mar 20, 2024 15:26 PDT)
Chief Executive Officer

FINAL REPORT BACK ON EXTENSION OF RENTAL INCREASE LIMITS (ITEM NO. 19, AGENDA OF NOVEMBER 7, 2023)

On November 5, 2023, the Board of Supervisors (Board) directed the Chief Executive Office (CEO), in collaboration with the Department of Consumer and Business Affairs (DCBA), to report back with analyses and recommendations for the rental increase formula in the Rent Stabilization and Tenant Protections Ordinance (RSTPO) and the impact of the COVID-19 pandemic on rents and property operating costs.

Los Angeles County (County) RSTPO Background

An interim RSTPO was adopted by the Board on November 20, 2018, that instituted a ban on rent increases above 3 percent per year for rent-stabilized rental units in the unincorporated area of the County. The Board amended this ordinance to include additional protections and extended the interim term through December 31, 2019.

DCBA worked with key stakeholders to develop a recommended rent increase formula. On November 19, 2019, the Board adopted a permanent RSTPO, that included the recommended formula, to be effective April 1, 2020. The RSTPO was designed to balance the adverse effects of rent increases and evictions on tenants with the ability for property owners to earn a fair return on their rental properties. The RSTPO limits annual rent increases at different rates based on annual changes in the Consumer Price Index (CPI), not to exceed 8 percent, for rent-stabilized units. However, the current rent increase formula has not yet been tested due to the COVID-19 pandemic. Instead, in March 2020, the Board adopted the COVID-19

Tenant Protections Resolution that temporarily prohibited any rent increases for applicable properties. This rent increase freeze remained in effect between March 2020 and March 2023.

In November 2022, the Board adopted a motion to end this rent increase freeze, allowing for a 3 percent increase to take effect on April 1, 2023, for applicable rental units (and 5 percent on applicable luxury units). However, in 2023, inflation remained high, and the number of tenant evictions spiked, causing concern of further exacerbating the homelessness rate. In November 2023, the Board adopted a motion to allow for a 4 percent rent increase from January 1, 2024 through June 30, 2024, and directed the CEO to complete the analysis noted above.

Current Motion Reports

The CEO retained HR&A Advisors, Inc. to complete the Board directives. A Phase I report was submitted to the Board on January 17, 2024, and included an overview of the County's RSTPO; examples of annual rent increase formulas in other jurisdictions with rent-stabilization policies; and relevant policy changes occurring in those jurisdictions during and since the COVID-19 pandemic. The Phase II report includes analyses of the COVID-19 pandemic impacts on tenants and property owners, along with several options for a rent increase formula. The options incorporate input from property owners, apartment associations, and participants in a tenant and property owner roundtable (Attachment).

Rent Increase Formula Options

The options include analyses of the benefits and risks to tenants and property owners. There are also considerations for luxury units, offering "pass-throughs" for certain apartment operating costs, and streamlining administrative processes. The following is a general description of the six evaluated rent increase formulas:

Option 1: Keep the Current Formula

- Uses 100 percent of the LA area CPI with a 0–3 percent floor and 8 percent cap.
- Permits a low to moderate rent increase in most years, but provides a cap.
- Allows for higher rent increases when the CPI is high but prevents property owners from raising rents when the CPI is low.
- This formula has not yet been tested due to the timing of new protections going into effect as a result of the COVID-19 pandemic.

Option 2: Streamline the Current Formula and Reduce the Cap

- Uses 100 percent of the CPI, with a 2–3 percent floor and 4–6 percent cap.
- Permits low to moderate rent increases in most years, but has a lower cap.
- Allows for rent increases in years where the CPI is low but makes it harder for property owners to keep pace with costs when inflation is high.

Option 3: Use a Percentage of Consumer Price Index

- Uses 60–80 percent of the CPI, with a 2–3 percent floor and 4–8 percent cap.
- Corrects for linkages between the CPI and market rents since housing costs are included in CPI calculations.
- Allows low to moderate rent increases in most years, even when CPI is low, but offers stronger protections against high increases in high-inflation years.
- Addresses the correlation between rising consumer prices and rents. However, can create a higher mismatch between changes in operating costs and rents than options with a higher cap.

Option 4: Use 60 Percent of CPI with a 3 Percent Cap

- Corrects for linkages between CPI and market rents, since housing costs are included in CPI calculations.
- Limits higher rent increases in high-inflation years.
- Addresses the correlation between rising consumer prices and rents. However, can create a higher mismatch between changes in operating costs and rents than options with a higher cap.
- Poses a risk to property owners if CPI is low or expenses grow quickly.

Option 5: Use a Fixed Percentage of 3–5 Percent

- Offers maximum predictability for both tenants and property owners.
- If set too high, this option would only limit the most extreme rent increases.
- If set too low, this option would lower revenue-earning opportunities for property owners, even in times when operating expenses are increasing.

Option 6: Use a Cost Study

- Uses 100 percent of operating expense increases based on a cost study.
- Most closely aligns rent increases to costs, whether costs are high or low.
- A cost study would be available a year or more after costs have changed, creating the potential for rent increases to lag behind actual changes in costs.
- Other cities used this option but switched to a CPI approach because it produced similar results with lower administrative costs and burden.

Should you have any questions concerning this matter, please contact me or Carrie D. Miller, Branch Manager, at (213) 262-7823 or cmiller@ceo.lacounty.gov.

FAD:JMN:CDM:kdm

Attachment

c: Executive Office, Board of Supervisors
County Counsel
Consumer and Business Affairs

ATTACHMENT

Los Angeles County Rent Stabilization and Tenant Protections Ordinance Study

Los Angeles County Chief Executive Office and Department of Consumer and Business Affairs

Policy Brief | March 2024

Prepared by HR&A Advisors

Contents

Executive Summary

This brief summarizes research and analysis HR&A Advisors (HR&A) conducted in coordination with County of Los Angeles (the "County") staff, on an expedited schedule, to guide the County Board of Supervisors' consideration of potential changes related to the rent increase formula and maximum allowable rent increase in the County's Rent Stabilization and Tenant Protections Ordinance (RSTPO) regulating rent-stabilized units in the unincorporated area of Los Angeles County. The primary function of the RSTPO is to regulate tenants' annual rent increases and evictions, while balancing the ability of rental property owners to earn a fair return on their rental properties as defined by applicable legal standards[1]. The Supervisors' goal in considering RSTPO changes is to ensure that the rent increase formula and cap achieve an appropriate policy balance for tenants and rental property owners in the unincorporated area.

In addition to outlining a series of policy options for the Board of Supervisors' consideration, the brief provides a summary of supporting analyses that informed these options. This includes a review of the current RSTPO and existing rent stabilization ordinances in other California jurisdictions (included as **Appendix A**) and a study of the characteristics of and potential impacts of policy changes on tenants and property owners in Los Angeles County (included as **Appendix B**). This study reflects available data on tenant demographic and income trends, housing and property owners subject to the RSTPO, and rental property operations[2]. It also summarizes the findings of stakeholder roundtables with tenants, tenant advocates, property owners, and industry representatives and the potential impacts of rent increases to tenants and property owners in unincorporated Los Angeles County.

Rent Increase Formula Options

An essential feature of any rent regulation system is the maximum percentage and/or dollar amount by which rents are allowed to change each year. In setting the allowable change, local governments generally attempt to balance protecting tenants from excessive rent increases with the ability of rental property owners to earn a "fair return" (i.e., maintain base year net operating income adjusted for inflation). Jurisdictions seek to strike this balance in different ways; there is no single correct mechanism, structure, or percentage by which rent increases can be regulated. Rather, there are many approaches to setting allowable rent increase amounts. **HR&A identified six formula options for the County to consider in developing a pragmatic allowable rent increase, and evaluated their potential impacts to tenants, property owners, and administrators** (Figure 1**Error! Reference source not found.**).

Additional Policy Levers

In addition to the formula for allowable rent increases, there are other policy "levers" the County may use as part of its rent stabilization approach that have implications for tenants and property owners. These may include policies that allow property owners to "pass through" certain expenses to property owners, or to set standards for the habitability of units. Regardless of the preferred formula, **there are a few policy changes the County should take into consideration, such as reviewing opportunities to streamline administrative processes and/or making exceptions for luxury units.** The RSTPO originally allowed a temporary exception for luxury units, but COVID-era rent freezes prevented property owners of luxury units from any rent increases, and the exception has since expired. The County may want to consider time-limited or ongoing exceptions for luxury housing, such as an alternate cap for luxury units or additional pass-throughs for tenant-requested upgrades. The policy brief outlines when changes to the rent increase formula may require a consideration of additional policy changes.

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[1] The Costa-Hawkins Rental Housing Act gives the County the authority to enact rent stabilization on certain rental units, but also sets limits on rent stabilization and permits "vacancy decontrol", allowing rental property owners to set rent to any amount when a unit is voluntarily vacant.

[2] Please see Appendix B to learn more about data limitations and our analysis methodology.

Figure 1. Options for Allowable Rent Increase Formulas

Option	Formula	Minimum	Maximum	Major Considerations
Option 1: Keep the current formula	100% of Consumer Price Index (CPI)	Staggered 0% to 3%	8%	• Already a compromise between the needs of tenants and property owners • **Has not yet been tested** in the market due to rent freezes and temporary reduced caps • Relatively high cap poses a risk to tenants if CPI remains high
Option 2: Streamline the formula and reduce the cap	100% of CPI	2% to 3%	4% to 6%	• Resembles current formula, but more intuitive and predictable • Provides greater protections to both property owners (through a fixed guaranteed minimum) and tenants (through a reduced cap)
Option 3: Use a percentage of consumer price index (CPI)	60-80% of CPI	2% to 3%	4% to 8%	• Corrects for linkages between market rents and CPI. Using a guaranteed minimum and cap produces low to moderate rent increases in most years. • May require alternate protections for property owners (such as added pass-throughs or administrative streamlining for additional rent increases) to ensure they can earn a fair return.
Option 4: Use 60% of CPI with a 3% cap	60% of CPI	None	3%	• Provides the greatest protection to tenants and may result in decreased housing cost burden over time, rather than simply limiting increases in housing cost burden. • Provides relatively few protections for property owners when CPI is particularly low, CPI is particularly high, or cost growth is high. • May require alternate protections for property owners (such as added pass-throughs or administrative streamlining for additional rent increases) to ensure they can earn a fair return.
Option 5: Use a fixed percentage	Fixed percentage 3 to 5%	N/A	N/A	• Provides maximum predictability for both tenants and property owners. • Requires the County to reconsider its process for applications for additional rent increases. • Changes in rent are unlikely to be aligned with actual changes in cost of living or costs for property owners.
Option 6: Use a cost study	100% of increase in operating expenses based on third-party cost study	None	4% to 6%	• Provides the most accurate representation of changes in operating costs to ensure rent increases allow property owners to earn a fair return. • Without a floor, rent increases could be low in years operating costs increase very little without impacting property owners' returns. • Third party cost studies require public comment and review by the Board of Supervisors, increasing administrative requirements and subjecting rent increases to an annual political process that can be burdensome and uncertain.

Introduction

The County of Los Angeles (the "County") retained HR&A Advisors, Inc. (HR&A) to provide independent research and analysis to guide consideration by the County Board of Supervisors of potential changes related to the rent increase formula and maximum allowable rent increase in the County's Rent Stabilization and Tenant Protections Ordinance (RSTPO) regulating rent-stabilized units in the unincorporated area of Los Angeles County in the wake of the COVID-19 pandemic.

HR&A worked with County staff to evaluate certain aspects of the current RSTPO, with a focus on the relative merits of alternatives for how allowable annual rent increases are calculated. The COVID-19 pandemic and its aftermath had substantial impacts on housing markets across the U.S., including in Los Angeles County. In response, the County has in recent years temporarily restricted rental increases on homes subject to the RSTPO to prevent evictions during the COVID-19 pandemic and to address high inflation rates. As these temporary measures are set to expire and the Consumer Price Index (CPI) used to set annual rent increases remains high, rent-stabilized units face the potential for significant rent increases. The County Board of Supervisors has therefore requested a thorough review of current practices in Los Angeles County and other California jurisdictions and an assessment of RSO tenants, homes, and rental property owners, to evaluate the current RSTPO approach to permitted annual rent increases to ensure that the rent increase formula and cap achieve an appropriate policy balance for tenants and rental property owners in the unincorporated area.

To guide the Board of Supervisors, HR&A conducted two phases of analysis:

- **Phase I** included a review of the County's current RSTPO, existing rent stabilization ordinances in other California jurisdictions, and rent stabilization ordinance (RSO) policy changes during and since the COVID-19 pandemic in order to inform decisions about future efforts to align the County's rent stabilization policy with the current rental market. HR&A produced a report summarizing the findings of this review, included here as **Appendix A**.
- **Phase II** consisted of two parts: the first was an analysis of the tenants, rental units, and housing property owners in unincorporated Los Angeles County, with a focus on understanding the challenges tenants and property owners face generally and as a result of the COVID-19 pandemic, an overview of the housing subject to rent stabilization under the RSTPO, and trends in operating revenues and expenses. To support this analysis, HR&A analyzed available data and conducted two stakeholder roundtables, one focused on understanding the challenges and experiences of tenants, the other focused on understanding the challenges and experiences of property owners. The second part of Phase II involved developing a series of potential options for calculating allowable annual rent increases under the RSTPO for the Board of Supervisors' consideration. A summary of findings from Phase II is included here as **Appendix B**.

In this brief, we summarize the findings of the Phase II analysis to provide the Board of Supervisors with relevant guidance as it considers potential changes to the rent increase formula under the RSTPO.

Stakeholder Roundtables

HR&A convened two stakeholder roundtables on January 30, 2024, to gather a diverse range of insights about tenants and property owners in unincorporated Los Angeles County and their experiences with the RSTPO: one for tenants and tenant advocates, and another for property owners and industry representatives. Due to restrictions in the timing of the study, multiple touchpoints for engagement were not possible, however the roundtables were instrumental in raising critical concerns and gathering input on potential changes to the RSTPO from both tenants and property owners. **Appendix B** provides a more detailed summary of the engagement.

- **Tenants and Tenant Advocates Roundtable.** HR&A facilitated discussion with 21 tenants and tenant advocates. Participants shared concerns including: the need for stable and predictable rents; challenges arising from high housing costs and accumulated rent debt; the need for stronger compliance measures;

harassment of tenants and illegal eviction tactics, particularly against undocumented tenants; and the decline of property conditions due to delayed maintenance.

- **Property Owners Roundtable.** HR&A facilitated discussion with 63 property owners and industry representatives. Participants shared concerns that the County was considering changes to the RSTPO when it had not yet been tested, and worried that any change in the formula would mean further limitation on rent increases. Property owners noted that costs have increased rapidly in recent years, particularly due to rising costs for insurance, property taxes, and utilities, and cited a need to "catch up" to the rent increases that would have been allowed without COVID-era rent freezes, as well as high instances of unpaid back rent which is likely to become bad debt. Some property owners also shared that while tenants had access to legal services and other recourse, small property owners did not have access to similar assistance and therefore faced difficulty evicting problem tenants with cause. Participants also shared challenges with the current RSTPO, including: observations that CPI is not a good measure of operating expense trends and requests for the County to use a cost study approach; requests for means testing or luxury unit exceptions; and challenges navigating the County's regulatory processes including compliance with rental registry requirements and applications for additional rent increases.

Housing Market Overview

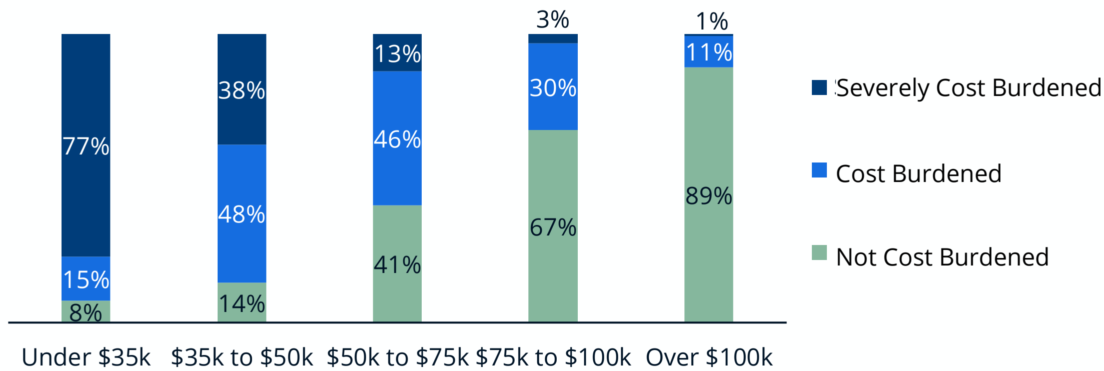
Tenant Profile

HR&A analyzed demographic, housing, and economic data for renters in unincorporated Los Angeles County. The objective of this analysis was to inform policy recommendations by understanding the specific needs and challenges of different tenant groups. This analysis requires aligning data sources reported for census-defined geographies with unincorporated Los Angeles County's unique geography. Exact values may differ based on the approach to geographic alignment, but general trends remain consistent. **Appendix B** provides a more detailed review of this analysis and its limitations.

- **Tenant Demographics.** Unincorporated Los Angeles County is home to 109,000 renter households. Over 70% of renter households are families, and over one third have four or more members. Renters in unincorporated Los Angeles County are more likely to be Hispanic and less likely to be white non-Hispanic compared to those in incorporated areas.
- **Economic Well-Being and Housing Stability.** Housing stability is crucial for the economic well-being of working adults and children in Los Angeles County. Median renter household income in unincorporated Los Angeles County is $61,000, and though renter households span a range of incomes, approximately 30% of renter households have incomes below $35,000. A significant number of low- and moderate-income renters in unincorporated Los Angeles County are housing cost burdened (Figure 2), meaning they spend over 30% of income on housing costs.[3] Increasing rents can lead to housing instability for households with limited financial resources. The high instance of housing cost burden makes low- and moderate-income renters particularly vulnerable to housing instability if rents continue to increase. Rising rents tend to impact lower-income households more severely than higher-income households, as the same percentage increase in rent represents a larger portion of income for a low-income household.

[3] According to the Department of Housing and Urban Development (HUD), households that spend over 30% of income on housing costs are housing cost burdened and households that spend over 50% of income on housing costs are severely cost burdened.

Figure 2. Rental Cost Burden by Income (Unincorporated Los Angeles County)



Source: ACS 2022 5 Year Estimates

- **Pandemic Impacts.** The COVID-19 pandemic created a range of public health and economic impacts, many of which may have contributed to instability for renters. Low-income residents, who are disproportionately renters, experienced disproportionate public health impacts during the pandemic. Loss of employment, healthcare expenses, or other factors contributed to the accumulation of significant tenant debt. Many households still owe unpaid rent debt, and the expiration of eviction moratoria has increased eviction filings by nearly 17% above the pre-COVID baseline. As many tenants arrange payment plans for unpaid rent, their payments will increase even with no change to base rent.

Housing Supply and Supplier Profile

HR&A conducted an analysis of the type, location, and ownership of regulated rental properties to assess the impacts of rent regulation on landlords governed by the RSPTO. This analysis uses data from the County's Rent Registry, which is a new system with incomplete data. As such, the trends identified in this analysis could change as Rent Registry participation increases. **Appendix B** provides a more detailed review of this analysis and its limitations.

- **Distribution and Characteristics of Fully Regulated Units.** There are approximately 10,900 fully-regulated properties (Figure 3) with a total of about 51,700 units (Figure 4) that are fully regulated under the RSTPO (partially regulated properties, such as single-family homes, are governed by the tenant protections in the RSTPO but are not subject to rent stabilization). Most fully regulated properties (95%) have fewer than 10 units, and almost 9,000 have two to four units, though these smaller properties only account for 56% of fully regulated units. Fully regulated properties are located throughout unincorporated areas, but the majority of units are in lower-income parts of East and South Los Angeles, and the San Gabriel Valley. Based on available data, most fully regulated units have 1 or 2 bedrooms. This suggests that most fully regulated units are well suited for smaller households, though many tenant households in unincorporated Los Angeles County have 4 or more members. Based on available data, the majority of RSTPO units registered with the County have rents between $1,000 and $2,000 per month.

Figure 3. Fully Regulated Properties by Size

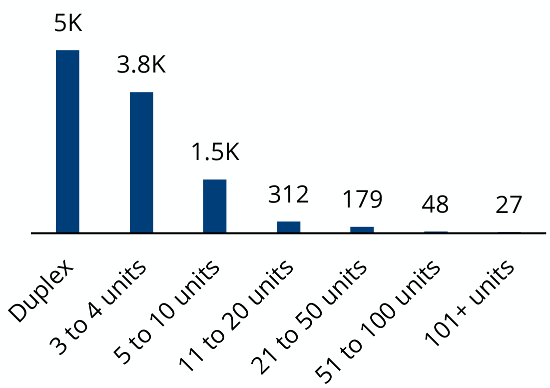
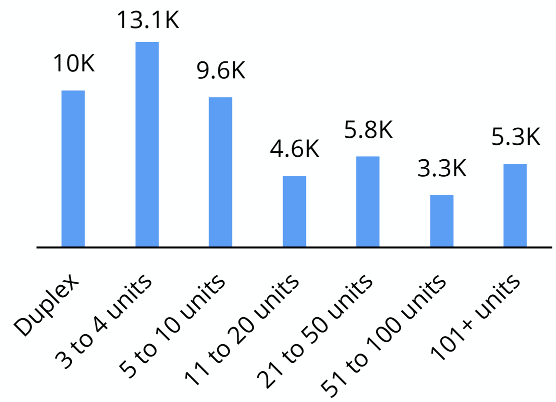


Figure 4. Fully Regulated Units by Property Size



Source: Los Angeles County Rent Registry Data (2021 – 2023)

- **Ownership of Fully Regulated Units.** The County is particularly interested in understanding the extent to which rent stabilization impacts small property owners ("mom & pop" property owners, or individual property owners who only own a few rental units[4]), as these property owners may have fewer resources. It is difficult to identify these small property owners. Around 80% of the fully regulated and mobilehome units with known ownership are owned by individuals, trusts, or estates, but it is not known how many of these properties may have the same owner, and some small property owners may have Limited Liability Companies (LLCs) or other ownership structures. About 2,000 properties or 10% of fully regulated properties receive a homeowner exemption, which indicates one unit is owner-occupied. The homeowner exemption is the clearest available indicator of properties that are likely to be owned by small property owners.
- **Pandemic Impacts.** Due to tenant income loss, unpaid rent, increased operating costs, and rent increase freezes, the pandemic led to reduced rental income for many rental property owners. Many property owners believe most pandemic-related unpaid rent will be unrecoverable, and smaller property owners in particular often lack the resources to pursue unpaid rent. These financial conditions caused many property owners to defer maintenance to their units, reducing housing quality. It also may force some small property owners to sell their property, which can lead to a reduction in the affordable rental housing stock.

Rental Properties Operations Overview

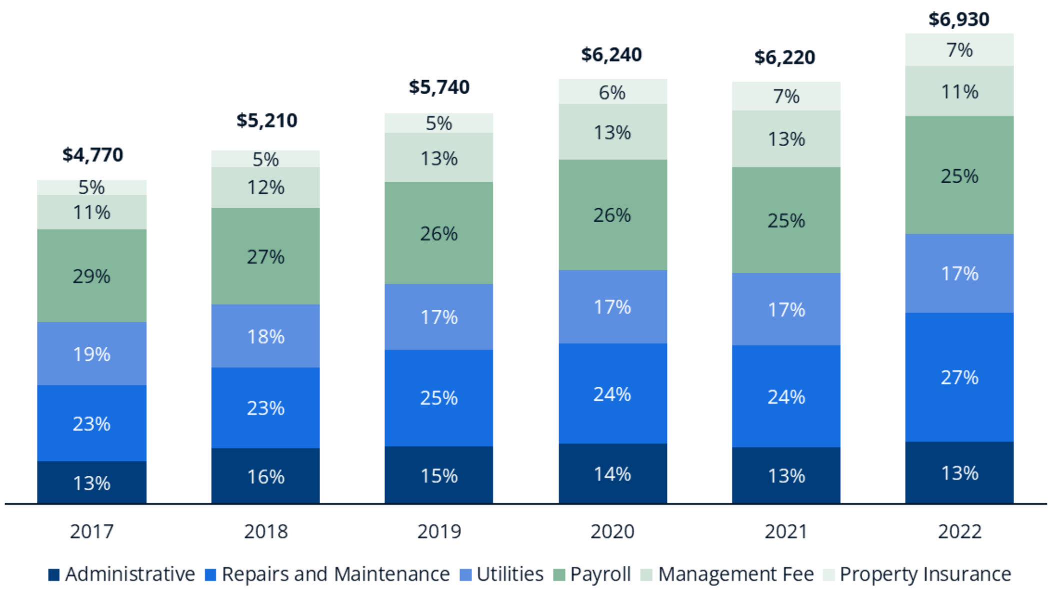
A balanced rent stabilization ordinance should create stability for tenants without over burdening property owners or discouraging investment in housing. Placing limits on allowable rent increases can constrain property owners' ability to earn a fair return if costs rise faster than rents. To understand the impacts of rent stabilization on property owners and inform the evaluation of rent increase formulas, HR&A analyzed trends in rental property operations in Los Angeles County. **Appendix B** provides a more detailed review of this analysis.

- **Revenue Trends.** Since 2020, market rents in Los Angeles County have risen sharply. COVID-era tenant protections prevented rent increases for rent-stabilized properties from 2020 through 2022 and allowed limited increases in 2023 and 2024.
- **Operating Costs.** Operating expenses in the Los Angeles Metro area generally account for 30 to 40% of Gross Potential Rent (GPR). Taxes and insurance are the largest expenses, accounting for about 14% of

[4] Though commonly used, definitions of "mom & pop" property owners are inconsistent. For the purposes of this study, HR&A instead uses "small property owners" to describe individual property owners who own a few properties.

GPR. Operating expenses have been increasing in recent years, driven primarily by increases in insurance and repairs and maintenance (Figure 5). Climate risks, supply chain disruptions, labor shortages, and inflation also contribute to rising operating costs in Los Angeles County. Net Operating Income (NOI, calculated as GPR less vacancy and other adjustments and operating expenses) is typically around 60% of GPR, though it does not account for any mortgage or debt payments or capital improvement costs.

Figure 5. Operating Expenses in the Western Region (Per Unit Per Year)



Source: Novogradac Low-Income Housing Tax Credit Income and Operating Expenses Report (2023); not including property taxes from which these projects are mostly exempt. Prop 13 caps year-to-year increases in the ad valorem component of the tax at 2% of assessed value.

Approaches to Rent Stabilization

Policy Levers

The County has several policy "levers" it can use for rent stabilization that relate to both the formula for allowable rent increases and related regulations. **Appendix B** includes a more thorough review of these levers.

- **Formula for allowable rent increases.** The allowable annual rent increase is the primary mechanism for rent regulation. The formula can be based on the Consumer Price Index (CPI), a fixed percentage, or some other index such as a cost study. Some rent policies set a percentage or dollar value "cap" or maximum allowable increase, and some set a "floor" to ensure property owners can raise rents by a certain amount each year. There are tradeoffs associated with each of these approaches.
- **Changes in applicability.** Some rent stabilization policies allow different rental increases based on certain defined characteristics. In Los Angeles County, mobilehomes are regulated by a separate policy. Policies could also set alternate standards or make exceptions for properties based on other factors such as size (number of units) or owner type (e.g. private or small owners). Due to the administrative complexity and potential to create unequal outcomes for tenants, both property owners and tenant advocates agreed the County should not consider alternative formulas for small properties or small property owners, i.e. "mom and pop" businesses owners. When it was adopted, the RSTPO included temporary exceptions for "luxury units", properties likely to serve higher-income tenants, but these exceptions expired. Because of the impacts of rent freezes, rising costs, and market differences for luxury units, the County should re-evaluate its treatment of luxury units.

- **Non-formula policy considerations.** In addition to allowable rent increases, other policy attributes can influence the cost and operations of rent-stabilized units. These include mechanisms for property owners to apply for exceptions to allowable increases if they cannot earn a fair return, and to pass-through certain expenses to tenants. The RSTPO has provisions for both. Some policies in other jurisdictions allow owners to bank rent increases for future years or require them to meet habitability standards, and some include a means test for tenants to exempt units that house high-income or high-wealth households.

  Policies such as habitability, rent increase banking, and means testing were not further considered as potential policy changes. The County should not consider changes to RSTPO policies related to habitability due to significant administrative burden. Rent increase banking poses a risk to tenants by allowing potentially larger increases and should only be considered as an alternative way to allow additional increases with a fixed percentage formula. The County should not consider means testing because an exception for luxury units would achieve a similar aim with fewer drawbacks.

Impacts of Allowable Increases on Tenants and Property Owners

The current economic climate poses significant challenges to both tenants and property owners, making it difficult to determine a fair and balanced approach to rent stabilization.

Tenant Challenges:

- The **majority of low- and moderate-income tenants are cost burdened**, meaning they pay a substantial portion of their income on rent, and any increase in rent will exacerbate cost burden for many renter households.
- Because lower-income households typically pay a larger portion of their income toward rent, **rent increase formulas are likely to be regressive**, meaning that the same percentage increase of rent will represent a larger share of income for lower-income tenants.
- Many households still owe unpaid rent debt from payments missed during the pandemic. As these tenants arrange payment plans for unpaid rent, their **payments will increase even with no change to base rent**.
- Tenants and their advocates noted challenges related to the habitability of rental homes and advocated against allowing property owners to "bank" rent increases to ensure predictability for tenants.

Property Owner Challenges:

- **Operating expenses and financing costs have increased substantially in recent years.** Rising costs for insurance and repairs and maintenance are among the biggest drivers of cost increases. During this time, rents for fully-regulated properties have been frozen, leaving owners unable to "catch up" to accumulated cost increases. Owners also expressed concerns that CPI is not a good indicator of changes to operating expenses.
- **Some property owners feel that rent stabilization provides unneeded protections for high income tenants**, and burdens owners of higher-end housing. Luxury unit exemptions could alleviate some of these concerns for property owners of certain buildings with high income tenants. There is precedent for this exemption in many jurisdictions.
- **Accumulated rent debt also impacts property owners,** who say a large portion of this debt cannot be collected. Owners that evict tenants for non-payment see economic vacancy due to nonpayment during the lengthy eviction process.

Impacts to Tenants

Understanding the potential impacts of rent increases on tenants requires projecting both rent and tenant incomes. The majority of low- and moderate-income tenants in unincorporated Los Angeles County are housing cost burdened, meaning they pay 30% or more of income on housing costs (a household that spends 50% or more of income on housing costs is considered severely cost burdened). This means that without a corresponding increase in incomes, any increase in rent will exacerbate cost burden for many renter households. When households are housing cost burdened, they have fewer resources available to deal with unforeseen expenses, loss of income, or other emergencies, and can therefore be vulnerable to housing insecurity.

If rents rise faster than incomes, cost burden will rise, both impacting more households and impacting households more severely (Figure 6). Based on current market figures, a median-income renter household ($61,000) renting a median-rent fully regulated rental home in unincorporated Los Angeles County ($1,612 per month) spends about 32% of household income on rent, making them cost burdened. To understand how various rent increase formulas could impact tenants in unincorporated Los Angeles County, HR&A projected the percent of income the median-income household in a median-rent unit would spend on rent after ten years under various growth conditions for both income and rent. **This analysis found that annual rent increases in excess of 5 or 6% will likely result in high cost burden even with modest income growth over the next 10 years.**

Figure 6. Percent of Income Spent on Rent after 10 Years for Median-Income Renter Household in Median-Rent Fully Regulated Unit

Annual Income Growth	Annual Rent Increase								
	0%	1%	2%	3%	4%	5%	6%	7%	8%
1%	29%	32%	35%	39%	43%	47%	52%	57%	62%
2%	26%	29%	32%	35%	39%	42%	47%	51%	56%
3%	24%	26%	29%	32%	35%	38%	42%	47%	51%
4%	21%	24%	26%	29%	32%	35%	38%	42%	46%

Source: ACS 1-Year Estimates, Bureau of Labor Statistics, Los Angeles County Rent Registry Data (2021-2023)
Note: Cells shaded in blue indicate that the renter in this hypothetical unit would be housing cost burdened, spending more than 30% of income on housing costs. The lightest blue color represents no change to the current level of cost burden. The darkest blue color indicates that the renter would be severely cost burdened, spending more than 50% of income on housing.

Impacts to Property Owners

The potential impacts of rent increases on property owners will be a function of both trends in rent (potential income) and operating expenses. Net Operating Income (NOI) is a measure of revenue generated by the property (from rent accounting for vacancy, and other sources such as parking), less operating expenses. It does not account for capital expenses and debt payments property owners may also need to make, and thus is not a direct measure of property owner income. Based on available data on trends in rent and operating expenses, NOI for owners of fully-regulated properties in unincorporated Los Angeles County may typically be approximately 62-66% of total income. Owners of regulated properties have a constitutional right to a fair return, typically defined by the courts and practice in terms of sufficient income to pay for ongoing costs of operating their apartment buildings. More specifically, it is the maintenance of inflation-adjusted net operating income over a base year.

If costs rise faster than rents, NOI will decline, leaving property owners with less available capital for property improvements or potentially impacting their ability to earn a fair return on their properties (Figure 7). It is difficult to accurately understand and project real changes to operating expenses across a large region with many housing typologies. Assumptions for the operating expense growth scenarios were made to reflect historic trends of operating expenses increase over time. A mid-high growth assumption of 4% represents the weighted compound annual growth rate of operating expenses from 2011-2019. A high growth assumption of 5% represents the weighted compound annual growth rate of operating expenses from 2019-2022. Low growth of 2% and moderate growth of 3% represent standard real estate assumptions. To understand how various rent increase formulas could impact property owners in unincorporated Los Angeles County, HR&A projected NOI as a percent of total property income (rental and other revenue less vacancy) after ten years under various growth conditions for both operating expenses and rent. **This analysis found that setting allowable rent increases too low could impact owners' ability to earn a fair return and maintain quality. A floor of 2 to 3% may help to sustain Net Operating Income as costs rise.**

Figure 7.Net Operating Income as a Percentage of Total Income after 10 Years

Annual OpEx Growth	Annual Rent Increase 0%	1%	2%	3%	4%	5%	6%	7%	8%
Low (2%)	61%	64%	66%	69%	72%	74%	76%	78%	80%
Moderate (3%)	56%	59%	63%	66%	69%	71%	74%	76%	78%
Mid-High (4%)	52%	56%	59%	63%	66%	69%	71%	73%	76%
High (5%)	47%	52%	56%	59%	63%	66%	69%	71%	73%

Source: Novogradac Low-Income Housing Tax Credit Income and Operating Expenses Report (2023), CoStar (2023), IREM Income/Expense Report (2022)
Note: Cells shaded in the lightest red color reflect no change to the current level of NOI as a percentage of total income. Darker shaded cells indicate that the owner of this hypothetical unit would have a lower NOI as a percentage of total income in ten years than they do now, which may result in an inability to earn a fair return.

Policy Options for Consideration

Based on the findings above and collaboration with County staff, HR&A evaluated six options for the County to calculate allowable rent increases in terms of their potential impacts to tenants, to property owners, and to administrators (Figure 8).

Figure 8. Options for Allowable Rent Increase Formulas

	Formula	Minimum	Maximum
Option 1: Keep the current formula	100% of CPI	Staggered 0% to 3%	8%
Option 2: Streamline the formula and reduce the cap	100% of CPI	2% to 3%	4% to 6%
Option 3: Use a percentage of consumer price index	60 to 80% of CPI	2% to 3%	4% to 8%
Option 4: Use 60% of CPI with a 3% cap	60% of CPI	None	3%
Option 5: Use a fixed percentage	Fixed percentage 3% to 5%	N/A	N/A
Option 6: Use a cost study	100% of increase in operating expenses based on third-party cost study	None	4% to 6%

Option 1: Keep the Current Formula

The current RSTPO formula (Figure 9) already represents a compromise between the needs of tenants and property owners. Because of pandemic-era rent freezes and temporary reduced caps, the formula has not yet been tested in the market. The County could keep the current formula to evaluate its effectiveness.

Figure 9. Option 1 Formula

Annual Change in Consumer Price Index (CPI)	RSTPO Allowable Annual Rent Increase
8% or Higher	8%
Between 3% and 8%	Equal to CPI
Between 1% and 3%	3%
Between -2% and 1%	Equal to CPI plus 2%
Less than -2%	No rent increase permitted

Implications for Tenants

Benefits: Tenants would be protected from rent increases above 8% per year, and from rent increases in excess of CPI except in years with low CPI change. The formula will likely produce low to moderate rent increases most years.

Risks: In recent years, CPI growth has been high and even exceeded growth in market rent. If high CPI growth continues, the RSTPO would offer limited protection to tenants and rents could rise by up to 8% per year. Because of the high rates of rental cost burden, large rent increases can pose significant challenges.

Implications for Property Owners

Benefits: Property owners have made business decisions over the past few years based on the current formula. The formula allows higher rent increases in years with high CPI change, and allows rent increases to exceed CPI in years with low CPI change via a staggered minimum.

Risks: The current formula does not allow rent increases in years with CPI below -2%, which means that in years of economic contraction property owners are prevented from raising rents, even if costs increase.

Implications for Administrators

Oversight of this policy would not change the County's administrative requirements.

Option 2: Streamline the Formula and Reduce the Cap

A streamlined formula (Figure 10) would be more intuitive and predictable, while still relying on CPI and thus mirroring the current formula. The County could change the "floor" from a staggered percentage between 0% and 3% to a fixed percentage, thus providing predictability and guaranteeing property owners a minimum rent increase, while reducing the cap to provide stronger protection to tenants in high-inflation years.

Figure 10. Option 2 Formula

Formula Component	Potential Values
Base Formula	100% of CPI Change
Maximum (Cap)	4 to 6%
Minimum (Floor)	2 to 3%

Implications for Tenants

Benefits: Tenants would be protected from rent increases above 4 to 6% per year. Because rent increases of 7% per year result in severe cost burden in most income growth scenarios, a cap of between 4% and 6% would better protect tenants. The formula will likely produce low to moderate rent increases most years. The narrower band of potential rent increases should offer predictability for tenants.

Risks: The simplified floor could subject tenants to 2 to 3% increases in rent even in years with limited CPI growth or contraction.

Implications for Property Owners

Benefits: The formula would resemble the current formula in moderate CPI years, and would ensure a minimum allowable increase of 2 to 3% in low CPI years (unlike the current formula with its staggered floor between 0% and 3%). The narrower band of potential rent increases would provide greater clarity and predictability for property owners.

Risks: A reduced cap could make it more difficult for property owners to keep pace with costs in high-inflation years.

Implications for Administrators

Oversight of this policy would not substantially change the County's administrative requirements or processes. However, a reduced cap could result in an increased rate of rent increase petitions which may increase the County's costs or capacity needs.

Option 3: Use a Percentage of Consumer Price Index

Since housing costs are a part of CPI calculations, using 100% of CPI can result in rent increases that closely track market rents. Some formulas use a percentage of CPI below 100% to correct for this linkage (Figure 11). While this can curb rent increases, it could require additional protections for property owners to ensure they can earn a fair return.

Figure 11. Option 3 Formula

Formula Component	Potential Values
Base Formula	60 to 80% of CPI Change
Maximum (Cap)	4 to 8%
Minimum (Floor)	2 to 3%

Implications for Tenants

Benefits: Rent increases would be kept relatively low in moderate and high CPI years, and tenants would be protected against high inflation.

Risks: Maintaining a minimum guaranteed rent increase could subject tenants to 2 to 3% increases in rent even in years with limited CPI growth or contraction.

Implications for Property Owners

Benefits: The formula preserves a guaranteed allowable increase of 2 to 3% per year, even when CPI is low.

Risks: The formula reduces the correlation between rising consumer prices and rising rents, potentially creating a mismatch between operating costs and rents.

Implications for Administrators

Oversight of this policy would not substantially change the County's administrative processes; this formula closely matches the current MRSMOPO formula. However, as noted below this approach could require the County to process a greater number of applications for additional increases, or to allow additional pass-throughs for property owners, which could also require a greater administrative capacity and new processes.

Other Considerations

The best way to mitigate risks to property owners is to maximize the number of pass-throughs that can be handled administratively and streamline the process to apply for additional increases, to provide property owners with recourse for rising costs. However, new pass-throughs would also carry an administrative fee that would most likely be paid by the property owner. The County could consider setting a slightly higher cap in this case because the formula would likely limit rent increases below the cap in most years, and the cap would primarily be relevant for property owners applying for an additional increase.

Option 4: Use 60% of CPI with a 3% Cap

Due to the high instance of housing cost burden among tenants in Los Angeles County, and the challenge that cost burdens pose to tenant housing stability, tenant advocates recommend placing stricter limits on rent increases to prevent loss of housing for low- and moderate-income tenants (Figure 12). Other California jurisdictions have recently adopted similar formulas and caps of 3 to 4%.

Figure 12. Option 4 Formula

Formula Component	Potential Values
Base Formula	60% of CPI Change
Maximum (Cap)	3%
Minimum (Floor)	None

Implications for Tenants

Benefits: This options provides the greatest protection to tenants by preventing rent from rising more than 3% per year. Similar to Option 3, the formula corrects for linkages between CPI and market rents by keeping rent increases low relative to CPI. Over time, this option may result in decreased housing cost burden for tenants, rather than simply limiting increases in housing cost burden.

Risks: This option poses few risks to tenants.

Implications for Property Owners

Benefits: If CPI growth is moderate and operating expense increases are moderate to low, the allowed rent increases will likely be sufficient to maintain a fair return.

Risks: The formula reduces the correlation between rising consumer prices and rising rents, potentially creating a greater mismatch between operating costs and rents than options with higher caps. This poses a risk to property owners if expenses grow quickly. The lack of a "floor" or minimum guaranteed allowable increase poses a risk to property owners if CPI is lower than growth in expenses.

Implications for Administrators

Oversight of this policy would not substantially change the County's administrative processes. However, as noted below this approach could require the County to process a greater number of applications for additional increases, or to allow additional pass-throughs for property owners, which could also require a greater administrative capacity and new processes.

Other Considerations

As noted in Option 3, the best way to mitigate risks to property owners is to maximize the number of pass-throughs that can be handled administratively and streamline the process to apply for additional increases, to provide property owners with recourse for rising costs. However, new pass-throughs would also carry an administrative fee that would most likely be paid by the property owner. Because this option does not include a "floor", the County could consider including a temporary "catch up" period for property owners, such as adding 1% (or some other percentage) to the rent increase otherwise allowed by the formula for a fixed number of years.

Option 5: Use a Fixed Percentage

A fixed percentage formula (Figure 13) would offer maximum predictability, something both tenants and property owners have said they value. Under this option, the County would set a single, fixed percentage for the maximum allowable rent increase every year.

Figure 13. Option 5 Formula

Formula Component	Potential Values
Base Formula	Fixed percentage of 3 to 5%

Implications for Tenants

Benefits: A fixed percentage maximum formula would provide certainty that rent increases could not exceed a specified amount.

Risks: If set too high, a fixed percentage formula would limit only the most extreme rent increases.

Implications for Property Owners

Benefits: A fixed percentage maximum formula would provide greater regulatory certainty to property owners than the more variable CPI-based formula.

Risks: A low fixed percentage might result in missed revenue-earning opportunities for housing providers during strong economic periods, while operating expenses may continue to increase.

Implications for Administrators

A fixed percentage formula should not require substantial change to the County's administrative capacity or processes. It would require some staff time to write and roll out new policy documents and informational materials.

Other Considerations

The current formula allows property owners to apply for additional rent increases up to the overall cap of 8% per year. If the County moves to a fixed percentage formula, it will need to set an alternate cap and a standard for allowable additional increases. Some fixed-percentage jurisdictions build in flexibility by allowing pass-throughs and banked increases up to an annual cap, enabling property owners to increase rent more than the fixed percentage aligned with increased costs or foregone rent increases.

Option 6: Use a Cost Study

A third-party cost study could improve alignment between rents and costs while protecting tenants from large increases in rent (Figure 14). During a stakeholder roundtable, property owners and industry representatives advocated for a cost study approach. However, this approach carries potential complications arising from the time and administrative cost to produce, review, and approve a study. In California, Santa Monica previously used a cost study approach, but found that it produced similar outcomes to what would have resulted from the use of a CPI-based formula. In 2012, Santa Monica adopted a CPI approach.

Figure 14. Option 6 Formula

Formula Component	Potential Values
Base Formula	Third-party cost study overall % increase in operating expenses
Maximum (Cap)	4 to 6%
Minimum (Floor)	None

Implications for Tenants

Benefits: A cost study approach would eliminate the need for a guaranteed minimum, thus creating the potential for very low rent increases in years when costs rise less than 3%. Including a cap on rental increases would continue to protect tenants from extreme rent increases.

Risks: Cost study data would be available a year or more after costs changed, creating the potential for rents to increase in a year of economic contraction if costs increased the previous year, or similar mismatches.

Implications for Property Owners

Benefits: A cost study approach would theoretically closely align allowable rent increases with actual changes in costs, minimizing risks for property owners.

Risks: Including a cap on rent increases could mean that in years with high cost growth, rental growth would not keep pace. A third-party cost study would be available a year or more after costs changed, creating the potential for allowable rent increases to lag behind incurred cost increases. Purchasing an existing third-party cost study would also reflect trends in a broad geography, and could obscure local cost drivers such as taxes, insurance, and utilities. The cost study approach does not have a "floor" for minimum rent increases because theoretically if costs do not increase, rents would not need to increase, but this may pose a risk to property owners.

Implications for Administrators

Purchasing an existing third-party report would minimize the potential costs for the County to produce its own study, but could still require added staff capacity to manage policy changes and the rollout of new procedures and informational materials. In addition, a cost study approach typically requires public comment and annual review by the Board of Supervisors to validate the report and its implications for allowable cost increases, and can thus become administratively burdensome and time consuming, in addition to creating uncertainty in the process.

Other Considerations

Because this option does not have a "floor", the County could consider including a temporary "catch up" period for property owners, such as adding 1% (or some other percentage) to the rent increase otherwise allowed by the formula for a fixed number of years.

Additional Policy Changes to Consider

Regardless of the preferred formula, there are non-formula policy changes the County should consider:

- **Administrative Streamlining:** In general, the County should work to streamline administrative processes (such as those for rental registry compliance, applications for alternate increases, and pass-throughs) wherever possible. This could include providing consistent and easy to access information about processes (such as checklists and a designated point of contact), ensuring that the staff capacity exists to help property owners through the processes, and setting performance metrics for County staff related to the timeliness and successful response to inquiries, and the time to process and respond to applications.

- **Luxury Units:** Because of the impacts of rent freezes, rising costs, and market differences for luxury units, the County should re-evaluate its treatment of luxury units and determine whether temporary or permanent exceptions are appropriate. Mechanisms to provide exceptions for luxury housing could include an alternate cap for luxury units or additional pass-throughs for tenant-requested upgrades.

Appendix

Appendix A. Summary of Current Regulatory Environment

Appendix B. Los Angeles County Rent Stabilization Study

Appendix A.

Summary of Current Regulatory Environment

Los Angeles County Rent Stabilization and Tenant Protections Ordinance Study

Los Angeles County Chief Executive Office and

Department of Consumer and Business Affairs

Summary of Current Regulatory Environment | January 4, 2024

Prepared by HR&A Advisors

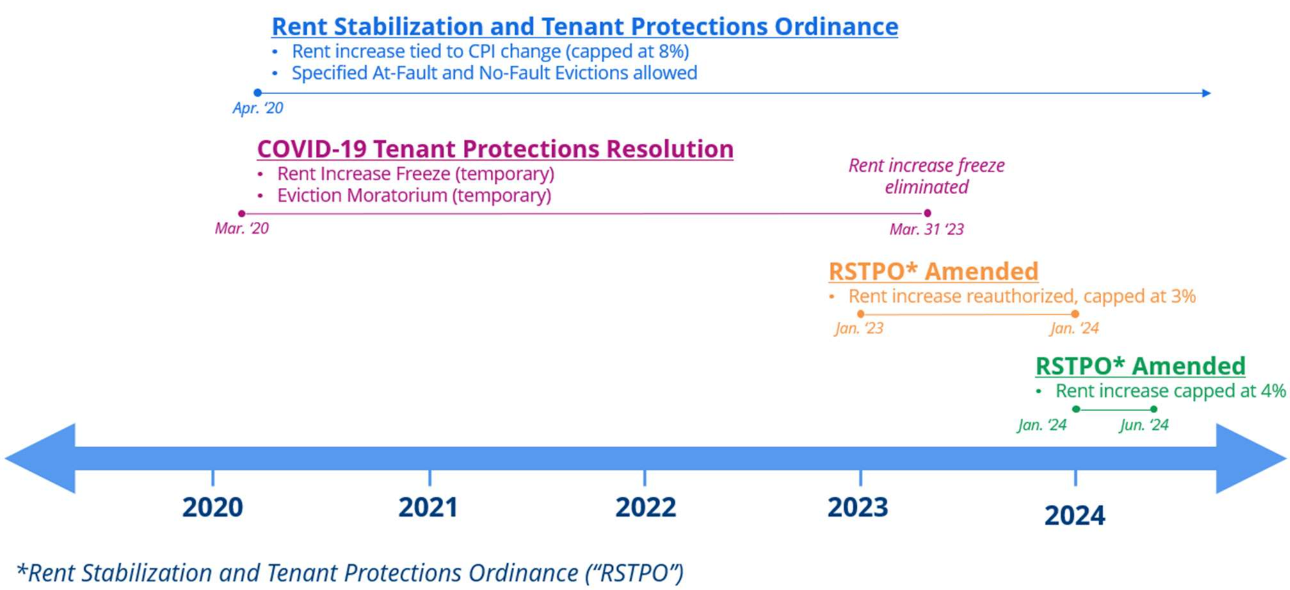
Table of Contents

Introduction

The County of Los Angeles (the County) retained HR&A Advisors, Inc. (HR&A) to provide independent research and analysis to guide consideration by the County Board of Supervisors of potential changes related to the rent increase formula and maximum allowable rent increase in the County's Rent Stabilization and Tenant Protections Ordinance (RSTPO) regulating rent-stabilized units[1] in the unincorporated area of Los Angeles County in the wake of the COVID-19 pandemic.

HR&A is working with County staff to evaluate certain aspects of the current RSTPO, with a focus on the relative merits of alternatives for how allowable annual rent increases are calculated. The COVID-19 pandemic and its aftermath had substantial impacts on housing markets across the U.S., including in Los Angeles County. In response, the County has in recent years temporarily restricted rental increases on homes subject to the RSTPO to prevent evictions during the COVID-19 pandemic and to address high inflation rates (See Figure 1). As these temporary measures are set to expire and the Consumer Price Index (CPI) used to set annual rent increases remains high, rent-stabilized units face the potential for significant rent increases. The County Board of Supervisors has therefore requested a thorough review of current practices in Los Angeles County and other California jurisdictions and an assessment of RSO tenants, homes, and rental property owners, to evaluate the current RSTPO approach to permitted annual rent increases to ensure that the rent increase formula and cap achieve an appropriate policy balance for tenants and rental property owners in the unincorporated area.

Figure 1: Effective Timeline of Allowable Rent Increases in Unincorporated Los Angeles County



Sources: Los Angeles County Department of Consumer & Business Affairs; HR&A Advisors

1 A separate ordinance regulates rents for coach pads for mobile homes.

This first memorandum provides an overview of the County's current RSTPO, existing rent stabilization ordinances in other California cities, and rent stabilization ordinance (RSO) policy changes during and since the COVID-19 pandemic to inform decisions about future efforts to align the County's rent stabilization policy with the current rental market.

In a next phase of work, HR&A will conduct further analysis about the impacts of COVID-19 and rent stabilization policies on both tenants and rental property owners in unincorporated Los Angeles County, including trends in operating costs for rental property owners. The purpose of this analysis will be to help the Board of Supervisors consider potential changes to the County RSTPO rent increase formula and cap. We will present several options for the County's rent increase formula with context for how each one may impact not only renters but also rental property owners and County RSTPO administrators.

Summary of Key Findings

Overview of Los Angeles County Rent Stabilization and Tenant Protections Ordinance

The primary function of Los Angeles County's RSTPO is to regulate two tenancy factors: annual rent increases and evictions, while allowing rental property owners to earn a fair return on their rental properties as defined by applicable legal standards. It does this in the following ways:

- **Restricting the amount by which rent can be increased each year** for regulated housing units based on a set formula that considers the cost to both the tenant household and the rental property owner (See Table 1);
- Allowing rental property owners to **recapture "pass-through" costs** for some capital improvements and taxes, **permitting rent increases to market rates** when a regulated unit is voluntarily vacated, and enabling rental property owners to **petition for additional rent increases** with appropriate justification; and
- Placing limits on the allowable **reasons for eviction of tenants** in regulated units.

Table 1: Allowable Rent Increases under LA County's RSTPO

Annual Change in CPI	RSTPO Allowable Annual Rent Increase[2]
8% or Higher	8%
Between 3% and 8%	Equal to the change in CPI
Between 1% and 3%	3%
Between -2% and 1%	Equal to the change in CPI plus 2%
Less than -2%	No rent increase permitted

Source: Los Angeles County Department of Consumer & Business Affairs

The Mobilehome Rent Stabilization and Mobilehome Owner Protection Ordinance (MRSMOPO) provides similar regulation of space rent for mobilehomes in unincorporated Los Angeles County mobilehome parks. The formula

[2] Until December 31, 2023, a rental property owner may increase rent on a "Luxury Unit" by an additional 2% above the limits defined in Table 1, capped at a maximum annual increase of 10%. A Luxury Unit means a unit that has two (2) bedrooms or fewer, demands at least $4,000 in monthly rent, and is in a single structure that contains at least 25 units.

for increased space rents under the MRSMOPO is based on 75% of the annual percent change in CPI and allows space rent to be increased by a minimum of three percent and up to a maximum of eight percent annually.

Approaches to Rent Stabilization in California

An essential feature of any rent regulation system is the maximum percentage and/or dollar amount by which rents are allowed to change each year. In setting the allowable change, local governments generally attempt to balance protecting tenants from excessive rent increases with the ability of rental property owners to earn a "fair return," typically defined in terms of sufficient income to pay for ongoing costs of operating their apartment buildings (i.e., inflation-adjusted maintenance of Net Operating Income (NOI) over a base year). Jurisdictions seek to strike this balance in different ways; there is no single correct mechanism, structure, or percentage by which rent increases can be regulated. Rather, there are many approaches to setting allowable rent increase amounts. Among California jurisdictions with RSOs, there are two primary approaches:

- **Formulas based on changes to the Consumer Price Index.** Like many other jurisdictions in California with RSOs, the County uses changes in the Consumer Price Index (CPI) within the County as a basis for its rent increase formula. CPI-based formulas use a percentage of the annual change in CPI to calculate allowable annual rent increases, with or without caps, to set either a maximum or minimum amount by which rental property owners are allowed to raise rents. **To the extent that changes in regulated housing operating expenses correspond with changes in the price of goods measured by the CPI, a CPI-based annual rent increase formula theoretically allows rental property owners to continue to earn a fair return while also ensuring that rent does not increase faster than other costs**. Of the 20 cities HR&A evaluated, 18 used CPI-based formulas for rent increases. Most also include caps for rent increases ranging from three percent to 10 percent. Eight cities also established a minimum allowable rent increase between zero and three percent.
- **Formulas based on a fixed percentage of rent.** A few California jurisdictions set rent increase formulas as a fixed annual percentage increase. This allows a measure of more predictability for both tenants and rental property owners. However, if the fixed percentage is set too low it may constrain Net Operating Income for rental property owners when costs increase, or if set too high it may restrict only the most extreme rent increases for tenants. Of the 20 jurisdictions HR&A evaluated, two use a fixed percentage of five percent.

In recent years, the COVID-19 pandemic, rising rents, high inflation, a rising homelessness crisis, and other economic shifts have increased instability for renter households in California; at the same time rising costs and pandemic-era income shortfalls may be constraining rental property owners. Recently adopted RSOs and changes to existing RSOs have generally placed lower temporary caps on the maximum allowable annual rent increase, while still relying on CPI as the primary basis for rental increases. **These policy changes appear to prioritize protecting tenants from the impacts of high inflation, while the primary means of assistance for rental property owners has been state and local rental income relief programs**, as well as the ability to apply for exceptions to allowed rent increases if they cannot receive a fair return**.** Further analysis will investigate whether and to what extent reduced caps may constrain rental property owners' ability to earn a fair return.

Overview of Los Angeles County Rent Stabilization and Tenant Protections Ordinance

Adopted in November 2019 and effective April 1, 2020, the County's RSTPO[3] establishes regulatory parameters to enforce tenant protections applicable to rental housing units in unincorporated parts of Los Angeles County. **The primary function of the RSTPO is to regulate two types of occurrences: rent increases and evictions**, while ensuring that rental property owners can earn a fair return on their rental properties as defined by applicable legal standards**.**

In accordance with State law,[4] certain units are partially covered under the RSTPO and only subject to eviction protections but are not rent stabilized, including:

- Units for which a Certificate of Occupancy was issued after to February 1, 1995;
- Accessory dwelling units (ADU) for which a Certificate of Occupancy was issued after February 1, 1995;
- Single-family homes and condominiums; and
- Vacant units.

As a companion to the RSTPO, the Mobilehome Rent Stabilization and Mobilehome Owner Protections Ordinance (MRSMOPO) regulates space rent increases for mobilehome parks in unincorporated Los Angeles County. This memorandum primarily focuses on the RSTPO but references relevant provisions for the MRSMOPO.

Allowable Rent Increases

An essential feature of any rent regulation system is the maximum percentage and/or dollar amount by which rents are allowed to change each year. **In Los Angeles County, for any covered unit, a rental property owner is permitted to increase rent annually based on annual changes in the CPI for Los Angeles County.** The formula for allowable rent increases under the RSTPO is as follows:

Table 2: Allowable Annual Rent Increases under LA County's RSTPO

Change in CPI	RSTPO Allowable Annual Rent Increase[5]
8% or Higher	8%
Between 3% and 8%	Equal to the change in CPI
Between 1% and 3%	3%
Between -2% and 1%	Equal to the change in CPI plus 2%
Less than -2%	No rent increase permitted

Source: Los Angeles County Department of Consumer & Business Affairs

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[3] Los Angeles County Code of Ordinances, Chapter 8.52 – Rent Stabilization and Tenant Protections. Accessed from: **https://library.municode.com/ca/los_angeles_county/codes/code_of_ordinances?nodeId=TIT8COPRBUWARE_DIV3HO_CH8.52RESTTEPR**

[4] The Costa-Hawkins Rental Housing Act prohibits jurisdictions from applying local RSO to certain housing units in California, including units "alienable separate from the title to any other dwelling unit." This definition is interpreted to exempt single-family homes and condominiums from rent stabilization. See the "Relevant State Policies and Programs" section of this memo for more information.

[5] Until December 31, 2023, a rental property owner may increase rent on a "Luxury Unit" by an additional 2% above the limits defined in Table 2, capped at a maximum annual increase of 10%. A Luxury Unit means a unit that has two bedrooms or fewer, demands at least $4,000 in monthly rent, and is in a single structure that contains at least 25 units.

The rent increase formula for mobilehome parks differs from the schedule of allowable rent increases under the RSTPO. Per the MRSMOPO, a mobilehome park owner may increase space rent on an annual basis by either: a) 75 percent of the annual percentage change in CPI; or b) three percent, whichever is larger. Like the RSTPO, rent increases for mobilehomes are capped at eight percent annually.

Other Protections for Rental Property Owners

In addition to the basic structure and formula used to set allowable annual rent increases, some local governments also allow costs for specified categories of capital improvements and/or operating expenses (e.g., cost of utilities and property taxes) to be "passed through" to tenants in the form of rent surcharges, in order to protect the rental property owner's ability to earn a fair return as operating costs rise. In some cases, approval for pass-throughs can be made through a relatively simple administrative process and with advance notice to the affected tenant(s). Other policies require more extensive processes such as independent review by a mediator, governing body, or other third party.

In Los Angeles County the RSTPO permits a rental property owner to pass-through certain costs to a tenant for a specified period, pending administrative review and approval.[6] However, **a rental property owner may not impose such a charge if it increases overall housing costs by more than eight percent** (or 10 percent for a Luxury Unit through December 31, 2023). The RSTPO specifies four types of allowable pass-through costs:

- **Safe, Clean Water Act Parcel Tax Pass-Through**, which allows a small rental property owner[7] to pass-through the Safe, Clean Water Act parcel tax;
- **Capital Improvements Pass-Through**, which allows a rental property owner to recover up to fifty percent (50%) of certain Capital Improvement costs (not including routine maintenance and repair);
- **Primary Renovation Pass-Through**, which allows a rental property owner to recover up to fifty percent (50%) of a Primary Renovation cost, which can involve either:
    - Replacement or substantial modification of any structural, electrical, plumbing, or mechanical system, or
    - Abatement of hazardous materials, such as lead-based paint or asbestos; and
- **Registration Fee Pass-Through,** which allows a rental property owner to recover up to 50% of the annual registration fee for fully covered rental units.

Under certain circumstances, a rental property owner may be entitled to increase rent beyond the specified maximum rate. If a rental property owner believes they are not receiving a "fair and reasonable return" due to the rent increase limitations, they may file an **Application for Rent Increase** with the Department of Consumer & Business Affairs (DCBA). The DCBA may consider numerous factors in evaluating an application, including:

- Rental history of the affected unit, including base rent, pattern of past rent increases or decreases, and the Rental property owner's income and expenses related to the property;

[6] DCBA requires any rental property owner seeking to impose an eligible cost pass-through to submit an application, which must contain supporting documentation and other details. DCBA may review and discretionarily approve an application if it determines that "the costs are reasonable," based on certain factors specified in the Ordinance.
[7] A "small rental property owner" means an owner that owns, or has common ownership or common control of, fifty (50) or fewer Fully Covered Rental Units in the County.

- Increases or decreases in property taxes;
- The addition of capital improvements (if applicable) to the property;
- The condition of the property, including the need for repairs beyond ordinary wear and tear;
- A decrease in net operating income; and
- An increase of Housing Services or Services Reductions.

DCBA may approve an application if it determines that an increase a) is necessary to ensure the rental property owner receives an appropriate return, and b) would not place undue financial burden on the tenant.[8]

Eviction Protections

As previously noted, the RSTPO also establishes safeguards to protect tenants from certain types of eviction. Grounds for eviction fall into one of two categories: **At-Fault**, in which a tenant commits a specified violation (or violations), and **No-Fault**, in which a tenant commits no violation but remains subject to a lawful termination of tenancy. Table 3 defines the allowable causes for At-Fault and No-Fault evictions under the RSTPO.[9]

Table 3: Allowable Causes for At-Fault and No-Fault Evictions

At-Fault Evictions	No-Fault Evictions
1. Failure to Pay Rent Exceeding Monetary Threshold	1. Rental property owner or rental property owner's Family Member Occupancy
2. Violation of Material Term of Rental Agreement	2. Withdrawal of Fully or Partially Covered Rental Units from Rental Market
3. Nuisance or Illegal Purpose	3. Government Agency or Court Order
4. Failure to Sign Substantially Similar Lease	
5. Failure to Vacate as Required by Approved Relocation Application	
6. Households Exceeding Income Limits in Government Regulated Units	

Source: Los Angeles County Department of Consumer & Business Affairs

A rental property owner is required to provide relocation assistance to any tenant it evicts due to a no-fault cause. The amount of relocation assistance varies but is generally calculated as three times the Countywide median rent (based on the number of bedrooms) plus certain other estimated costs.[10] Certain evicted households are entitled to additional relocation assistance. Any household with a person who is aged 62 or older, disabled, terminally ill, or has children under the age of 18 is entitled to the "Qualified Tenant" relocation assistance which provides a higher amount of assistance than for standard tenants. Any household with a "lower-income person" (defined as earning 80% or less than area median income) is entitled to the "Lower-Income Tenant" relocation assistance which provides a higher amount of assistance than Qualified Tenants and standard tenants. Specific relocation amounts are summarized in the County's latest relocation fee schedule presented in the Appendix.

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[8] Capital Improvements Pass-Throughs, as well as applications for rent increase, are also allowed under MRSMOPO.

[9] Per the MRSMOPO, mobilehome evictions are regulated by California Civil Code Section 798.56, which authorizes evictions due to rent nonpayment (after a specified time), rule violation (after a specified period), or substantial annoyance.

[10] The amount of relocation assistance paid to an evicted tenant may also include costs associated with disconnecting and reconnecting utilities, packing, and moving costs, storage costs for three months, packing supplies, application fees, and taxes.

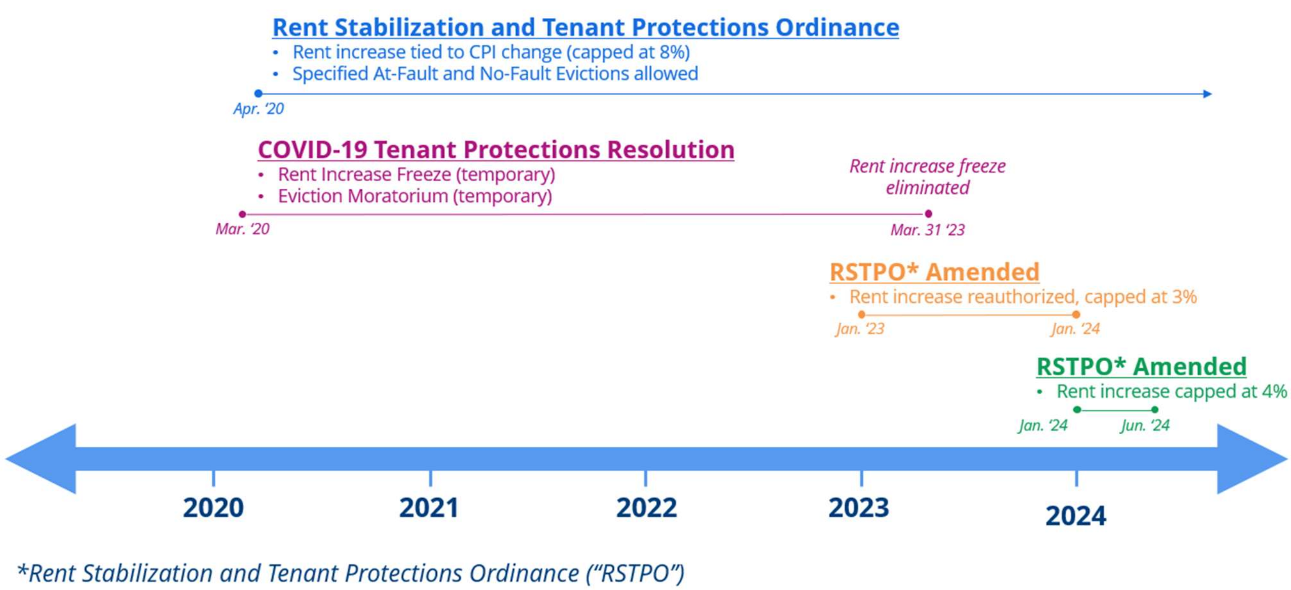
Responses to COVID-19

In response to the economic hardships associated with the COVID-19 pandemic, the County implemented more robust – albeit temporary – tenant protections. Adopted in March 2020, the COVID-19 Tenant Protections Resolution (the Resolution) established temporary measures applicable to residential, mobilehome, and commercial tenants in unincorporated County area. Like the RSTPO, the Resolution chiefly addresses matters related to rent increases and evictions. The conclusion of the pandemic resulted in the phasing-out of some, but not all, of these emergency protections.

Restrictions on Rent Increases

The Resolution established a **prohibition on rent increases for units subject to the RSTPO from increasing rent by any amount** – or from imposing new pass-throughs or charges. The rent freeze was in effect from March 2020 until March 2023. In November 2022, the Board of Supervisors voted to end the rent increase freeze, allowing a three percent rent increase on rent stabilized units when the Resolution expired on March 31, 2023, with an additional two percent allowed for Luxury Units. In November 2023, the Board of Supervisors voted to modify and extend the temporary cap on rent increases, allowing rental property owners to increase rent by four percent through mid-2024 (compared to 3% during 2023). Figure 1 displays a timeline of allowable rent increases in the County before, during, and after the pandemic. Assuming no additional changes are adopted, annual rent increase limits will return to their pre-pandemic levels as of mid-2024.

Figure 2: Effective Timeline of Allowable Rent Increases in Unincorporated Los Angeles County



Sources: Los Angeles County Department of Consumer & Business Affairs; HR&A Advisors

Additional COVID-19 Tenant Protections

The Resolution prohibited rental property owners from evicting tenants on grounds of rent nonpayment, nuisance, unauthorized occupants or pets, and most lawful no-fault causes.[11] Importantly, the Resolution did not permanently cancel a tenant's obligations to pay rent. Tenants were responsible for repaying any rental debt accrued "as soon as they are financially able to do so." Income-qualified tenants have 12 months to repay their rental debt as of April 1, 2023; all other tenants that accrued rental debt between March 4, 2020, and September 30, 2020 had to repay back rent by September 30, 2021.

The expiration of the Resolution re-authorized rental property owners to resume most at-fault evictions, including those related to rent nonpayment and nuisance. Table 4 summarizes the status of these protections.

Table 4: Status of Resolution Protections

Expiring Tenant Protections	Surviving Tenant Protections
1. **Rent Nonpayment.** Tenants must resume normal payments for rent due on or after April 1, 2023. 2. **At-Fault Evictions**. Rental property owners may resume at-fault evictions due to rent nonpayment, nuisance, and violation of lease terms, among other reasons defined in Table 2. 3. **Rent Increases.** Rental property owners may increase rent by up to 3% (or 5% for Luxury Units).	1. **No-Fault Evictions**. Tenants that were unable to pay rent between July 1, 2022 and March 31, 2023 remain protected against No-Fault evictions, except for a qualified Owner Move-In. 2. **Anti-Harassment and Retaliation Protections**.

Source: Los Angeles County Department of Consumer & Business Affairs

Support for Rental Property Owners

More recently, rental property owner relief has emerged as a pillar of the County's pandemic response. At different points in 2023, the County announced three new programs designed to provide financial assistance to rental property owners adversely impacted by the pandemic. The Mortgage Relief Program launched July 2023 and the Rent Relief Program and the Non-Mortgage Assistance Program launched in December 2023. The Appendix provides a brief overview of each program.

Other Relevant Policies and Programs

Costa-Hawkins Rental Housing Act

As previously referenced, the Costa-Hawkins Rental Housing Act is a State law limiting jurisdictions' ability to impose rent stabilization. Specifically, the Act imposes "vacancy decontrol," which permits a rental property owner to set rent to any amount when a unit is voluntarily vacant (i.e., between two tenancies); the unit is then re-controlled by the same annual rent increase allowed for continuously controlled units, but starting from the new base rent. Second, the Act prohibits jurisdictions from subjecting certain housing types – namely single-family homes, duplexes, and units built after February 1, 1995 – to a local rent stabilization ordinance.

[11] A July 2021 update to the Resolution re-authorized certain Owner Move-In evictions, provided certain conditions are met. Per the update, Owner Move-In remains unlawful if they result in the eviction of a tenant experiencing financial hardship due to COVID-19.

Tenant Protection Act (AB 1482)

A recently enacted State law, AB 1482 imposes statewide tenant protections for a 10-year period (i.e., 2020-2030) on certain types of rental housing. Specifically, the law requires a rental property owner to show "just cause"[12] prior to eviction and limits annual rent increases to no more than 5 percent plus the local CPI (or 10 percent, whichever is lower). The following housing types are exempt from AB 1482:

- Units constructed within the last 15 years (defined on a rolling basis);
- Deed restricted affordable housing units;
- Certain dormitories;
- Two-unit properties (i.e., duplex) for which one unit was owner-occupied for the duration of the tenancy, and
- Single-family homes and condominiums that are **not** owned by a real estate trust corporation, or LLC.

Pandemic-Related Protections

The State of California enacted a series of measures in response to the COVID-19 pandemic, which addressed the needs of both tenants and rental property owners. The major initiatives included the following:

- **COVID-19 Tenant Relief Act (CTRA)**. The CTRA, which comprises three State laws, prohibited rental property owners from evicting tenants unable to pay rent due to financial hardship. The protections applied to tenants who completed a specific declaration stating that they had "COVID-19 related financial distress." Protections were initially enacted on March 1, 2020, and expired September 30, 2021.

- **AB 3088**. The first of the three bills constituting the CTRA – extended the Homeowners' Bill of Rights' (HBOR) anti-foreclosure protections[13] to certain small rental property owners whose tenant (or tenants) failed to pay rent due to loss of income.

- **COVID-19 Rent Relief Program**. This program provided financial assistance to eligible renters and rental property owners[14] affected by the pandemic. While the Housing is Key rent relief program initially had a lower reimbursement, with the passage of AB 832 in June 2021, rental property owners were eligible to be reimbursed for up to 100% of past and prospective rental debt for up to 18 months. Renters were also eligible to receive up to 100 percent of their unpaid rental debt, so long as their rental property owners chose not to participate in the program. Applications for the program ended on March 31, 2022.

- **Other Financial Relief**. Though not explicitly tied to housing, the State also issued direct payments to lower-income households to help cover household expenses through the Golden State Stimulus I and II. The federal government also issued direct payments during the pandemic.

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[12] AB 1482 specifies 11 "At-Fault" just causes and 4 "No-Fault" just causes, many of which are like those outlined in the County's RSTPO.

[13] Per the California Mortgage Association, AB 3088 extends the HBOR "to first liens securing loans to individuals encumbering certain non-owner-occupied residential property." It also "creates a specific procedure for handling forbearance requests from qualified borrowers between September 1, 2020 and April 1, 2021." Anti-foreclosure protections include protections for homeowners seeking loan modifications, required documentation, and tenant rights related to eviction following foreclosure sales.

[14] Eligible renters include those experiencing a financial hardship due to the pandemic, have outstanding rental or utility debt, and whose household income does not exceed 80% AMI. Eligible rental property owners include those with income-eligible renters experiencing a financial hardship due to the pandemic with outstanding rental debt.

Table 5: Overview of Relevant Local and State Housing Programs and Policies

Name	Scale	Tenant Protections	Rental Property Owner Support
Permanent			
Rent Stabilization and Tenant Protections Ordinance	County	• Limits annual rent increases based on CPI changes (up to 8%). • Allows certain types of evictions.	• Permits certain “pass-through” costs. • Allows higher rent increases on a case-by-case basis.
Costa-Hawkins Rental Act	State	N/A	• Imposes “vacancy decontrol” on covered units. • Exempts certain units from rent stabilization ordinances.
Tenant Protection Act	State	• Limits annual rent increases to the larger of **a)** 5% + CPI, or **b)** 10%. • Requires rental property owners to show “just cause” for eviction.	N/A
Temporary (COVID-19 Related)			
COVID-19 Tenant Protections Resolution*	County	• Freezes rent increases. • Establishes a moratorium on evictions.	N/A
BOS Resolution (November ’22)*	County	• Re-authorizes rent increases, up to a cap of 3% annually.	N/A
BOS Resolution (November ’23)	County	• Adjusts rent increase cap to 4% annually.	N/A
Rent Relief Program	County	N/A	• Provides financial assistance to small rental property owners to cover unpaid rent.
Mortgage Relief Program	County	N/A	• Provides financial assistance to small rental property owners to cover mortgage or utility debt.
COVID-19 Tenant Relief Act (CTRA)*	State	• Prohibited rental property owners from evicting tenants unable to pay rent due to financial hardship	• Extended the Homeowners’ Bill of Rights’ anti-foreclosure protections to certain small rental property owners.
COVID-19 Rent Relief Program*	State	• Covered up to 100% of past rental debt for up to 18 months	• Covered up to 100% of rental debt for up to 18 months

**Denotes program and/or regulations that have expired.*

Approaches to Rent Stabilization and Allowable Rent Increases in California

An essential feature of any rent regulation system is the maximum percentage and/or dollar amount by which rents are allowed to change each year. In setting the allowable change, local governments generally attempt to balance protecting tenants from excessive rent increases with the ability of rental property owners to earn a “fair return," typically defined in terms of sufficient income to pay for ongoing costs of operating their apartment buildings.[15] Cities seek to strike this balance in different ways; there is no single correct mechanism, structure, or percentage by which rent increases can be regulated. Rather, there are many approaches to setting allowable rent increase amounts.

To inform the Board of Supervisors' reevaluation of the County's RSTPO formula for rental increases, HR&A conducted research into 20 of the 30 California jurisdictions with RSOs. The purpose of this inquiry was to understand **how jurisdictions across California have calculated allowable rent increases as well as post-COVID changes to respond to the impacts of the pandemic and subsequent economic shifts, such as rising inflation, material and supplies shortages, and wage increases.** This research did not focus on other local programmatic or policy protections for either tenants or rental property owners which may have been in place prior to or during the COVID-19 pandemic.

Table 6: Select California Jurisdictions with RSO Policies

Jurisdiction	Year RSO Enacted	RSO Applies to Buildings Built Before	Total Renter Households (2022)	Median Income (2022)	Median Rent (2022)
Los Angeles County	2019	1995	108,979	$83,411*	$1,805*
Alameda	2019	1995	15,409	$129,917	$2,301
Baldwin Park	2019	1995	7,341	$76,002	$1,757
Bell Gardens	2022	1995	7,659	$53,935	$1,544
Berkeley	1980	1980	25,974	$104,716	$2,067
Beverly Hills	Chapter 5: 1978 Chapter 6: 2017	Chapter 5: 1978 Chapter 6: 1995	8,189	$116,771	$2,675
Cudahy	2023	1995	5,084	$49,596	$1,619
East Palo Alto	2010	1988	4,185	$103,248	$2,142
Hayward	2019	1979	21,549	$105,371	$2,260
City of Los Angeles	1979	1978	886,998	$76,244	$1,791
Los Gatos	2004	15+ year old bldgs.	4,594	$198,117	$2,870
Mountain View	2016	1995	20,856	$174,156	$2,855
Oakland	2000	1983	98,649	$94,389	$1,849
Palm Springs	1980	1979	8,432	$67,451	$1,397
Pasadena	2022	1995	32,454	$97,818	$2,100
Pomona	2022	1995	19,111	$73,515	$1,631
Richmond	2017	1995	19,073	$86,618	$1,853
San Francisco	1979	1979	221,725	$136,689	$2,316
San José	1979	1979	143,543	$136,010	$2,526
Santa Monica	1979	1979	32,840	$106,797	$2,227
West Hollywood	1985	1979	18,432	$89,034	$1,969

*Sources: City or County ordinances, American Community Survey; * denotes value for all of Los Angeles County*

[15] Analysis in a study of San José's Apartment Rent Ordinance reports that appellate courts have repeatedly upheld the use of a Maintenance of Net Operating Income as an appropriate "fair return" standard, which was derived from extensive litigation concerning rent control in mobile home parks (see, for example, *Oceanside Mobilehome Park Owners' Ass'n v. City Oceanside*, 157 Cal.App.3d.887 (1984); also see *Baker v. City of Santa Monica*, 181 Cal.App.3d. 972 (1986). Source: Economic Roundtable, *San José ARO Study, Final Report*, April 2016, pp.126-128

California Rental Increase Formulas (pre-COVID conditions)

Across the 20 cities HR&A evaluated, there were four primary approaches to setting maximum allowable annual rent increases among these 20 cities:

- Setting allowable rent increases based on a ***specified percentage of annual change in the CPI***;
- Setting allowable rent increases based on a ***specified percentage of annual changes in the CPI, with a cap*** set at a minimum and/or maximum percentage (i.e., a "floor and ceiling") by which rents may be increased annually regardless of changes in the CPI;
- Setting annual increases based on a ***specified percentage of annual change in the CPI, but subject to a fixed dollar cap*** each year up to which rents may be increased (i.e., Santa Monica calculates Maximum Allowable Rents (MAR) for each unit under RSO based on a number of factors. In 2023 Santa Monica rent stabilized units with allowable rents over a certain level could increase rent by 2.8% or a maximum of $67.[16]); and
- Setting ***a fixed percentage*** without reference to the CPI, up to which rents may be increased annually.

Using a regional version of the CPI as an index for rent increases is the most common approach. Of the 20 jurisdictions HR&A evaluated, 18 use CPI to set allowable rent increases, and the other two applied fixed percentages irrespective of CPI. Of those that use CPI, 10 of 18 cities used less than 100 percent of the annual percentage change in CPI to calculate maximum allowable rent and eight of 18 allowed rent increases that matched 100 percent of the annual percentage change in CPI. Most cities that used CPI also established caps for rent increases that ranged from three percent to 10 percent, and eight established minimum allowable rent increases that ranged from zero to three percent (that is, rental property owners were guaranteed to be allowed to raise rent by a minimum amount regardless of CPI).

Table shows these conditions as of 2019 for cities that had existing RSOs in 2019 and shows the original post-COVID ordinance for those that did not have RSOs in 2019.

Table 7: Allowable Rent Increase Formulas as of 2019*

Jurisdiction	RSO Rent Increase Formula	Minimum Allowed Increase[17]	Maximum Allowable Increase
Pre-COVID RSO Formulas as of 2019			
Los Angeles County	100% of CPI	0% (see Table 1 for more detailed formula)	8%
Alameda	70% of CPI	1%	5%
Baldwin Park	100% of CPI	1%	3%†
Berkeley	65% of CPI	0%	7%
Beverly Hills	100% of CPI	3% For chapter 6, none for chapter 5	None for Chapter 6, 8% for chapter 5

[16] City of Santa Monica, "Historical General Adjustments Summary," https://www.santamonica.gov/media/Document%20Library/Process%20Explainers/How%20to%20Complete%20the%20Notice%20of%20Change%20in%20Terms%20of%20Tenancy/2023%20GA%20History%20&%20Surcharges.pdf

[17] Some RSOs specify a minimum allowed rent increase of 0% when CPI is negative. A dash in the "Minimum Allowed Increase" column indicates that the RSO does not specify a minimum allowed rent increase.

Jurisdiction	RSO Rent Increase Formula	Minimum Allowed Increase[17]	Maximum Allowable Increase
East Palo Alto	80% of CPI	-	10%
Hayward	Fixed Percentage	-	5%
City of Los Angeles	100% of CPI	3%	8%
Los Gatos	70% of CPI	-	5%
Mountain View	100% of CPI	2%	5%
Oakland	100% of CPI†	-	10%†
Palm Springs	75% of CPI	-	-
Richmond	100% of CPI	-	-
San Francisco	60% of CPI	-	7%
San José	Fixed Percentage	-	5%
Santa Monica	75% of CPI with fixed dollar cap (i.e., 2% increase with $44 cap for units charging $2,175 or above)	0%	3%
West Hollywood	75% of CPI	-	-†
RSOs Implemented Post-COVID			
Bell Gardens	50% of CPI	-	4%
Cudahy	100% of CPI	-	3%
Pasadena	75% of CPI	0%	-
Pomona	100% of CPI	-	4%

*Sources: City or County ordinances; *Except for cities with RSOs established after 2019, in which case table shows current formula as adopted after 2019. †Formulas or caps which have since been amended.*

The U.S. Bureau of Labor Statistics (BLS) defines the CPI as "a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services."[18] The BLS categorizes the complete market basket that the CPI measures as "All Items," which includes subcategories for its various household cost components including "Rent of primary residence." However, the rent of primary residence subcategory necessarily only accounts for housing costs to the consumer (i.e., tenant) and does not include apartment operating costs that would be incurred by the rental property owner. All 20 California jurisdictions that use CPI as a method for determining allowable annual rent increases refer to the CPI for All-Items for their respective metropolitan areas.

CPI is a widely used and accepted benchmark for allowable rent increases because it is both easy to use and provides balance between the needs of tenants and rental property owners. CPI is a readily available measure of general price inflation and is updated monthly.[19] Combined with the ability for rental property owners to raise rents to market rates upon voluntary vacancy (i.e. "vacancy decontrol") and income from allowed pass-throughs, maintaining rents commensurate with changes in the CPI theoretically allows for rental property owners to achieve levels of Net Operating Income that are consistent with trends in annual operating expense

[18] United States Bureau of Labor Statistics, "Consumer Price Index," https://www.bls.gov/cpi. There are two primary CPI measures: All Urban Consumers and Urban Wage Earners and Clerical Workers. Most rent regulation systems that reference the CPI use All Urban Consumers.

[19] Other plausible inflation indices that lack these multiple benefits include the Implicit Price Deflator, Producer Price Index and Personal Consumption Expenditure Deflator.

price inflation over time, while also preserving the incentive for rental property owners to maintain their properties to adequate standards.[20] **Using a fixed percentage to set allowable rental increases provides a different set of advantages and disadvantages.** A fixed percentage annual increase allows a measure of predictability for both tenants and rental property owners. However, if the fixed percentage is set too low it may constrain operating income for rental property owners when costs increase, or if set too high it may restrict only the most extreme rent increases for tenants.

None of the jurisdictions HR&A evaluated appear to have alternate rent increase rules for small housing developments. RSO policies generally exclude single-family residences and condominiums, as well as Accessory Dwelling Units and duplexes for which one unit is owner-occupied. Some policies exclude owner-occupied buildings with three or four units as well. Most policies also have provisions that allow rental property owners, regardless of number of units or buildings operated, to petition for greater rent increases if they cannot earn a fair return. Generally, rental property owners face the same restrictions on rent increases whether they are an individual that operates two units of housing or a corporation that operates two hundred or more units.

COVID-Era Changes to RSO Policies in California

Like Los Angeles County, many other jurisdictions adopted temporary or permanent policy changes to minimize evictions during the COVID-19 pandemic, and in the high inflationary environment that followed some are reevaluating what parameters on CPI-based rent increase formulas are most appropriate to balance the needs of tenants and rental property owners.

Table provides an overview of COVID-era policy changes among the 20 cities HR&A evaluated.

Table 8: RSO Changes During and Post COVID-19

City	No Change	Created City's First RSO	Temporary Rent Increase Moratorium	Temporary Rent Increase Cap	Permanent Changes to RSO Formula
Los Angeles County			✓	✓	
Alameda			✓		
Baldwin Park*			✓		✓
Bell Gardens*		✓			
Berkeley	✓				
Beverly Hills*			✓	✓	
Cudahy*		✓	✓		
East Palo Alto	✓				
Hayward	✓				
City of Los Angeles*			✓	✓	
Los Gatos	✓				
Mountain View	✓				
Oakland*					✓
Palm Springs	✓				
Pasadena*		✓			

[20] Hamilton, Rabinovitz & Alschuler, *The 1994 Los Angeles Rental Housing Study: Technical Report on Issues and Policy Options*, p. 245.

City	No Change	Created City's First RSO	Temporary Rent Increase Moratorium	Temporary Rent Increase Cap	Permanent Changes to RSO Formula
Pomona*		✓			
Richmond	✓				
San Francisco	✓				
San José			✓		
Santa Monica*					✓
West Hollywood			✓		✓

*Sources: Individual City ordinances. *Cities for which HR&A developed a more detailed summary of COVID-era changes.*

For the purposes of this study, HR&A identified cities that either implemented an RSO for the first time or implemented changes to their RSO beyond discrete rent freezes, whether permanent or temporary, to better understand what conditions drove the changes to their RSO ordinances and how those conditions relate to Los Angeles County.

- **Cities that adopted new RSO policies.** In the past two years, four of the cities HR&A studied adopted new RSO policies in response to rising rents and concerns about housing insecurity. These were Bell Gardens (2022), Cudahy (2023), Pasadena (2022) and Pomona (2022). The news coverage about these changes mostly cites renter housing cost burden, income precarity, and inability to absorb significant rent increases without growing risk of displacement.[21,22] Some coverage features small-scale rental property owners' struggles, noting reduced cash flow, inability to cover repairs and upgrades, and worries about certain relocation benefits.[23,24] In some instances, associations of rental property owners published their opposition to these policies, citing reduced returns and negative impacts on housing quality.[25] With the exception of Pasadena, these cities all have median incomes below $80,000. Bell Gardens' rental increase formula appears to be the most restrictive among the cities HR&A evaluated; rental increases there are set at 50 percent of CPI with a maximum increase of four percent. Table 10 provides an overview of these new policies.
- **Cities that made temporary changes.** Notable temporary changes, aside from temporary moratoria on rent increases, include Beverly Hills and the City of Los Angeles, both of which instituted temporary rent caps below what their respective RSOs allow. Tables 9 and 10 (on the next page) detail these changes.

[21] A Bell Gardens resident's perspective on historic displacement. LAist, "With Rents Soaring Across LA, Bell Gardens Becomes the Latest City to Move Toward Rent Control" https://laist.com/news/housing-homelessness/bell-gardens-pomona-ab1482-rent-control-californian-los-angeles-housing-inflation-increase

[22] Cudahy residents' perspectives on impact of RSO. LAist, "Cudahy Joins Growing List of Cities Enacting Rent Control and Tenant Protections," https://laist.com/news/housing-homelessness/cudahy-enacts-rent-control-and-tenant-protections

[23] A West Hollywood rental property owner's perspective on impact of RSO. Beverly Press, "WeHo Council Caps Rent Increases at 3%", https://beverlypress.com/2022/10/weho-council-caps-rent-increases-at-3/

[24] Questions raised by Pomona's RSO. Daily Bulletin, "Pomona Rent Control Plan Leaves Tenants, Landlords with Questions," https://www.dailybulletin.com/2023/07/21/rent-control-ordinance-in-pomona-leaves-tenants-and-landlords-with-questions/

[25] An example of rental property owner opposition. Pasadena Foothills Realtors Association FAQ on RSO. https://pfar.org/rent-control/

- **Cities that made permanent changes.** HR&A identified four cities that have adopted permanent changes to their RSO allowable rent increases in recent years. Baldwin Park, Oakland, Santa Monica, and West Hollywood all adjusted the cap on their allowed rent increases (Baldwin Park raised its cap from 3 percent to 5 percent, evidently to encourage rental property owners to invest in housing quality and decrease vacancy, while the other three cities either reduced or instituted a cap on maximum rent increases, at 3 percent in all cases. In addition, Oakland reduced the percentage of CPI used to calculate allowable rent increases to 60 percent of CPI from 100 percent. Table detail these changes.

In general, policies and amendments adopted by these cities in the post-COVID era appear to prioritize protecting tenants from the impacts of high inflation. Except for Baldwin Park, post-COVID RSO policies that set a maximum allowable increase have placed stricter caps on maximum rent increases. Pasadena is an exception, setting its formula at 75 percent of CPI without a maximum cap. All other post-COVID RSO policies and amendments have capped rent increases between three and five percent. In most cases, these caps were adopted to address concerns that unusually high changes in regional CPI resulted in unprecedented rent increases and could displace tenants unable to afford higher rents. While legislators in some cities acknowledged that these caps may impact rental property owners and debated exactly how high caps should be to avoid such an impact, it is unknown whether or to what extent these reduced caps constrain rental property owners' ability to earn a fair return.[26] Baldwin Park is the only city studied that increased its cap post-COVID, citing concerns over deteriorating housing quality despite allowing pass-throughs for capital investments.[27]

Aside from caps on rent increases, some cities restricted rent increases below 100 percent of CPI in the pre-pandemic period. Oakland is the only city that changed its RSO formula during the pandemic to reduce the percentage of CPI that is applied to rent increase calculations. As noted above, decisions by some jurisdictions to calculate maximum rent increases based on a percentage of the regional CPI that is less than 100 percent generally reflect local decision-maker judgements that rental property owners' operating expenses do not escalate at the same rate as the full CPI and that vacancy decontrol under Costa-Hawkins returns units to market rents frequently enough to allow owners to achieve annual increases in their Net Operating Incomes that meet the accepted legal standard for a fair return. Many of these cities also allow for pass-throughs of certain costs to help rental property owners maintain this fair return standard, and many also allow owners to petition for greater rent increases if their operating expenses increase significantly.

[26] As an example of considerations over impact on rental property owners, two Cudahy Councilmembers proposed a motion to increase their cap from 3% to 4% to incentivize investment in properties that may not occur if owners are strained. Los Angeles Public Press, "Los Angeles Public Press, "Cudahy passes rent control ordinance & renter protections, at special council meeting," https://lapublicpress.org/2023/06/cudahy-passes-rent-control-ordinance-renter-protections-at-special-council-meeting/

[27] City of Baldwin Park Ordinance Number 1466 https://www.baldwinpark.com/public-notices/ordinances/2785-draft-amended-rent-stabilization-ordinance/file

Table 9: Summary of COVID-Era Changes to Rent Increase Formulas in California Cities with RSOs

City	RSO Change Type	Summary of Change(s)
Baldwin Park	Permanent	Permanently raised maximum rent increase cap from 3% to 5% and eliminated exemptions for some mobile homes/spaces and for owner occupied attached two- and three-unit structures.
Beverly Hills	Temporary	Capped first allowable post-COVID rent increase at 3.1% for 2022-2023. Landlords could only apply this rent increase if their rent increase in 2019-2020 was below 3.1%. If their rent increase from 2019-2020 was between 0% and 3.1%, that increase must be subtracted from the 3.1% allowed in 2022-2023.
City of Los Angeles	Temporary	Capped first allowable post-COVID rent increase at 4%. This is lower than its formula would have otherwise allowed under the ordinance.
Oakland	Permanent	Permanently reduced allowable rent increase cap from 10% to 3% and reduced formula to calculate rent increases based on 60% of CPI instead of 100%.
Santa Monica	Permanent	After 6% maximum allowable increase from August 2022-February 2023 based on its usual formula, capped February 2023-August 2023 maximum allowable increase to 0.8% to cap the average annual allowable increase at 3%. This 3% cap is now permanent.
West Hollywood	Permanent	Permanently instituted a cap on maximum rent increases of 3%.

Sources: Individual City ordinances.

Table 10: Pre- and Post-COVID Allowable Rent Increase Formulas in California Cities with RSOs

Jurisdiction	Pre-/Post-Covid	RSO Rent Increase Formula	Minimum Allowed Increase[28]	Maximum Allowable Increase
Newly Adopted RSOs				
Bell Gardens	Post-COVID	50% of CPI	-	4%
Cudahy	Post-COVID	100% of CPI	-	3%
Pasadena	Post-COVID	75% of CPI	0%	-
Pomona	Post-COVID	100% of CPI	-	4%
Modifications to Existing RSOs				
Baldwin Park	Pre-COVID	100% of CPI	1%	3%
	Post-COVID	100% of CPI	1%	5%
Oakland	Pre-COVID	100% of CPI	-	10%
	Post-COVID	60% of CPI	-	3%
Santa Monica	Pre-COVID	75% of CPI	-	-
	Post-COVID	75% of CPI	-	3%
West Hollywood	Pre-COVID	75% of CPI	-	-
	Post-COVID	75% of CPI	-	3%

Sources: Individual City ordinances.

[28] Some RSOs specify a minimum allowed increase of 0% when CPI is negative. A dash in the minimum allowed increase column dash indicates that the RSO does not specify a minimum increase.

Appendix

Table A1 summarizes the County's relocation assistance fee schedule as of September 2022.

Table A1: Relocation Assistance Fee Schedule

Type	Studio	1 Bedroom	2 Bedrooms	3 Bedrooms	4+ Bedrooms
Standard	$7,654	$8,662	$10,797	$13,115	$14,759
Qualified Tenant	$9,272	$10,675	$13,359	$160,43	$17,995
Lower-Income Tenant	$10,980	$12,688	$15,921	$18,971	$21,411

Source: Los Angeles County Department of Consumer & Business Affairs

Table A2 provides a summary of Los Angeles County's announced rental property owner relief programs.

Table A2: Rental property owner Rental Income Relief Programs

Program	Description	Rental property owner Eligibility	Funding per Unit
Rent Relief Program	Provides financial assistance to qualifying small rental property owners affected by COVID-19 due to unpaid rents from their tenants. (Launched December 2023)	• Property must be located within Los Angeles County, but not in the City of Los Angeles. • Units must still be occupied by impacted tenants. • Rental arrears occurred during or after April 2022, excluding months in which assistance was received through Stay Housed LA, DCBA Rental Housing Supports and Services, or the County's Mortgage Relief Program.	Up to $30,000
Mortgage Relief Program	Provides financial assistance to qualifying small rental property owners to eliminate outstanding mortgage or utility debt cause by the pandemic. (Launched June 2023)	• Property must be located within Los Angeles County, but not in the City of Los Angeles. • Property must be in the moderate, high, or highest needs census tracts. • Rental property owner earns no more than 120% of AMI and experienced financial distress due to COVID-19.	Up to $30,000

Source: Los Angeles County Department of Consumer & Business Affairs

Appendix B.

Los Angeles County
Rent Stabilization
Study

Los Angeles County Rent Stabilization Study

Prepared for Los Angeles County

March 2024

Contents

01

Introduction

INTRODUCTION

This market and policy overview will inform Los Angeles County's efforts to align its formula for stabilization of rents with market trends.

The County of Los Angeles (the "County," when referring to the County government) retained HR&A Advisors, Inc. (HR&A) to provide independent research and analysis to **guide consideration by the County Board of Supervisors of potential changes related to the rent increase formula and maximum allowable rent increase in the County's Rent Stabilization and Tenant Protections Ordinance (RSTPO)** regulating rent-stabilized units in the unincorporated area of Los Angeles County ("LA County," when referring to the geography) in the wake of the COVID-19 pandemic.

As part of its work to help the County consider these potential policy changes, HR&A prepared this market and policy overview to assemble and analyze information related to the characteristics of tenants and rental property owners in unincorporated LA County, the types of housing subject to rent stabilization, trends in operating expenses for regulated housing, and the impacts of COVID-19 and related economic shifts on both tenants and property owners. The market overview consists of four primary sections shown in the sidebar.

MARKET AND POLICY OVERVIEW SECTIONS

TENANT PROFILE
What are the demographic characteristics of renters in unincorporated LA County? What rental affordability challenges do they face? How has COVID-19 as well as recent market and policy changes impacted tenants?

HOUSING SUPPLY AND SUPPLIER PROFILE
What types of housing may be subject to rent stabilization in unincorporated LA County? Who owns rent-stabilized property? How has COVID-19 as well as recent market and policy changes impacted housing suppliers?

RENTAL PROPERTIES OPERATIONS OVERVIEW
How have rents trended in unincorporated LA County? What expenses do property owners incur to provide housing in unincorporated LA County? How have these expenses trended over time? What does this mean for housing suppliers' ability to earn a fair return?

APPROACHES TO RENT STABILIZATION
What results are produced by the current RSTPO formula? What approaches might the County take to regulating allowable rent increases, and what implications might these approaches have for various stakeholders?

INTRODUCTION

The County's Rent Stabilization and Tenant Protections Ordinance seeks to address rising housing costs and significant housing cost burden among tenants, with consideration for rental owners to earn a fair return on their investment.

Rising rents are contributing to housing insecurity in LA County. LA County median rent has increased 37% since 2017. During that same period, median income has only increased by 22%.[1] Rising housing costs, particularly when paired with a mismatch in income growth, can create or exacerbate affordability challenges and housing instability for tenants. Housing instability due to high housing costs, particularly when costs exceed 30% of a household's income (known as housing cost burden) can create significant and long-term challenges for all members of a household. For adults, housing stability is necessary for employment stability.[2] Housing stability is also closely related to homelessness.[3] These factors have led many jurisdictions to adopt rent stabilization ordinances. LA County has two ordinances that regulate rental increases for some rental properties and mobilehome spaces: the Rent Stabilization and Tenant Protections Ordinance (RSTPO), and the Mobilehome Rent Stabilization and Mobilehome Owner Protections Ordinance (MRSMOPO). This study focuses primarily on the RSTPO.

However, property owners also face significant challenges including rising costs and regulatory compliance. When the cost to operate rental housing increases faster than rent, property owners are unable to earn a "fair return" and may be unable to continue to provide quality housing for their tenants. **A balanced rent stabilization ordinance should create housing stability for tenants without overburdening property owners or discouraging investment in housing**.

Source: 1. ACS 2017 & 2022 5 Year Estimates, 2. U.S. Department of Health, 3. National League of Cities, 4. National Low Income Housing Coalition

INTRODUCTION

The RSTPO regulates rental properties in unincorporated LA County.

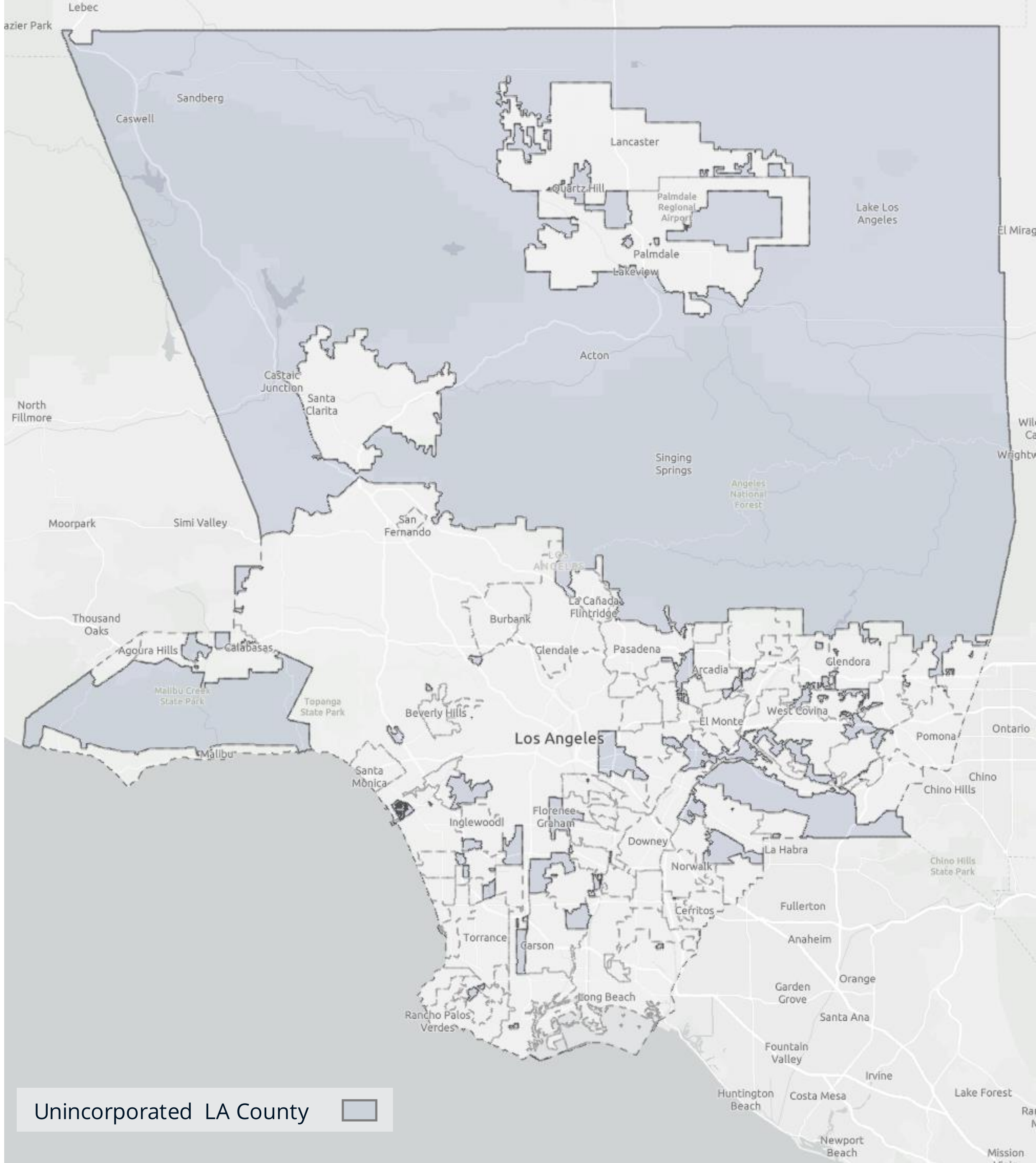
More than 65% of the land area of LA County is unincorporated. The RSTPO provides eviction protections to tenants throughout unincorporated areas and regulates increases in rents for certain rental properties. Effective April 2020, RSTPO originally limited rent increases using a Consumer Priced Index(CPI)-based formula. In response to the COVID-19 pandemic, LA County instituted a freeze on rent increases between March 2020 and March 2023. The County authorized a 3% rent increase cap in April 2023 followed by a 4% rent increase cap in January 2024 that will expire July 2024.

Rent-Stabilized Homes Regulated by the RSTPO:

- Built on or before to February 1, 1995
- Located in unincorporated LA County
- Excludes single family homes and condominiums

Source: Dept. of Regional Planning & KMA (2017); LA County

UNINCORPORATED LA COUNTY



INTRODUCTION

HR&A relied on a range of data sources to understand characteristics of tenants, housing suppliers, and housing in LA County. The unusual geography of the unincorporated area limits the applicability of some data sources specifically to that area, and time constraints did not permit survey analysis specific to unincorporated LA County.

The primary data sources HR&A used for this analysis include:

CoStar: HR&A used CoStar data to gather historic average rent data for LA County. The data was gathered at a countywide level, inclusive of incorporated and unincorporated areas, thus, may not accurately represent the average rent specific to unincorporated areas of LA County.

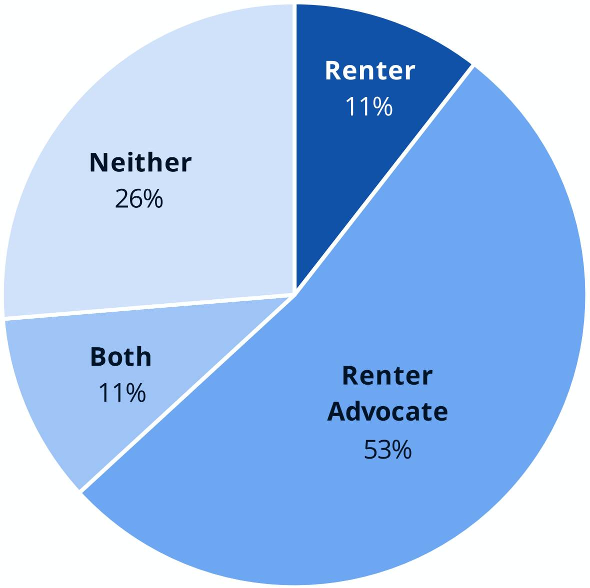
Institute of Real Estate Management (IREM), Novogradac, National Apartment Association (NAA): HR&A used data from real estate industry trade publications to gather operating expense data. IREM provided line-item operating expense data for multifamily properties of the Los Angeles-Long Beach Metro Area. NAA provided line-item operating expense data differentiating between individual metered and master metered properties for the Los Angeles-Long Beach-Glendale Metro Region. Novogradac provided historic trends of operating expenses for deed-restricted affordable properties in the Western region of U.S. (defined as AK, AZ, CA, CO, HI, ID, MT, NM, NV, OR, UT, WA, and WY.). All three sources provide data at a larger geography than the unincorporated area and encompass building typologies that may not qualify for RSTPO.

Los Angeles County: HR&A used data from the County's Rent Registry and property inventory, as well as detailed property data from the County Assessor to assess the supply of housing in unincorporated LA County, including the characteristics of properties fully regulated under the RSTPO and the MRSMOPO. HR&A made efforts to reconcile any conflicts between the registry and property inventory data and the Assessor's data. The County's Rent Registry is relatively new and the data is still incomplete. Data on ownership was only available for 5,300 fully regulated properties (55%). Rent data was only available for 31,600 fully regulated units (61%).

U.S. Bureau of Labor Statistics: HR&A used data from the U.S. Bureau of Labor Statistics to gather the historical Consumer Price Index (CPI) for all items in Los Angeles-Long Beach-Anaheim, California region.

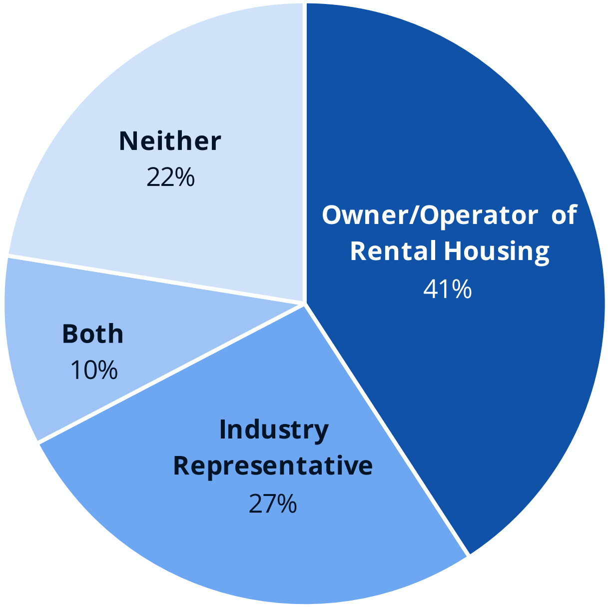
U.S. Census Bureau: HR&A used data from the American Community Survey (ACS) 2017-2022 5-Year Estimates to understand the demographic characteristics of unincorporated Los Angeles County. ACS 5-Year Estimates represent data collected over a five-year period, which increases statistical reliability of data for less populated areas. HR&A used data from 52 Census Designated Places that align with unincorporated LA County. This data cannot be broken down into a level of detail that would allow for an analysis of data specific to tenants who live in rent-stabilized housing, so the analysis relates to all unincorporated LA County residents, or all renter households as noted throughout. The ACS 2017-2022 1-Year Estimates were used when comparing indicators on a year-over-year basis, to ensure the underlying sample on which those data are based is not overlapping.

HR&A also convened stakeholder roundtables with tenant advocates, property owners, and industry associations to understand lived experiences and gather input about the RSTPO. Stakeholders provided additional perspectives in emails and letters.



ROUNDTABLE OF TENANTS AND TENANT ADVOCATES

At a roundtable discussion, 21 tenants, tenant advocates, and other stakeholders discussed tenant challenges and shared their experiences with the RSTPO as well as input on potential changes.



ROUNDTABLE OF PROPERTY OWNERS AND INDUSTRY REPS.

At a roundtable discussion, 63 property owners and apartment industry representatives in unincorporated LA County shared their challenges and concerns, as well as their experiences with the RSTPO and input on potential changes.

Note: A full summary of findings from both stakeholder roundtables can be found in the appendix.

02

Tenant Profile

TENANT PROFILE

A demographic profile of renters in unincorporated LA County will help to illustrate how changes to the rent increase formula may impact tenants.

RENTER CHARACTERISTICS

- Unincorporated LA County has 109,000 renter households, the majority of which are family households.
- Renters in unincorporated LA County are more likely to be Hispanic and less likely to be white non-Hispanic than renters in incorporated areas.

INCOME AND AFFORDABILITY

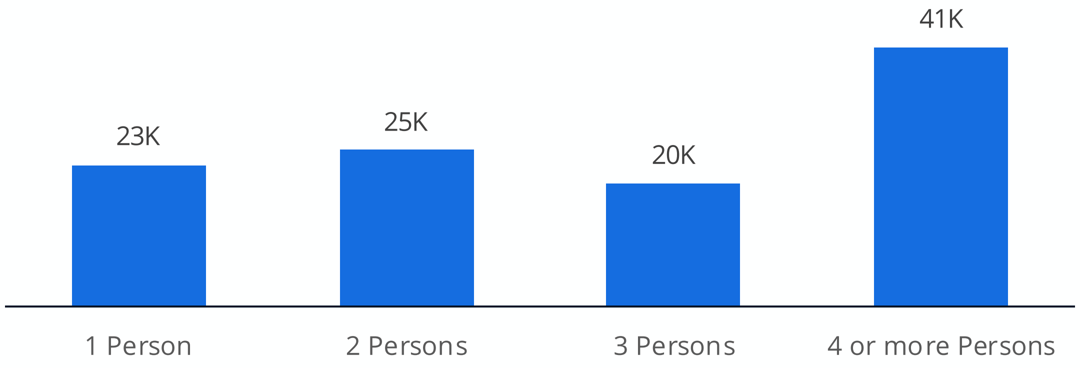
- Almost all low- and moderate-income tenants in unincorporated LA County are experiencing rent cost burden (spending more than 30% of their incomes on rent).
- Raising rents, particularly on households with limited financial resources, can lead to housing instability for renter households.

PANDEMIC AND RELATED IMPACTS

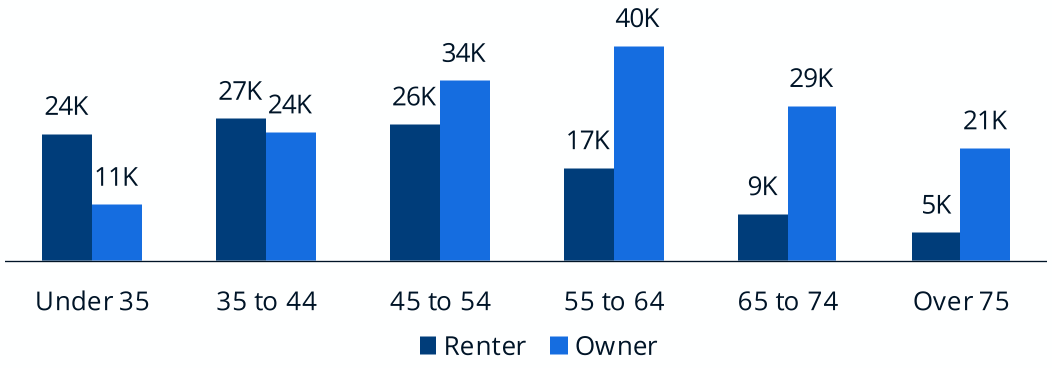
- The pandemic and its aftermath appear to have exacerbated housing instability for tenants, with high instances of accumulated rent debt and increasing evictions in LA County.
- The average renter household in LA County overall has $3,000 in rent debt.

Housing stability is a critical factor in economic well-being for working adults and children; families with working-age adults are common among LA County renters.

RENTER HOUSEHOLDS BY SIZE (UNINCORPORATED LA COUNTY)



HOUSEHOLDER AGE BY TENURE (UNINCORPORATED LA COUNTY)



Source: ACS 2022 5 Year Estimates

109,000

Renter households in unincorporated LA County

Renters account for approximately 40% of all households in unincorporated LA County, which is a slightly lower percentage than incorporated areas. **Not all of these households live in homes that are subject to rent stabilization laws.**

Characteristics of Renter Households[1]

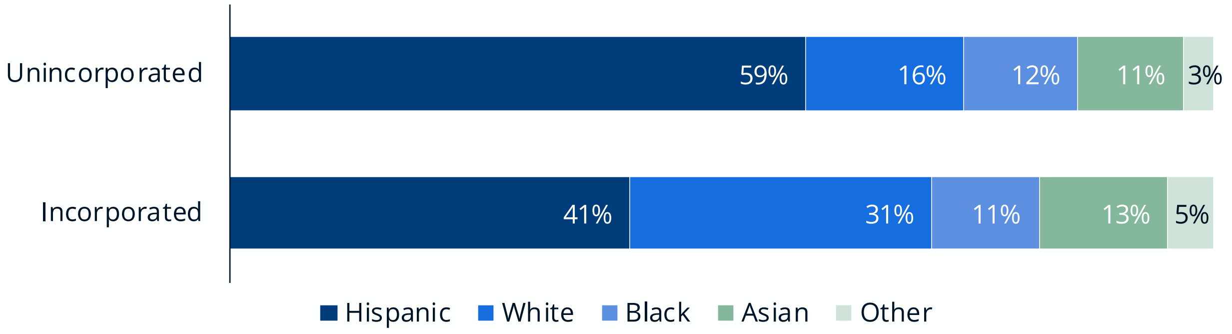
- Over 70% of all renter households are family households.
- Over one-third of all renter households have four or more members.
- Renters are, on average, younger than owner households, though ages are relatively diverse. Only 13% of renter households are seniors, compared to 31% of owner households.

1. In this section, "renters" and "renter households" do not include those who reside in mobilehome parks, or those who are coach owners and pad renters.

TENANT PROFILE

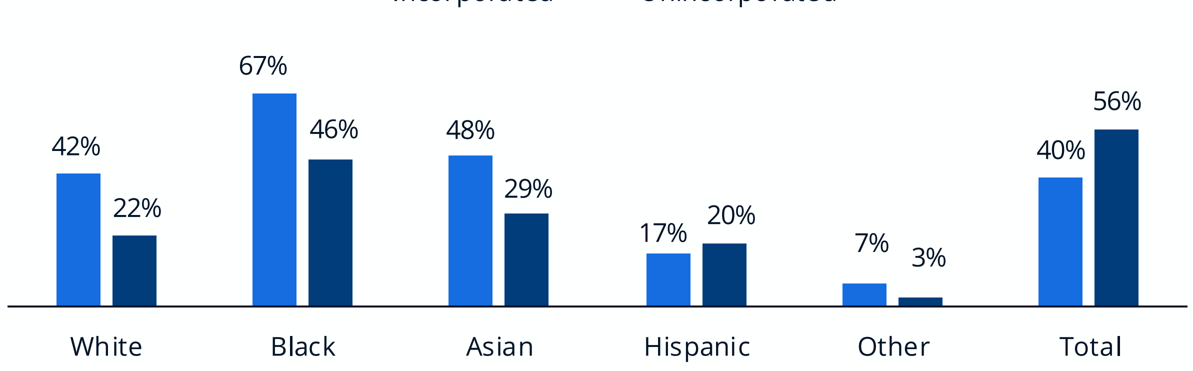
Most renters in unincorporated LA County are Hispanic or Latino. Black residents are much more likely to rent their homes than any other racial or ethnic group.

RACE AND ETHNICITY OF RENTER HOUSEHOLDS



Note: "Other" includes Pacific Islander, Native American, Some other race, and Two or more race

PERCENTAGE OF POPULATION THAT RENTS BY RACE AND ETHNICITY



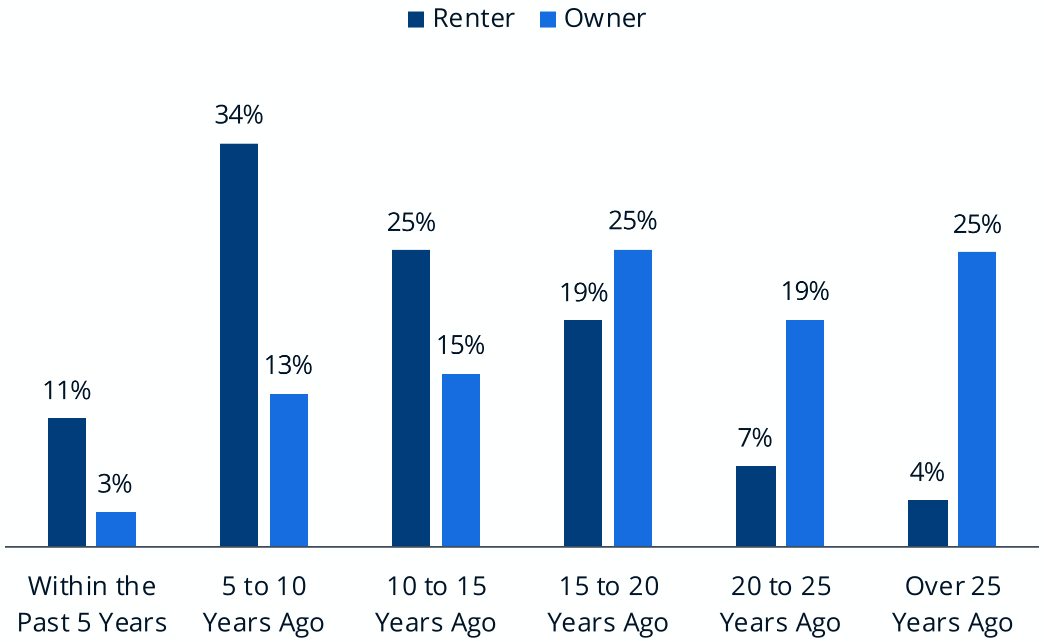
Source: ACS 2022 5 Year Estimates

CHARACTERISTICS OF RENTER HOUSEHOLDS

- The majority (59%) of renters in unincorporated LA County are Hispanic.
- White renter households (16%) are less common in unincorporated LA County than in incorporated LA County (31%).
- Black residents are much more likely to rent their homes than any other racial group; 46% of Black households in unincorporated areas are renters, compared with just 22% of White households and 20% of Hispanic households.

Renters are much more mobile than owners in unincorporated LA County.

YEAR MOVED INTO UNIT (UNINCORPORATED LA COUNTY)

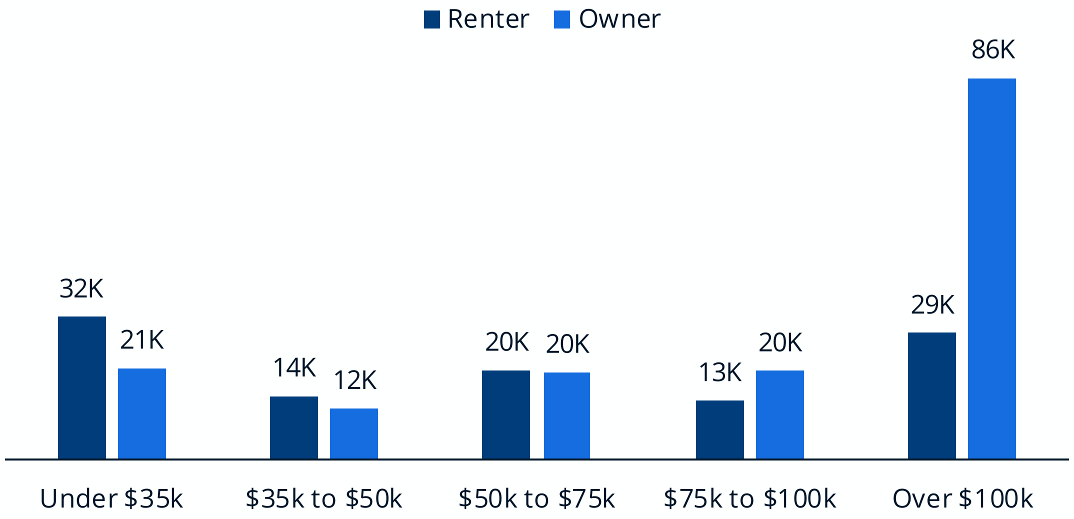


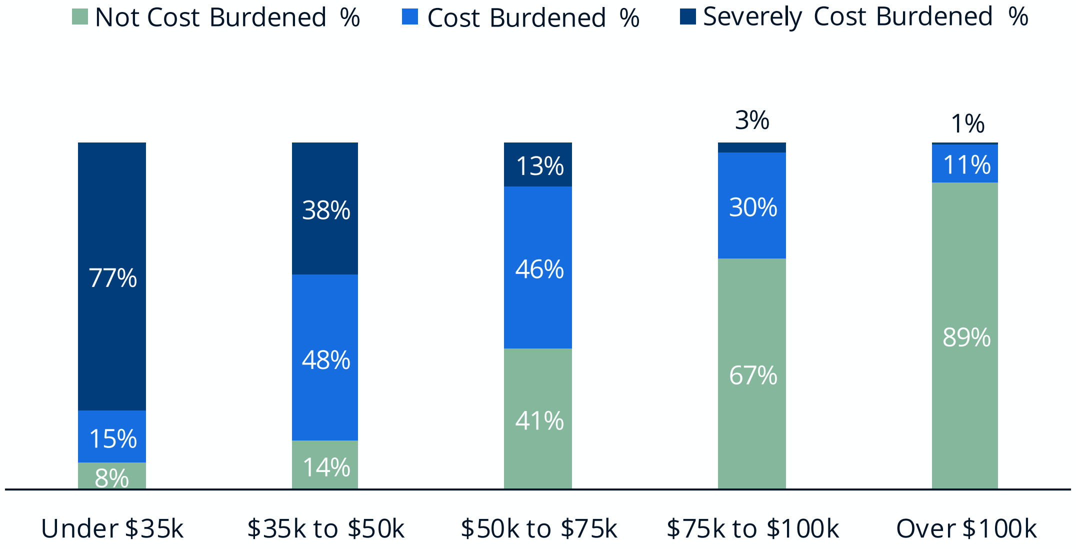
Approximately 12,000 renter households (11% of all renters) in unincorporated LA County have moved since 2019, compared with 3% of owner households. Renters have shorter tenures on average than owners, but more than half of renters have been in their homes for ten years or more. Long-tenured renters enjoy the greatest overall financial benefit from rent stabilization.

Source: ACS 2022 5 Year Estimates

TENANT PROFILE

Significant cost burdens, particularly for the lowest-income renter households, make LA County renters vulnerable to housing instability due to rent increases.





INCOME AND TENURE (UNINCORPORATED LA COUNTY)

Median renter household income is $61,000. Renter households span a range of incomes, but **approximately 30% of renter households have incomes below $35,000.** The income distribution of renters in unincorporated areas is comparable to the rest of the County.

RENTAL COST BURDEN BY INCOME (UNINCORPORATED LA COUNTY)

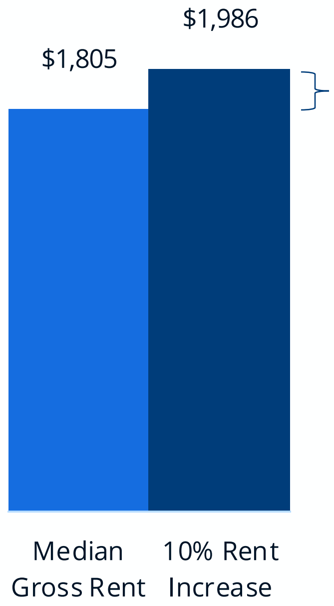
Almost all renters with incomes below $50,000 are cost-burdened, meaning they spend more than 30% of income on rent. There are over 83,000 cost burdened renter households in unincorporated LA County (59%). This may be due to rising rents, declining incomes, or a combination of factors.

Source: ACS 2022 5 Year Estimates

TENANT PROFILE

Rising rents tend to impact lower-income tenants more severely than higher-income tenants.

HYPOTHETICAL RENT INCREASE SCENARIO



The same rental increase can represent over a 3x greater impact to a low-income household as to a moderate-income household. *A 10% rent increase of median gross rent is equivalent to:*

- ***2.1% of household income at $100,900*** *(80% of AMI for a family of four in LA County)*
- ***3.6% of household income at $61,000*** *(Median Renter Income in LA County)*
- ***6.2% of household income at $35,000*** *(approx. the 30th percentile of renters in unincorporated LA County)*

In addition to having less income overall, lower-income tenants face a range of additional challenges which can make households vulnerable to housing instability due to rising rents:

- Lower-income tenants typically allocate a larger portion of their income toward housing costs compared to higher-income tenants. As a result, even a modest increase in rent can significantly strain household budgets.
- Lower-income tenants often have limited wealth or financial resources and less flexibility to absorb increases in housing costs.
- Lower-income tenants often have less flexibility in housing options. If rents rise, they may struggle to find alternative housing that fits within their budget constraints.

Source: ACS 2022 5 Year Estimates , HUD, U.S. Census Bureau, The Pew Charitable Trusts

TENANT PROFILE

The COVID-19 pandemic created a range of public health and economic impacts, many of which may have contributed to instability for tenants.

IMPACTS OF COVID-19 ON TENANTS IN LA COUNTY

Low-income residents, who are disproportionately renters, experienced disproportionate public health impacts during the pandemic. Poorer neighborhoods had higher COVID-19 transmission rates than wealthier neighborhoods.[1] Low-income residents and people of color had disparate health outcomes from COVID-19 infections, including higher rates of hospitalization and death.[2]

Loss of employment, healthcare expenses, or other factors contributed to the accumulation of significant renter debt. Across LA County overall, 234,000 renter households (approximately 13% of renters) are behind on rent. Their combined rental debt is $694 million, or about $3,000 per renter household owing rent debt.[3] **The expiration of eviction moratoria has increased eviction filings** by nearly 17% above the 2019 pre-COVID baseline, though filings dropped precipitously in 2020, 2021, and 2022 amid moratoria.[4,5] Through November 2023, there were about 43,000 eviction filings, more than any year since 2016.[6]

$3,000

Average rent debt per renter household owing back rent in LA County

17%

Increase in eviction filings in 2023 above 2019 baseline

Sources:
1. "Coronavirus ravages poorer L.A. communities while slowing in wealthier ones, data show", *Los Angeles Times*
2. "Despite Low COVID-19 Transmission in Los Angeles County, Data Reflects Ongoing Inequities in Health Outcomes - Communities of Higher Poverty, People of Color Face Disproportionate Impacts of Virus", *LA County Department of Public Health*
3. Rent Debt Dashboard, *National Equity Atlas (2023)*
4. "California's Eviction Crisis: A Post-Pandemic Nightmare for Renters", *KQED (2023)*
5. "L.A. eviction cases rose significantly this year. But it's not all bad news for renters", *Los Angeles Times (2023)*
6. "L.A. eviction cases rose significantly this year. But it's not all bad news for renters", *Los Angeles Times (2023)*

TENANT PROFILE

During the roundtable with tenants and advocates, participants expressed concerns regarding predictability of rent increases, high rent, rent debt, and habitability.

POLL: WHAT CHALLENGES ARE TENANTS FACING?

RENT INCREASES AND RENT DEBT

Participants expressed that tenants face struggles repaying rent debt while trying to keep up with current rent. They believe additional rent increases will cause low-income tenants to fall further behind, risking evictions and displacement. They suggested that when determining allowable rent increases, low annual rent increase caps and rent increase predictability (i.e., disallowing pass-throughs and exceptions for small property owners) are critical.

HARASSMENT, EVICTIONS, AND DISPLACEMENT

Tenants and tenant advocates expressed concerns over increased cases of property owner harassment as an extralegal strategy to get tenants to move when there is no legal reason for eviction. They also noted an increase in evictions for owner move-ins. Advocates noted that undocumented tenants are vulnerable to harassment.

HOUSING CONDITIONS

Advocates report concerns with habitability, due in part to deferred maintenance during the pandemic.

Note: Additional findings from both stakeholder roundtables can be found in the appendix. Chart numbers reflect answers of poll respondents, not total attendees. Not all attendees answered all questions.

03

Housing Supply and Supplier Profile

HOUSING SUPPLY AND SUPPLIER PROFILE

Understanding the type, location, and ownership of regulated rental housing will provide critical context for analysis of impacts of rent regulation on property owners subject to the RSTPO.

HOUSING CHARACTERISTICS

- There are approximately 51,700 units subject to rent stabilization under the RSTPO. Most of these are in East LA, South LA, and the San Gabriel Valley.
- A large number of rent-stabilized RSTPO properties have two to four units. The vast majority of rent-stabilized units are one- or two-bedrooms.

RENT AND OWNER CHARACTERISTICS

- Most units subject to RSTPO and registered with the County have rents under $2,000.
- About 2,000 properties or 10% of fully regulated properties receive a homeowner exemption, which is the clearest available indicator of properties that are likely to be owned by small property owners.

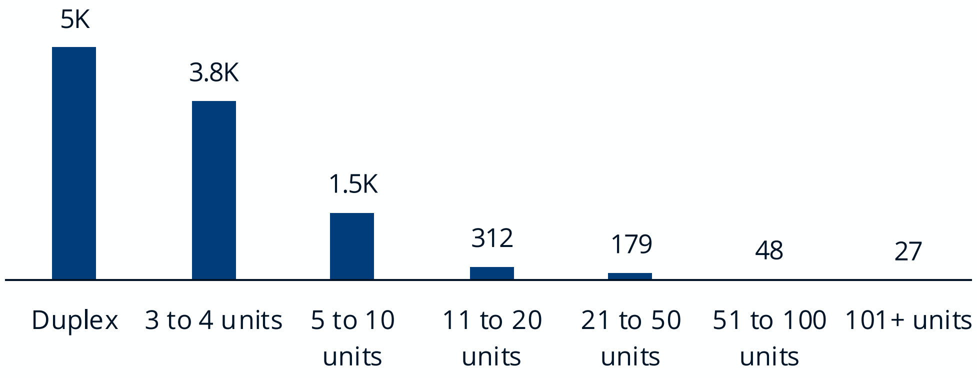
PANDEMIC AND RELATED IMPACTS

- In addition to rising costs and recent rent freezes, property owners in LA County face challenges including unpaid back rent that accumulated during the pandemic.
- Smaller property owners in particular noted a lack of resources to pursue unpaid rent and access other support.

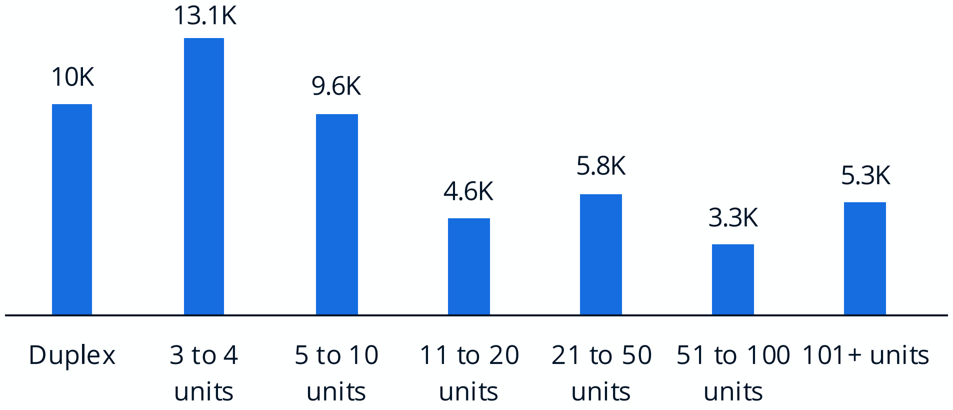
HOUSING SUPPLY AND SUPPLIER PROFILE

The number of fully regulated rental units suggests that **almost half of the 109,000 renter households in unincorporated LA County live in rent-stabilized homes**.

FULLY REGULATED PROPERTIES*



UNITS IN FULLY REGULATED PROPERTIES*



~10,900

Fully regulated properties subject to the RSTPO*

~51,700

Fully regulated units subject to the RSTPO*

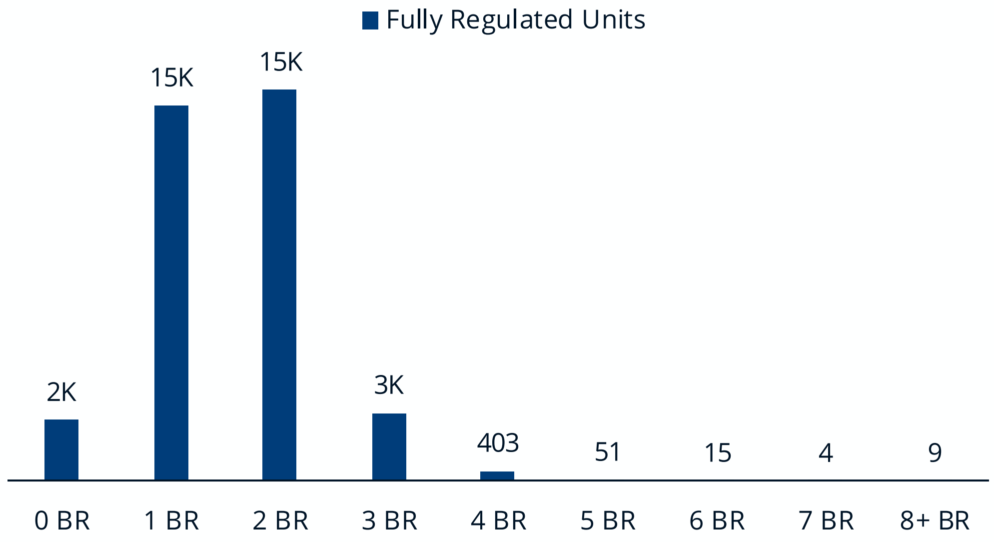
CHARACTERISTICS OF FULLY REGULATED PROPERTIES*

- **Most properties that are subject to rent stabilization under the RSTPO (95%) have fewer than 10 units.** Units in these properties only account for 56% of the units fully regulated by the RSTPO

**Fully regulated properties refer to rental properties subject to rent stabilization under the RSTPO. Partially regulated properties, such as single-family homes which are subject to eviction protections but not rent stabilization, are not included in this analysis unless otherwise stated. The analysis also excludes mobilehome properties unless otherwise stated.*

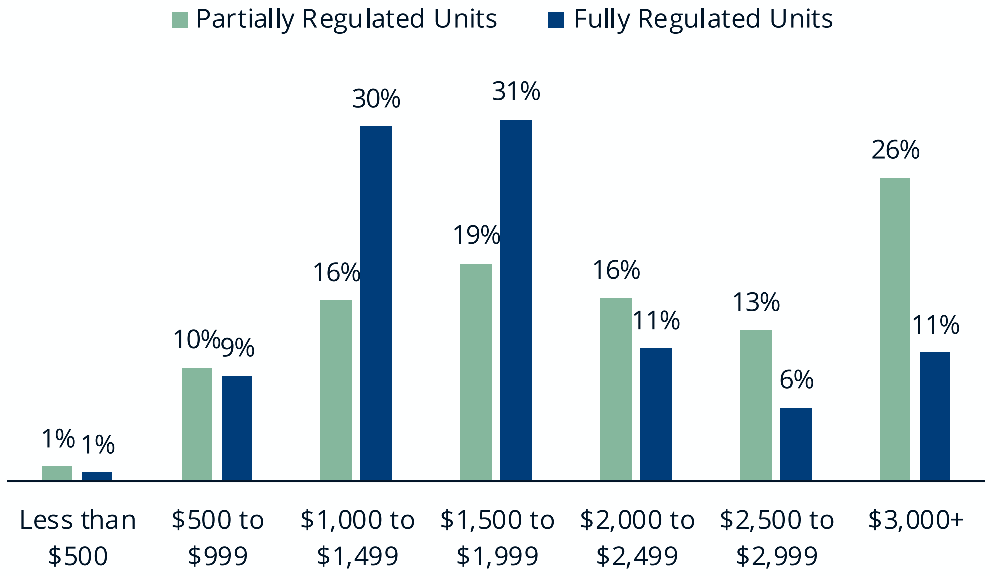
Source: LA County Rent Registry Data (2021 – 2023); Note: Number of units shown includes approximately 1,900 units that may be owner-occupied.

Rent-stabilized units tend to have fewer bedrooms, making them best suited for smaller households. Median rent for fully regulated units is 23% less than for market rate units.



RENT-STABILIZED UNITS BY NUMBER OF BEDROOMS

Based on available data (about 68% of fully regulated units), the majority of rent-stabilized units have one or two bedrooms. **This suggests that most fully regulated units are well suited for smaller households, though many tenant households have 4 or more members.**



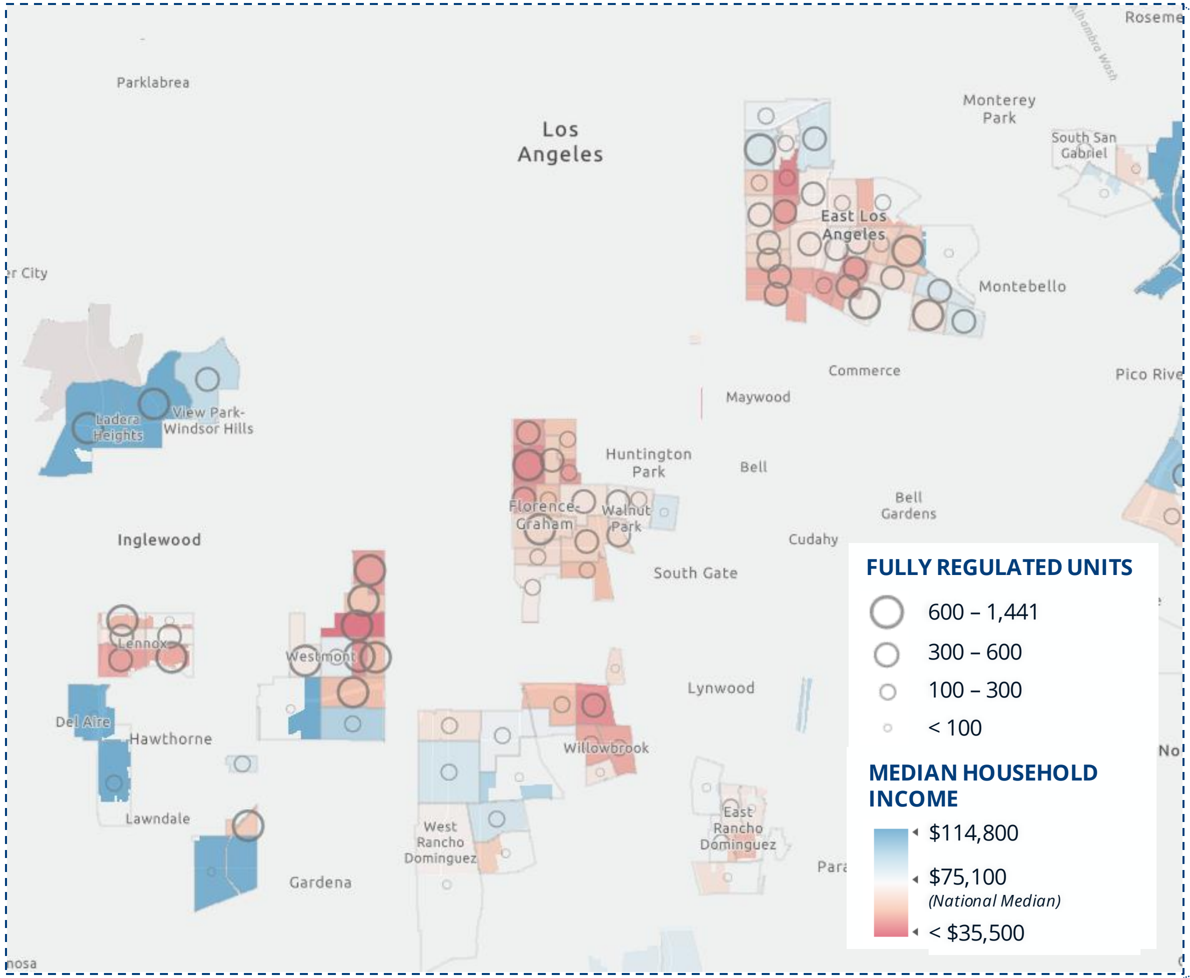
DISTRIBUTION OF RENTS FOR REGULATED UNITS

Based on available data (about 61% of fully regulated units), most fully regulated units have rents under $2,000. While partially regulated units are distributed more evenly, 55% have rents above $2,000, with 26% over $3,000.

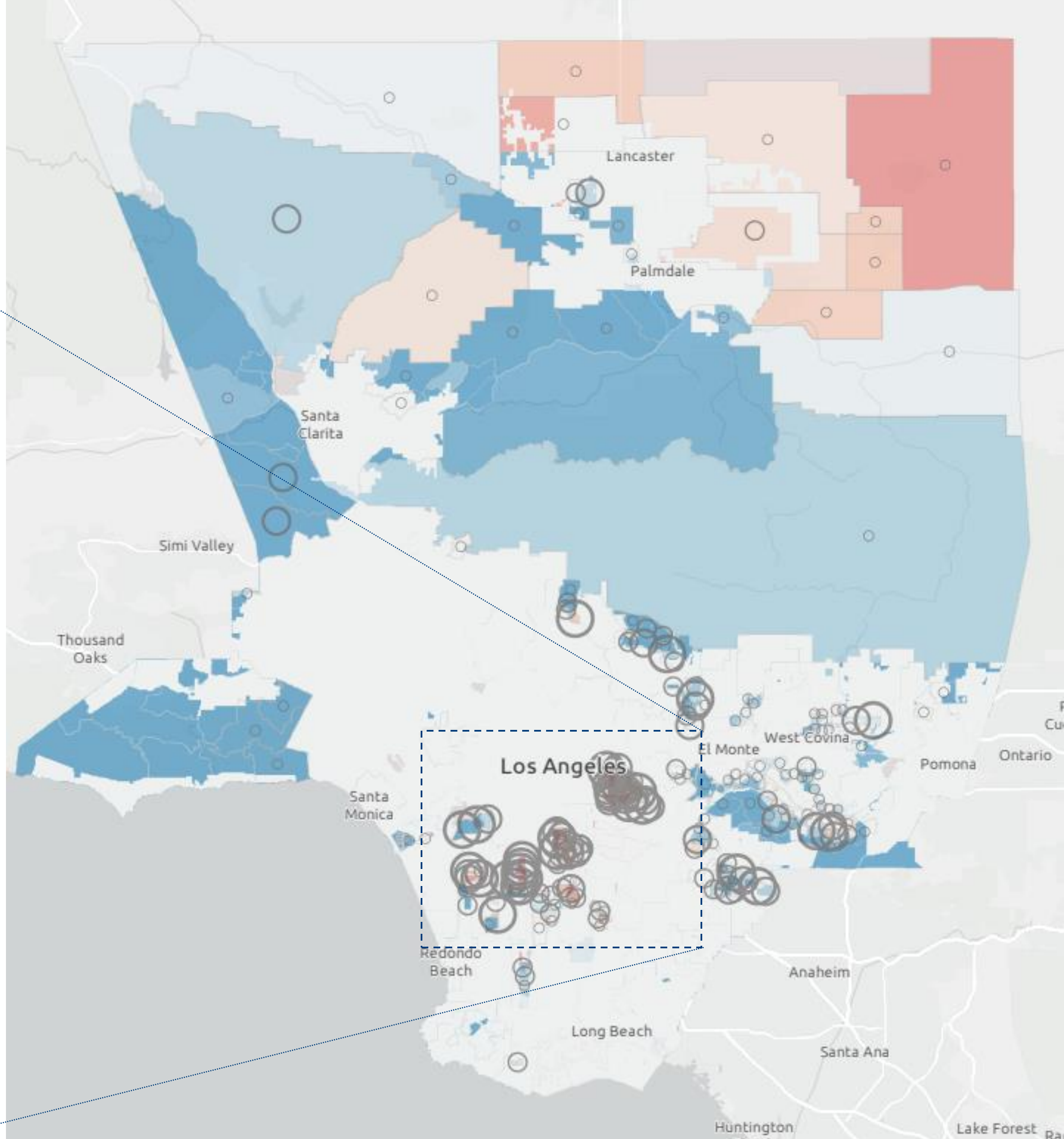
Source: LA County Rent Registry Data (2021 – 2023) Note: LA County is still in the process of accumulating rent registry data, and as such data on rents and number of bedrooms is not available for all properties, and results may be skewed.

HOUSING SUPPLY AND SUPPLIER PROFILE

Most fully regulated units are in lower-income parts of East & South LA, though some are in high income areas.



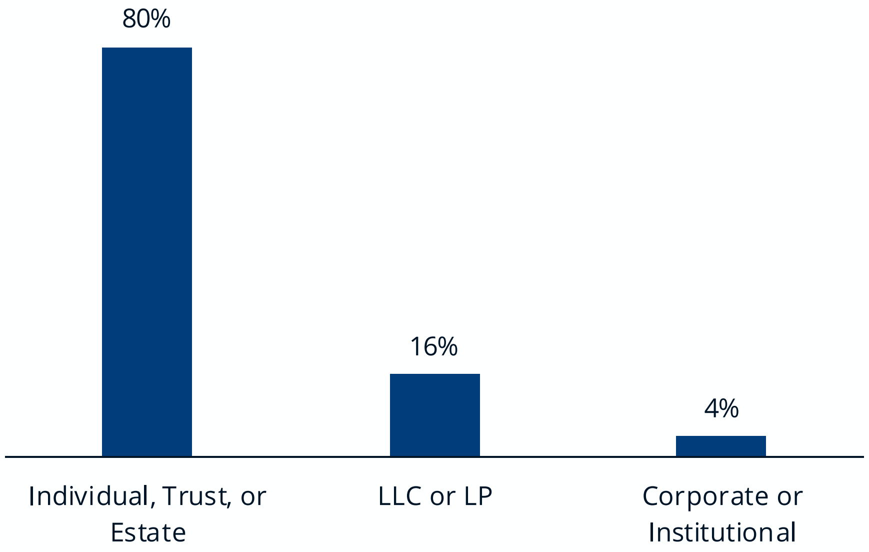
FULLY REGULATED UNITS AND INCOME IN LA COUNTY



Source : ACS 2022 5 Year Estimates; LA County Rent Registry Data (2021 – 2023)

Based on available data, small-scale property owners may account for a substantial portion of rent-regulated properties.

OWNERSHIP OF FULLY REGULATED PROPERTIES (BASED ON AVAILABLE DATA)



~2,000 (10%)

fully regulated properties receive a homeowner exemption

Source: LA County Rent Registry Data (2021 – 2023), LA County Assessor

The County is particularly interested in understanding the extent to which rent stabilization impacts small property owners ("mom & pop" property owners, or individual property owners who only own a few rental units), as these property owners may have fewer resources. It is difficult to identify these small property owners. Around 80% of the fully regulated units with known ownership are owned by individuals, trusts, or estates, but it is not known how many of these properties may have the same owner, and some small property owners may have Limited Liability Companies (LLCs) or other ownership structures. However, ownership data available through the County's rent registry is only available for about 5,300 fully regulated properties (about 55%), which may skew the data.

About 2,000 properties or 10% of fully regulated properties receive a homeowner exemption, which indicates one unit is owner-occupied. The homeowner exemption is the clearest available indicator of properties that are likely to be owned by small property owners.

RENTAL PROPERTIES OPERATIONS OVERVIEW

Although data specific to LA County is not available, nationally, many rental property owners, especially small-scale owners, experienced reduced rental revenues during the COVID-19 pandemic.

IMPACTS OF COVID-19 ON HOUSING SUPPLIERS

Rental housing suppliers experienced declines in revenue during the pandemic. That said, smaller property owners experienced more acute impacts. While owners with 20 or more units were more likely to have seen at least a 10 percent decline in revenues, smaller property owners were more likely to have seen rental revenues drop by more than 50 percent.[1] Smaller property owners, who are most likely to provide affordable units, also had a higher exposure to nonpayment prior to the pandemic.[2]

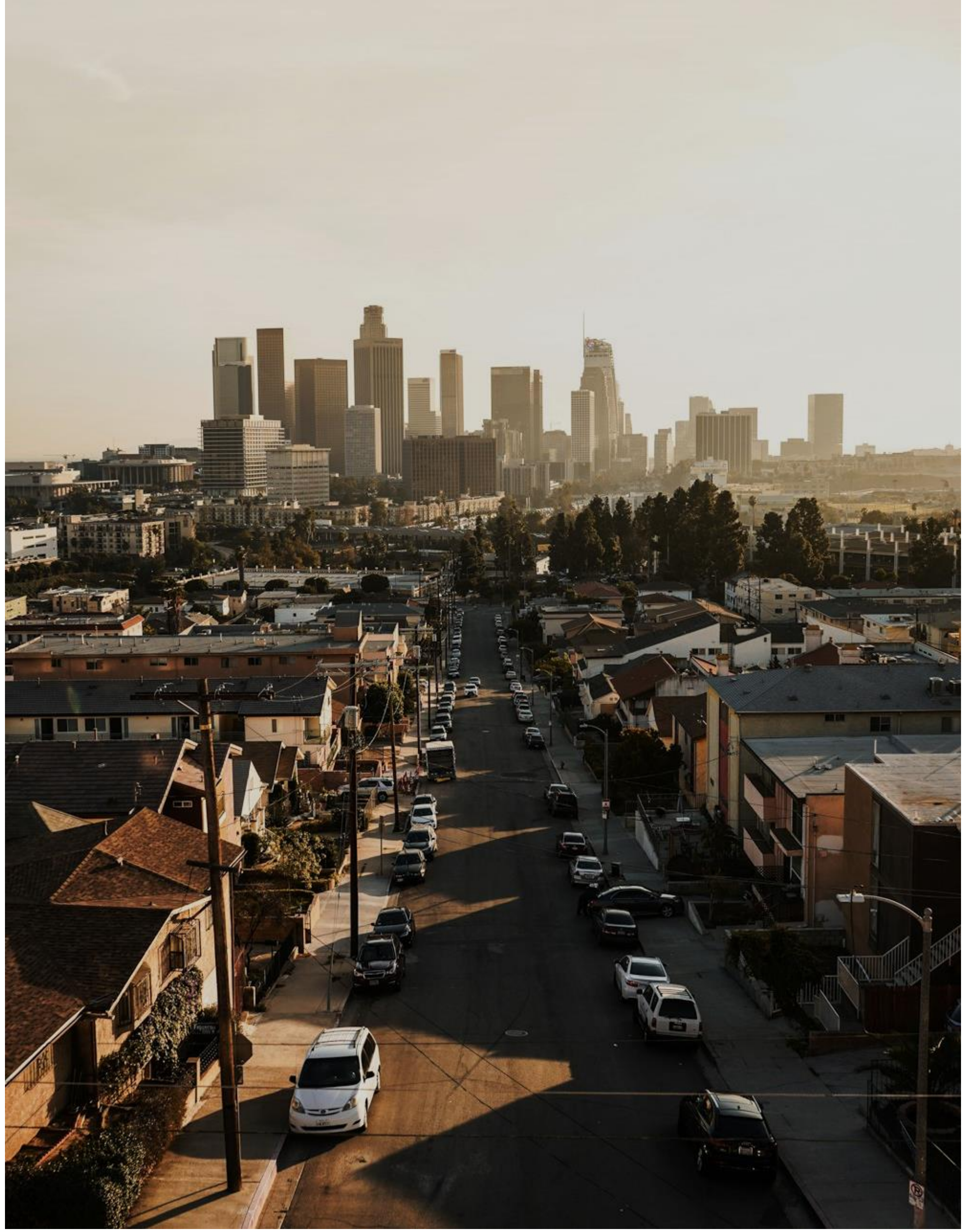


Photo of by Alexis Balinoff/Unsplash

Sources:
1. "How has the pandemic affected landlords?", *Joint Center for Housing Studies of Harvard University*
2. "How has the pandemic affected landlords?", *Joint Center for Housing Studies of Harvard University*

Many rental property owners, especially small-scale owners, experienced reduced rental revenues during the COVID-19 pandemic.

IMPACTS OF COVID-19 ON HOUSING SUPPLIERS (CONTINUED)

Related to these revenue declines, 28% of property owners nationwide have deferred maintenance on at least one of their units during the pandemic.[3] While most of these repairs were minor, 27% involved more serious structural repairs and 28% involved plumbing issues. 56% of property owners who deferred maintenance did so for at least six months.[4] In the near-term, this reduces housing quality for tenants and can increase the cost and complexity of repairs.[5,6] In the long-term, property owners may choose to increase rents to pay for eventual repairs, making units less affordable.[7] Deferring repairs may also decrease the expected life of a given property, putting additional strain on housing supply.[8]

3x

As many property owners with 5 or fewer units collected less than 50% of their rental revenue during the pandemic compared to 2019.

28%

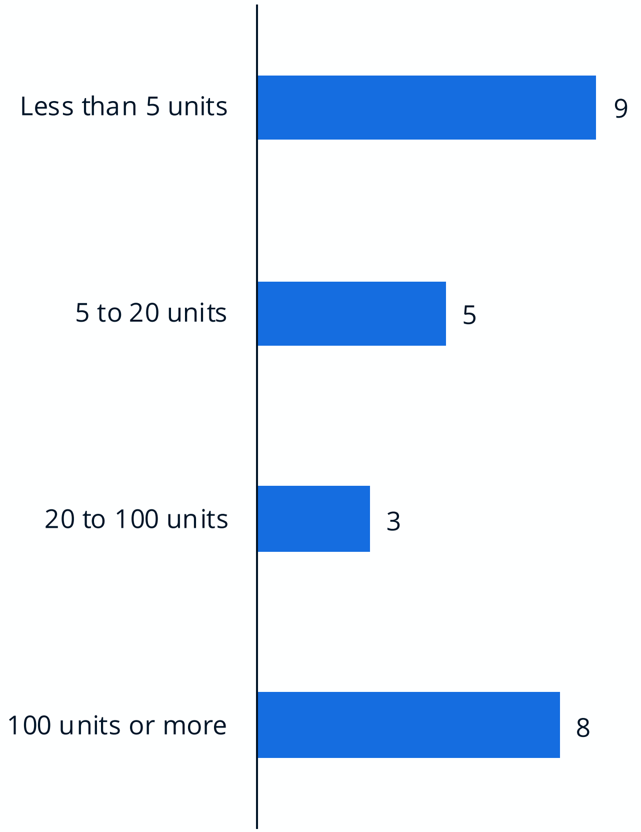
Of property owners reported deferring maintenance on at least one unit

Sources:
3. "The Pandemic Is Making It Difficult for Mom-and-Pop Landlords to Maintain Their Properties", *Urban Institute*
4. "The Pandemic Is Making It Difficult for Mom-and-Pop Landlords to Maintain Their Properties", *Urban Institute*
5. "The Pandemic Is Making It Difficult for Mom-and-Pop Landlords to Maintain Their Properties", *Urban Institute*
6. "The Pandemic Is Making It Difficult for Mom-and-Pop Landlords to Maintain Their Properties", *Urban Institute*
7. "How has the pandemic affected landlords?", *Joint Center for Housing Studies of Harvard University*
8. "How has the pandemic affected landlords?", *Joint Center for Housing Studies of Harvard University*

RENTAL PROPERTIES OPERATIONS OVERVIEW

During their roundtable, rental property owners and industry representatives expressed concerns about using CPI to calculate rent increases and accumulated rent debt.

POLL: HOW MANY PROPERTIES DO YOU OWN/OPERATE



INCREASING COSTS NOT REFLECTED IN ALLOWABLE RENT INCREASES

Property owners criticized the CPI for not accurately reflecting costs. Instead, property owners suggest cost studies should inform allowable rent increases. They believe that these cost studies should account for high-interest mortgage payments that require greater income to maintain cash flows, property tax increases, and the costs of utilities and trash, all of which they feel are not adequately reflected in the CPI adjustment.

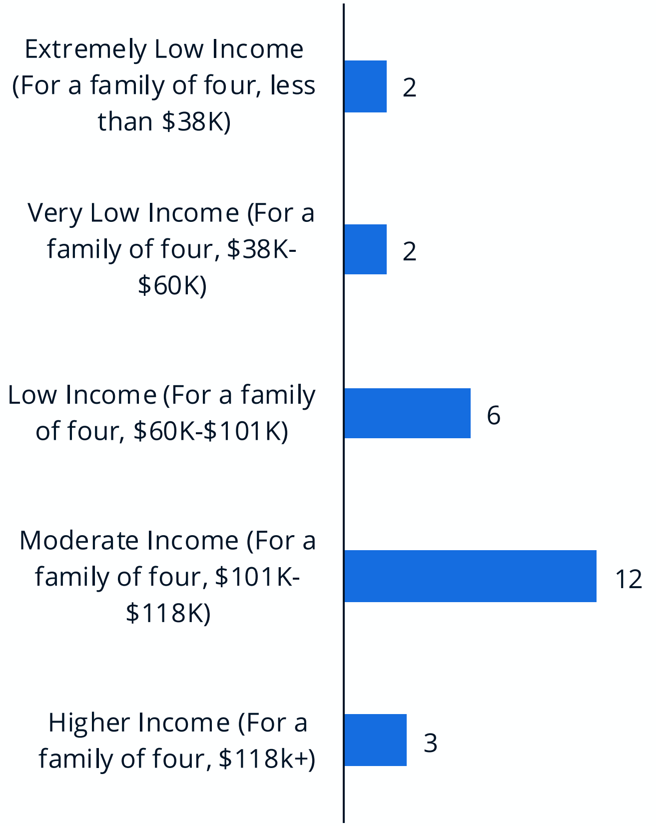
RENT DEBT AND ENFORCEMENT

Property owners are concerned that most of the rent they are owed from non-payment during COVID-19 will be unrecoverable "bad debt", and they stressed the need for more protection against tenants who choose not to pay rent or pursue resources that could help them pay rent. Some property owners expressed desire for a one-time remedy to allow rents to increase to where they would have been under RSTPO without a full freeze on increases.

Note: Additional findings from both stakeholder roundtables can be found in the appendix. Chart numbers reflect answers poll respondents, not total attendees. Not all attendees answered all questions.

Property owners are concerned about wealthy tenants in rent-stabilized units, burdensome rent increase applications, lengthy evictions, and difficulty making property improvements.

POLL: IN WHAT INCOME RANGE ARE MOST OF YOUR TENANTS?



CONSIDERATION OF TENANT INCOME FOR PROPERTIES SUBJECT TO RSTPO

Property owners believe the County should require means testing so that wealthy tenants do not have access to rent-capped units. They cited specific concerns for small-scale property owners who may have lower incomes than their tenants. Some property owners also believe that luxury units in certain types of buildings should receive exemptions or additional allowable increases.

BURDENSOME APPLICATIONS FOR ADDITIONAL RENT INCREASES AND RENT RELIEF

Property owners believe that applications for additional rent increases are overly burdensome, and they should consider factors like mortgage terms that they currently do not consider.

LENGTHY AND IMBALANCED EVICTION PROCESSES

Property owners feel the cost of eviction proceedings further strains cases of non-payment and feel that tenants receiving free legal representation is an imbalance.

HOUSING SUPPLY CHALLENGES

Property owners feel that a formula using less than CPI gives no incentive for property improvement.

Note: Additional findings from both stakeholder roundtables can be found in the appendix. Chart numbers reflect answers poll respondents, not total attendees. Not all attendees answered all questions.

04

Rental Properties Operations Overview

RENTAL PROPERTIES OPERATIONS OVERVIEW

The formula for allowable rent increases must consider trends in rent, costs to operate rental housing, and property owners' ability to earn a fair return.

REVENUE TRENDS

- Placing limits on allowable rent increases can constrain property owners' ability to earn a fair return on their property if costs rise faster than rents.
- Since 2020, market rents in LA County have risen sharply. COVID-era tenant protections prevented rent increases for rent-regulated properties from March 2020 through March 2023 and allowed limited increases in April 2023 and in 2024.

OPERATING EXPENSE TRENDS

- Total operating costs for apartment buildings in the Western region have increased 45% in the last six years, driven largely by increases in insurance costs, as well as repairs and maintenance cost.
- Net Operating Income in the Los Angeles area is generally about 60% of Total Income, but does not account for mortgage payments or other debt payments.

REGULATORY REQUIREMENTS

- Recent State and County legislation, as well as legislation currently under consideration, may create additional capital or operating burdens for property owners without allowing pass-throughs of required capital improvement costs.

A balanced rent stabilization ordinance should create stability for tenants without placing undue strain on property owners or discouraging investment in housing.

FAIR RETURN STANDARD

Owners of rent-stabilized properties have a constitutional **right to a "fair return"**, typically defined by the courts and practice in terms of sufficient income to pay for ongoing costs of operating their apartment buildings. More specifically, it is the maintenance of inflation-adjusted net operating income over a base year.

IMPACTS OF RENT STABILIZATION ON PROPERTY OWNERS

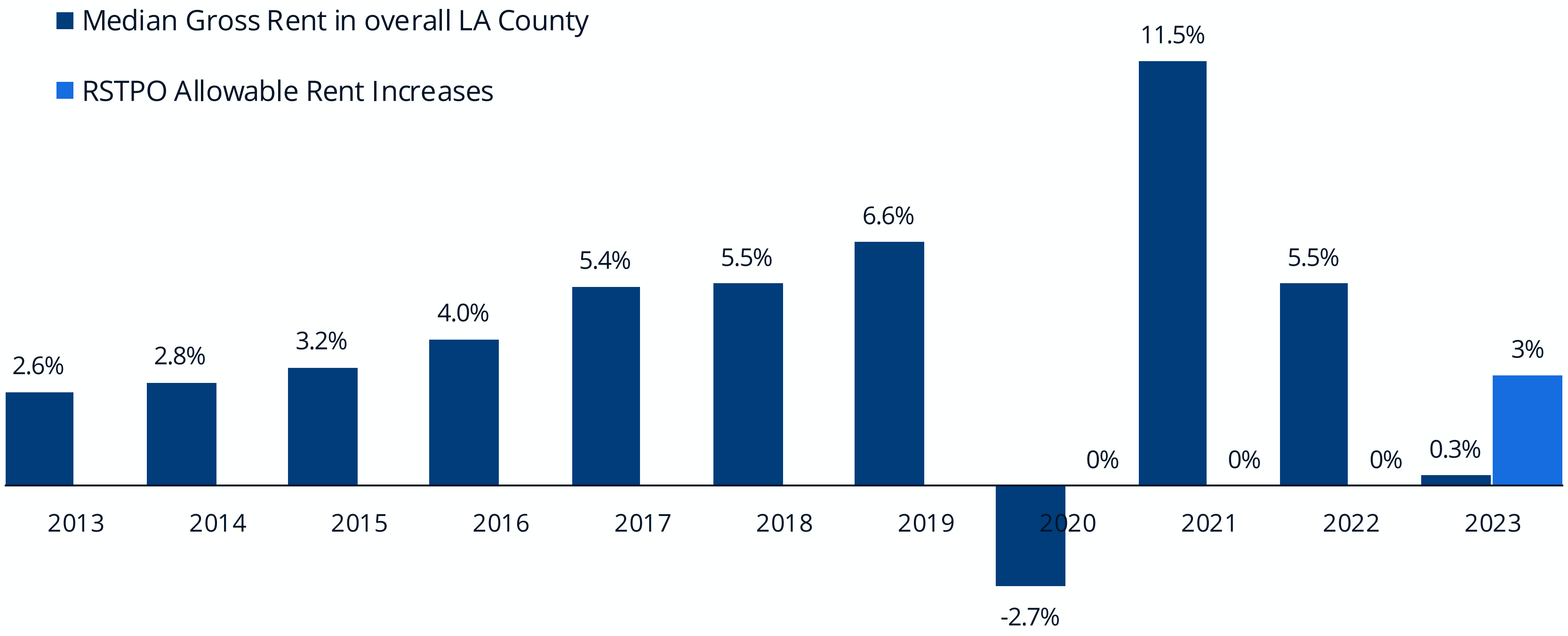
Placing limits on allowable rent increases can constrain financial feasibility for providers of housing, particularly if costs to operate rental housing increase faster than allowable rent increases. Studies suggest that rent stabilization can strain property owners' ability to absorb essential maintenance costs and force them to reduce improvements and non-essential maintenance.[1] These strains can lead to property owners deferring non-essential maintenance or selling rental properties because they cannot recoup investments by raising rent.[2] Many rent stabilization ordinances, including the RSTPO, allow property owners to "pass-through" some costs, such as for some repair and maintenance costs, to offset this challenge.

Sources:
1. "The Pros And Cons Of Rent Control For Landlords And Tenants", *Forbes*
2. "What does economic evidence tell us about the effects of rent control?" *Brookings*

RENTAL PROPERTIES OPERATIONS OVERVIEW

Tenant protections during the pandemic prevented rent increases for RSTPO properties. Market rents rose substantially in recent years.

ANNUAL PERCENT CHANGE OF MEDIAN GROSS RENT, CPI, AND RSTPO ALLOWABLE RENT INCREASES (2013 – 2022)



10%

Increase in median rent increase in LA County from 2020 to 2023

3%

RSTPO Allowable Rent Increase in 2023 (0% in previous years)

At a stakeholder roundtable, property owners and industry representatives noted that recent rent freezes significantly impacted their ability to keep pace with rising costs.

Source: ACS 1-Year Estimates, U.S. Bureau of Labor Statistics, LA County;
Note: Los Angeles County's RSTPO program started in 2020. Median Gross Rent data for 2020 uses ACS 5-Year Estimates and for 2023 is approximated based on market trends.

Understanding operating expense line items and its historic changes in the last few years are crucial to devising a policy that is reflective of market conditions.

ILLUSTRATIVE EXAMPLE OF ANNUAL AVERAGE INCOME AND OPERATING EXPENSES OF APARTMENT UNIT IN LOS ANGELES–LONG BEACH METROPOLITAN REGION, 2022

	Per Unit	Per SF	% of GPR
Revenues			
Gross Potential Rent (GPR)	$30,347	$34.10	100%
Vacancy	($1,635)	($1.84)	5%
Concessions	($136)	($0.15)	0%
Rent Adjustments / Others	($693)	($0.78)	2%
Net Effective Rent	$27,883	$31.33	92%
Other Income	$1,316	$1.48	4%
Total Revenue	**$29,200**	**$32.81**	**96%**
Operating Expenses			
Administrative	($2,643)	($2.97)	9%
Management Fees	($804)	($0.90)	3%
Leasing Expenses	($369)	($0.41)	1%
Repairs and Maintenance	($1,501)	($1.69)	5%
Utilities	($1,489)	($1.67)	5%
Taxes and Insurance	($4,250)	($4.78)	14%
Others	($54)	($0.06)	0%
Total Operating Expenses	**($11,112)**	**($12.48)**	**37%**
Net Operating Income	**$18,088**	**$20.32**	**60%**

30-40%

Of gross potential rent is generally used for operating expenses in Los Angeles Metro

$9.50-$12.50/SF

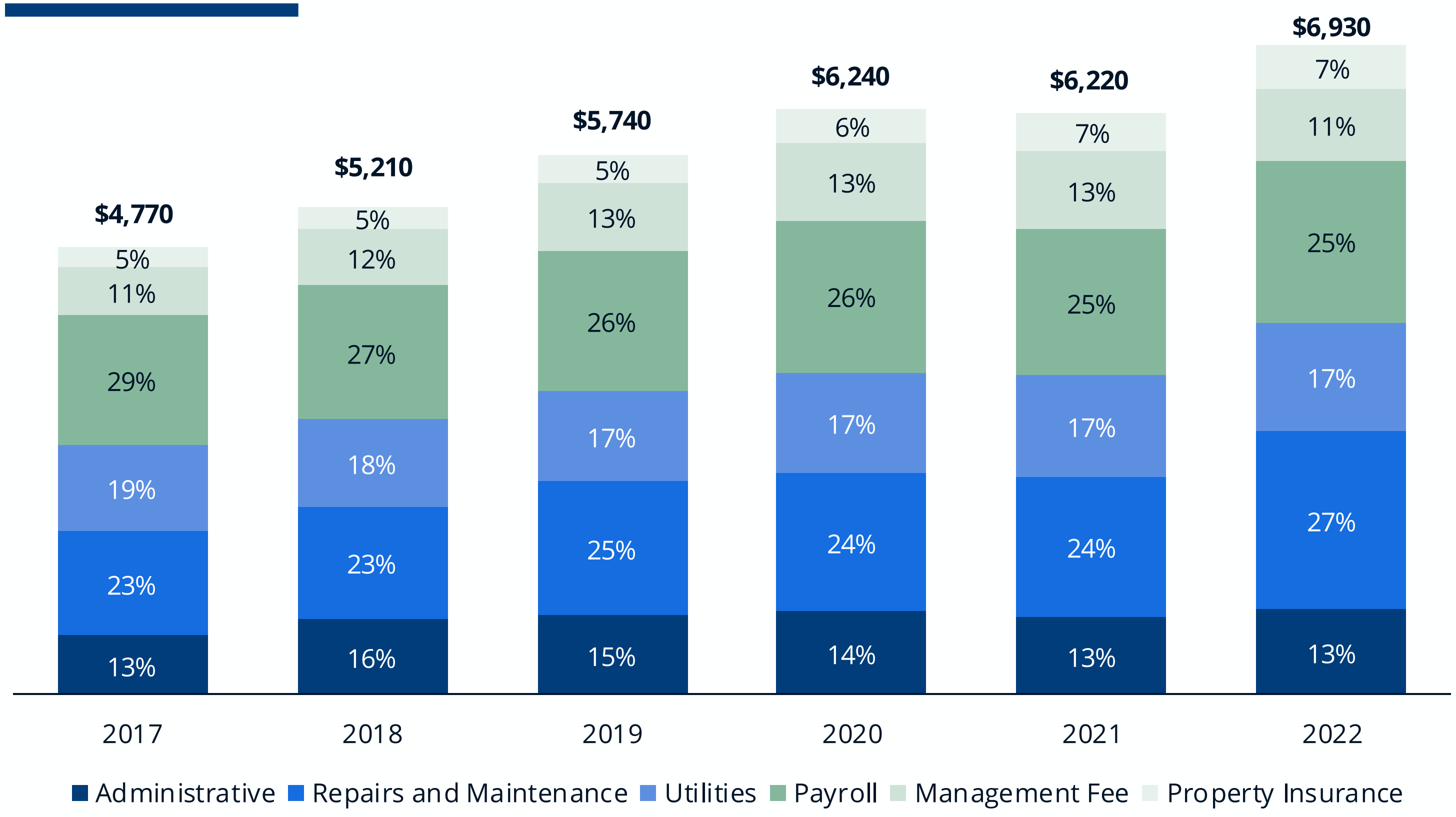
Operating expense dollars per square foot range in Los Angeles Metro

- Taxes and insurance are the largest operating expenses.
- Net Operating Income (Gross Potential Rent less vacancy, operating expenses, and other adjustments) is typically between $17-$21 per square foot, or 60% gross potential rent.
- Net Operating Income does not account for mortgage payments or other debt payments property owners may need to make.

Source: IREM Income/Expense Report (2022), NAA (2021)
Note: NAA is used for historical operating expense data covering the Western region. IREM is used for the latest operating expense data for the Los Angeles & Long Beach Metropolitan Region. Limitations of each data are specified in the introduction section.

According to reports from Novogradac, recent increases in operating expenses appear to be due primarily to rising costs for property insurance and repairs and maintenance

OPERATING EXPENSES IN THE WESTERN REGION (PER UNIT PER YEAR)



45%

Increase in total operating expenses (2017 – 2022)

TRENDS IN OPERATING EXPENSES

- Repair and maintenance costs increased 71% overall from 2017 to 2022; they increased 11% in 2022 after a slight decline in 2021. This may be due to deferred maintenance during the pandemic.
- According to Novogradac, insurance costs increased 111% from 2017 to 2022, and 27% from 2020 to 2022, though IREM data shows insurance costs remaining stable from 2020 to 2022.

Source: Novogradac Low-Income Housing Tax Credit Income and Operating Expenses Report (2023)
Note: These buildings are generally exempt from ad valorem property taxes (but not special assessments). IREM Income/Expense Report (2020-2022)

Increases in climate risks, supply chain issues, labor shortages, inflation are all leading to an increase in operating expenses for rental properties in Los Angeles County.

A multitude of factors may have affected the rise in operating expenses in the past few years.

- **Increases in Property Insurance:** Since the beginning of 2023, companies representing more than half of California's home insurance market have stopped services or limited new policies. Property insurance companies in California say that state regulations prevent them from raising insurance rates high enough to keep pace with increasing costs and risks – namely, inflation, climate risks (especially wildfire risks), rise in costs of building materials, and challenges with reinsurance. Leading insurers such as State Farm, USAA, and Allstate all have requested rate increases from 28% to up to 40% to the state's insurance department.
- **Increases in Repair and Maintenance Costs**: According to the Terner Center for Housing Innovation of UC Berkeley, increases in construction costs are likely due to labor shortages and supply chain issues. In addition, property owners may have deferred maintenance during the COVID-19 pandemic due to high costs or unpaid rents, which may in turn have created a temporary increase in the costs of repairs and maintenance as property owners address accumulated repair needs.
- **High Utility Costs**: Property owners in LA County pay one of the highest average prices of electricity. In December 2023, the price of electricity in LA County was 28.8 cents per kWh, 70% higher than the national average. That said, many tenants pay their own bills for electricity and other utilities.

Source: LA Times, Terner Center for Housing Innovation, U.S. Bureau of Labor Statistics

RENTAL PROPERTIES OPERATIONS OVERVIEW

In addition to the rise in operating expenses, rental property owners in LA County need to comply with various regulations and rule changes.

Property owners in LA County are facing new regulations and other changes which may create near-term increases in capital costs, some of which may not be allowable pass-through expenses.

- **Balcony Inspection Law:** In 2019, California Senate Bill 721 went into to effect, requiring inspection of exterior elevated elements in multifamily residential buildings by a licensed engineer or architect. If a balcony is deemed unsafe, the property owner must make repairs by 2025 – which would increase repair and maintenance costs in the near term.
- **Earthquake Retrofit Ordinance:** In 2023, the County Board of Supervisors approved a motion to require amendments to the Los Angeles County Building Code that would require all high-rise non ductile concrete buildings located in the unincorporated LA to be retrofitted within 10 years after the amendments are adopted. If adopted, the ordinance may create significant capital improvement requirements for property owners of rent-stabilized properties. While the RSTPO currently has a process that allows pass-throughs for primary renovations and capital improvements, without the updated seismic retrofit requirements, it is unknown whether improvements to bring properties into compliance would be allowable pass-through expenses under the RSTPO.
- **Air Conditioning Ordinance:** In 2024, the County Board of Supervisors approved a motion requiring County departments to report back with a draft ordinance establishing a safe maximum indoor temperature for rental units and that these units located in the County be "cooling ready". If adopted, this ordinance may increase costs for property owners of rent-stabilized units. Given this motion was recently adopted, it is unknown whether improvements to bring properties into compliance with this motion would be allowable pass-through expenses under the RSTPO.

Source: LA Times, Los Angeles Business Journal, National Law Review

05

Approaches to Rent Stabilization

APPROACHES TO RENT STABILIZATION

This study examines the current RSTPO and the components of its formula to offer different approaches for the County to consider when updating its rent increase formula.

REVIEW OF CURRENT POLICY

- To inform potential changes, this study first reviews the current policy, how it has impacted rent increases in fully regulated units, and how it would have impacted rent increases had no rent increase freeze been instituted.
- This section also provides an overview of major challenges tenants and property owners face under the current policy.

AVAILABLE POLICY LEVERS

- This section examines specific “levers” that exist within the RSTPO formula to explore how the County might use different components of the formula to achieve its goals.

POTENTIAL IMPACTS

- The study evaluates potential impacts to both tenants and property owners of increases to rent under various conditions.

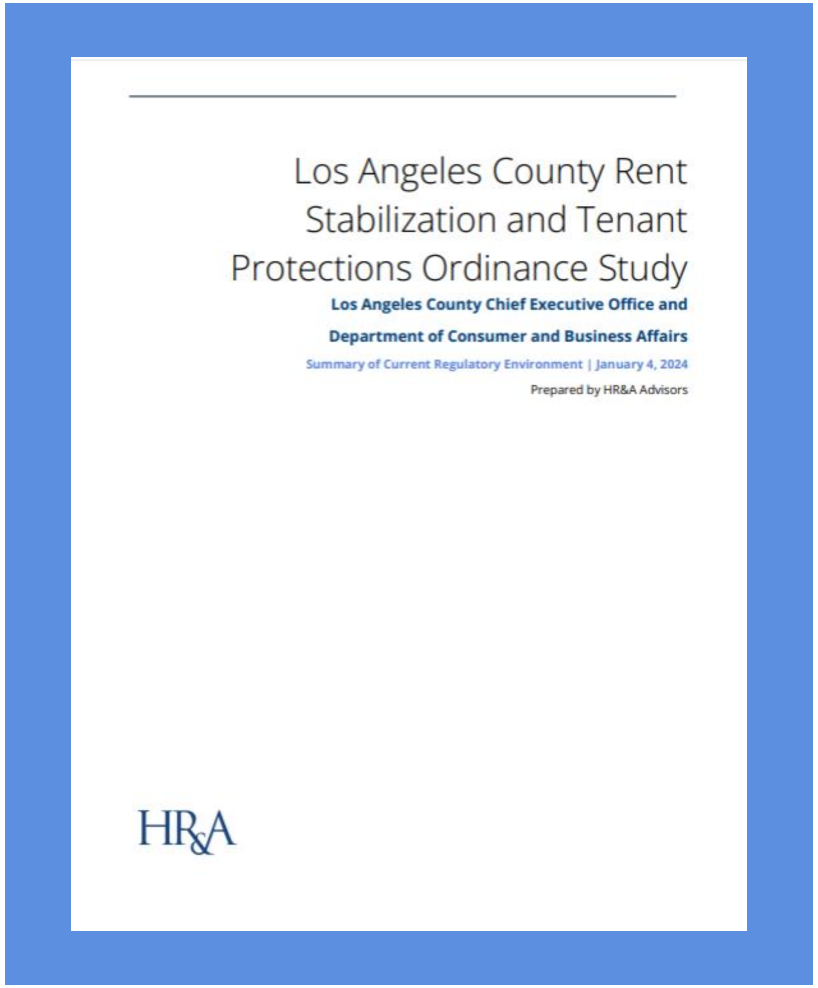
APPROACHES TO RENT STABILIZATION

Design of rent stabilization policies requires balancing tenant protections with the ability of rental property owners to earn a “fair return”.

An essential feature of any rent regulation system is the maximum percentage and/or dollar amount by which rents are allowed to change each year. **There is no single correct mechanism or percentage** by which rent increases should be regulated. Among California jurisdictions with rent stabilization, there are two primary approaches:

- **Formulas based on changes to the Consumer Price Index (CPI)** tie rent increases to changes in the price of other consumer goods, thus theoretically allowing rental property owners to keep up with changes to their operating expenses while ensuring that rent does not increase faster than other costs.
- **Formulas based on fixed percentage of rent** have the benefits of being predictable and easy to understand and administer. However, if the fixed percentage is set too low it may constrain Net Operating Income for rental property owners when costs increase, or if set too high it may restrict only the most extreme rent increases for tenants.

Phase I of this study produced a report outlining the current RSTPO and an overview of approaches other California jurisdictions take to regulate rents.


Los Angeles County Rent Stabilization and Tenant Protections Ordinance Study

Los Angeles County Chief Executive Office and Department of Consumer and Business Affairs

Summary of Current Regulatory Environment | January 4, 2024

Prepared by HR&A Advisors

HR&A

Both the RSTPO and the MRSMOPO use CPI-based formulas to regulate rent increases.

The current RSTPO rent increase formula allows rents to increase based on CPI change, with a cap to prevent increases above 8% in high-CPI years, and, with a minimum allowable increase of 3% in most years (in years with low CPI, increases below 3% but above CPI may be allowed).

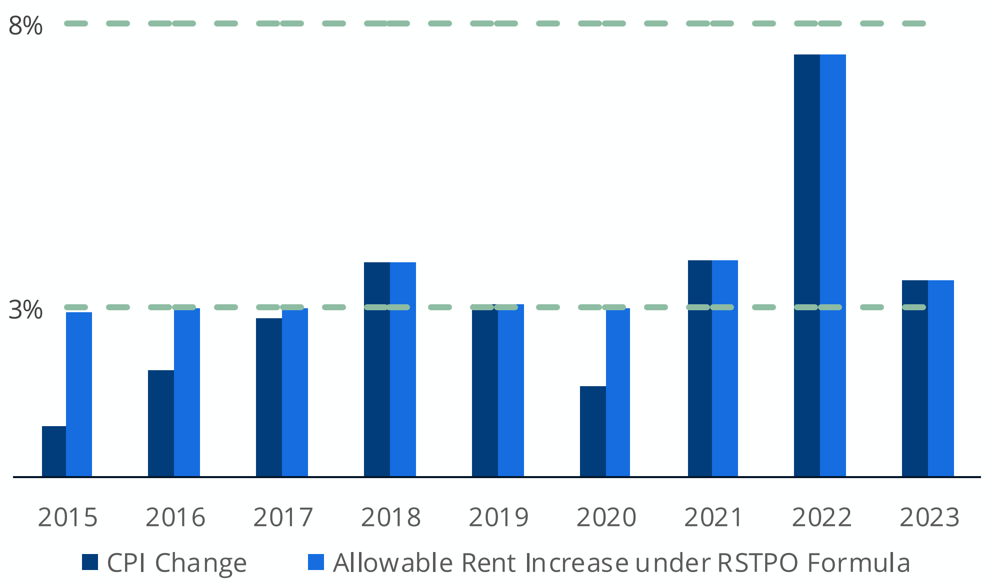
ALLOWABLE ANNUAL RENT INCREASES UNDER THE RSTPO

Annual Change in Consumer Price Index (CPI)	RSTPO Allowable Annual Rent Increase
8% or Higher	8%
Between 3% and 8%	Equal to CPI
Between 1% and 3%	3%
Between -2% and 1%	Equal to CPI plus 2%
Less than -2%	No rent increase permitted

Note: The MRSMOPO allows rent to increase based on 75% of the change in CPI, with a cap of 8% and a minimum allowable increase of 3%.

Because of pandemic-era rent freezes and temporary caps, the formula has not yet been used to regulate rent increases.

HISTORICAL CPI CHANGES AND RSTPO FORMULA ALLOWED INCREASES (ILLUSTRATIVE ONLY)*

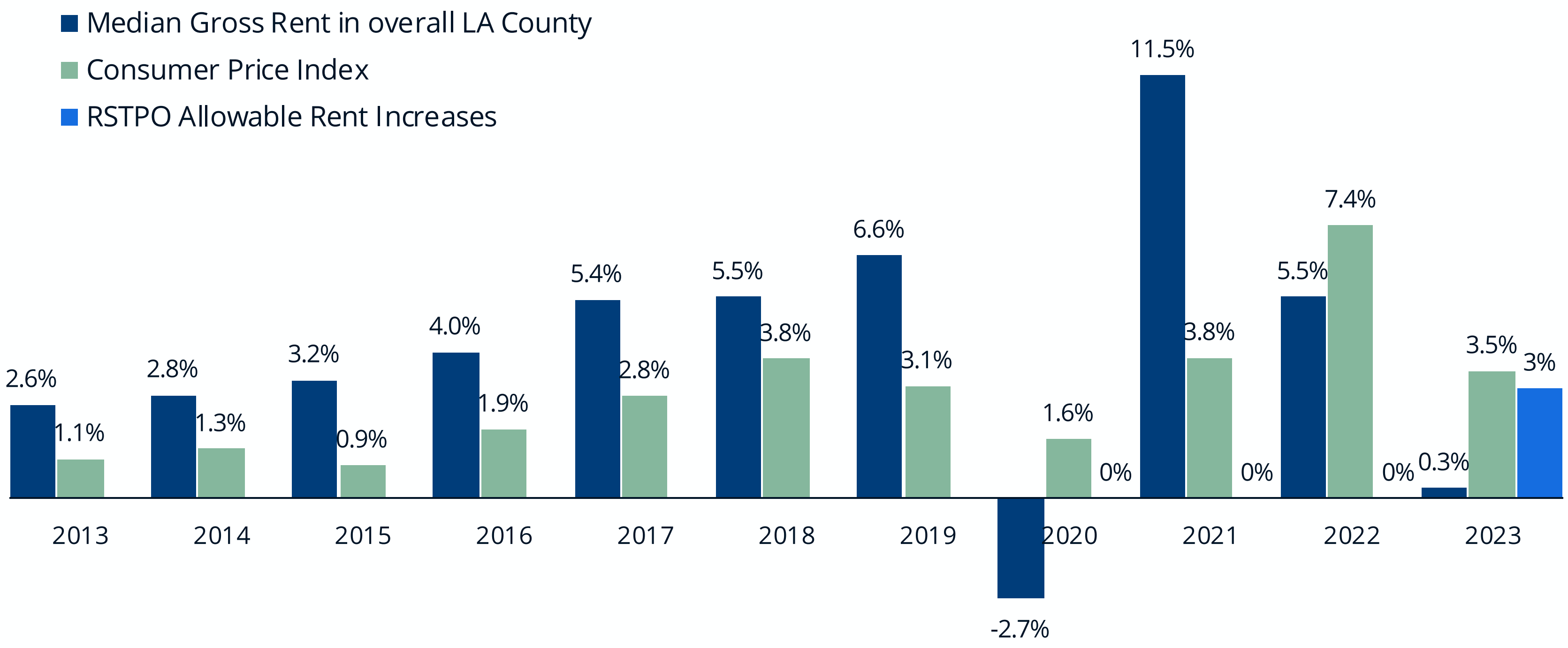


**Note: The RSTPO was not in effect prior to its passage in 2019, and the County enacted temporary rent freezes from 2020 through 2023. The values shown illustrate the rent increase that would have been allowed under the RSTPO formula had it been in effect.*

Source: U.S. Bureau of Labor Statistics, LA County

Tenant protections during the pandemic prevented rent increases for RSTPO properties. Market rents rose substantially in recent years, though CPI outpaced rent in the last 2 years.

ANNUAL PERCENT CHANGE OF MEDIAN GROSS RENT, CPI, AND RSTPO ALLOWABLE RENT INCREASES (2013 – 2022)



Source: ACS 1-Year Estimates, U.S. Bureau of Labor Statistics, LA County;
Note: Los Angeles County's RSTPO program started in 2020. Median Gross Rent data for 2020 uses ACS 5-Year Estimates and for 2023 is approximated based on market trends.

10%

Increase in median rent increase in LA County from 2020 to 2023

15%

CPI increase in Los Angeles region from 2020 to 2023

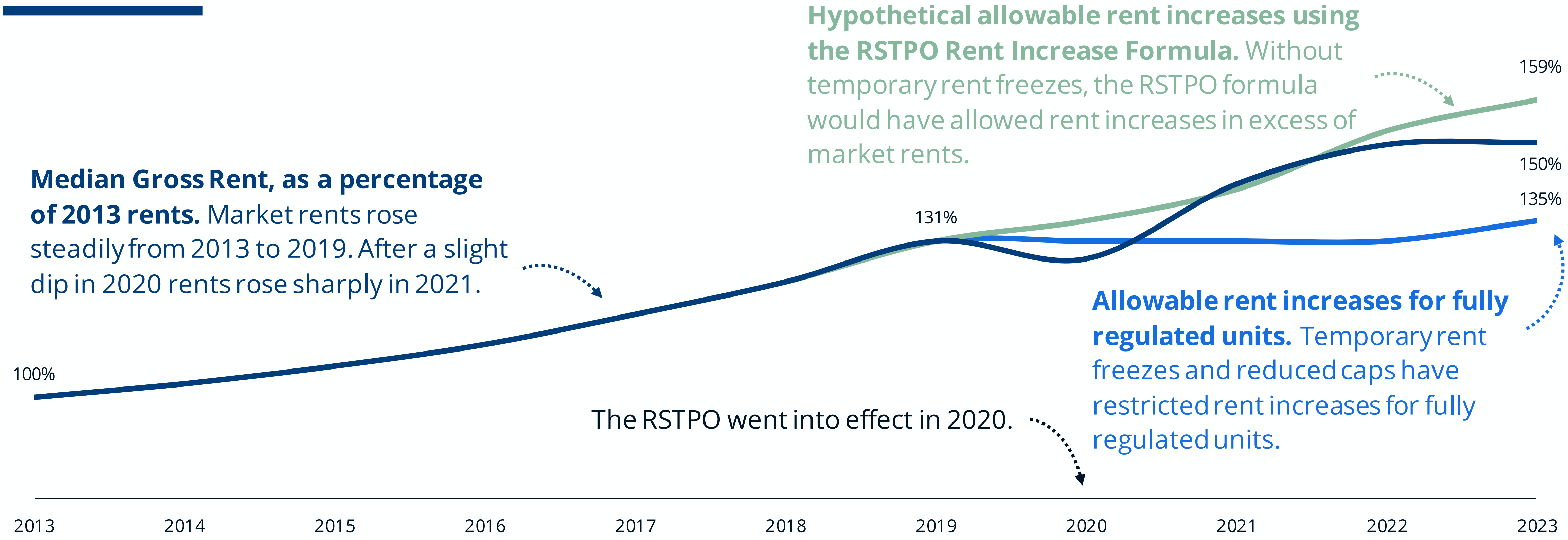
3%

RSTPO Allowable Rent Increase in 2023 (0% in previous years)

At a stakeholder roundtable, property owners and industry representatives noted that recent rent freezes significantly impacted their ability to keep pace with rising costs.

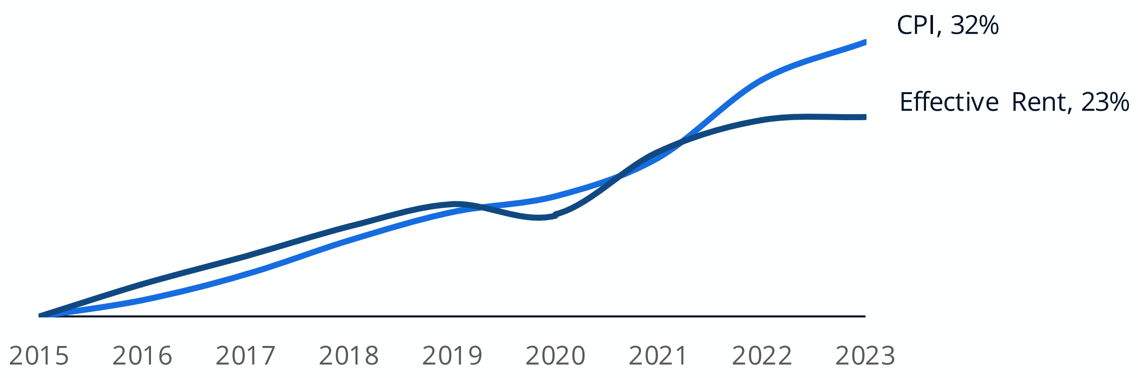
Without temporary rent freezes, the RSTPO formula would have allowed rent increases in excess of market rents, due to a dip in market rents in 2020 as well as high inflation rates.

PERCENT CHANGE OF REGULATED AND MARKET RATE MEDIAN GROSS RENT SINCE 2013



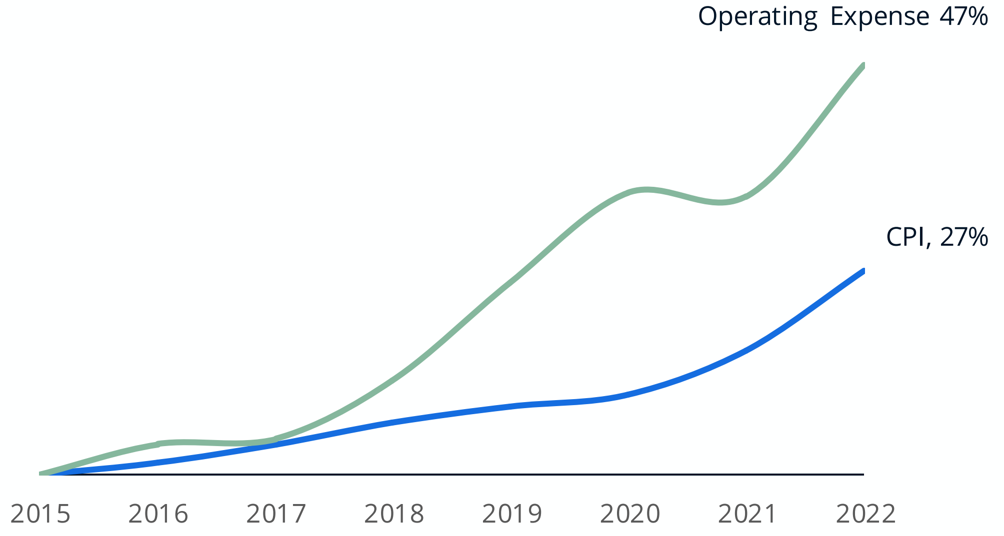
Source: ACS 1-Year Estimates, U.S. Bureau of Labor Statistics
Note: Los Angeles County's RSTPO program started in 2020. Median Gross Rent data for 2020 uses ACS 5-Year Estimates and for 2023 is approximated based on market trends.

CPI-based formulas have limitations that impact both tenants and property owners. Policies can be designed to compensate for these limitations.



INDEXED ANNUAL CHANGE IN CPI (LA REGION) AND RENT (LA COUNTY)

Housing costs are included in Consumer Price Index, so **increases in market rent are highly correlated with increases in CPI**, limiting the ability of CPI-based formulas to stabilize increases in rent. Because of this, some formulas use a percentage of CPI (e.g. 60-75%) to correct for the portion of CPI that is tied to housing costs.



INDEXED ANNUAL CHANGE IN CPI (LA REGION) AND OPERATING EXPENSES (WESTERN REGION)

CPI does not correlate well with changes in operating expenses for rental housing, reducing its effectiveness at ensuring that property owners can keep pace with rising costs. Because of this, rent stabilization policies, including the RSTPO, typically allow property owners to petition for additional rent increases if they cannot earn a fair return.

Source: U.S. Bureau of Labor Statistics, CoStar, Novogradac

The current economic climate poses significant challenges to both tenants and property owners, making it difficult to determine a fair and balanced approach to rent stabilization.

TENANT CHALLENGES

- The **majority of low- and moderate-income tenants are cost burdened**, meaning they pay a substantial portion of their income on rent, and any increase in rent will exacerbate cost burden for many renter households.
- Because lower-income households typically pay a larger portion of their income toward rent, **rent increase formulas are likely to be regressive**, meaning that the same percentage increase of rent will represent a larger share of income for lower-income tenants.
- In addition, many households still owe unpaid rent debt from payments missed during the pandemic. As these tenants arrange payment plans for unpaid rent, their **payments will increase even with no change to base rent**.
- In addition to challenges related to the rent increase formula, tenants and their advocates noted challenges related to the habitability of rental homes and advocated against allowing property owners to "bank" rent increases to ensure predictability for tenants.

PROPERTY OWNER CHALLENGES

- **Operating expenses and financing costs have increased substantially in recent years.** Rising costs for insurance, mortgage interest, and repairs and maintenance are among the biggest drivers of cost increases for property owners. During this time, rents for rent-stabilized properties have been frozen, leaving property owners unable to "catch up" to accumulated cost increases.
- **Some property owners feel that rent stabilization provides unneeded protections for high income tenants, and burdens owners of higher-end housing.** Luxury unit exemptions could alleviate some of these concerns for property owners of certain buildings with high income tenants. There is precedent for this exemption in many jurisdictions.
- **Accumulated rent debt also impacts property owners.** A large portion of this debt may be "bad debt" that property owners will not be able to collect, and property owners that evict tenants for non-payment also see economic vacancy due to nonpayment during the lengthy eviction process.

The County can use several policy "levers" that relate to both the formula for allowable rent increases and related regulations. The following pages detail these levers further.

FORMULA FOR ALLOWABLE RENT INCREASES

Basic Formula

- Consumer Price Index
- Fixed Percentage
- Cost Study

Maximum or Annual "Cap"

- Some formulas set a cap above which rent cannot be increased regardless of the basic formula

Minimum or Annual "Floor"

- Some formulas set a floor to guarantee property owners a minimum annual rent increase

"Catch Up" Period

- The County could allow a temporary additional increase to rents to enable property owners to recoup increases not allowed during recent rent freezes.

CHANGES IN APPLICABILITY

Some rent stabilization policies allow different rental increases based on certain defined characteristics. For example:

- **Mobilehomes** in unincorporated LA County are regulated by a separate policy, the MRSMOPO
- **Ownership Types or Property Size** such as different regulations for smaller (e.g. 2 to 4 unit) properties compared with larger rental properties, or for private vs corporate owners or by number of units owned
- **Luxury Units** or properties that are likely to serve higher-income tenants

NON-FORMULA POLICY CONSIDERATIONS

In addition to allowable rent increases, other policies can influence the cost and operations of rent-stabilized units.

- Most policies allow owners to **apply to increase rents above the allowable limit** if they cannot earn a fair return
- Most policies allow owners to **pass-through qualified expenses** to tenants
- Some policies allow owners to **bank rent increases** for future years
- Some policies require units to meet **habitability standards**
- Most policies do not use **means tests** to exempt units with high-income tenants, but this is an option.

There are several approaches to setting formulas for allowable rent increases, each with its own tradeoffs. CPI-based formulas are widely used and accepted.

100% CONSUMER PRICE INDEX FORMULA

The annual percentage change in the CPI is the predominant mechanism by which California jurisdictions with rent regulation systems benchmark allowable annual rent increases. It is widely used and accepted, readily available, and updated monthly. CPI-based formulas are intended to ensure that rent does not increase faster than other costs.

There are two primary limitations of CPI-based formulas: first, data analysis and property owner input indicate that **CPI is not a good measure of operating expenses** for rental housing, and second, because housing costs are included in CPI, **CPI-based formulas tend to track market rents closely**.

LESS THAN 100% CONSUMER PRICE INDEX FORMULA

Some formulas use a percentage of CPI, typically 60 to 75%. This approach has the same benefits as a 100% CPI formula, but theoretically corrects for the inclusion of housing costs in the calculation of CPI.

Constraining rent increases below inflation could make it more difficult for property owners to earn a fair return, and therefore this approach would likely be most successful when paired with a larger amount of passthroughs and reduced documentation and regulatory processes to receive passthroughs and applications for additional rent increases. In addition, this approach does not correct for the fact that CPI is not a good measure of operating expenses.

There are several approaches to setting formulas for allowable rent increases, each with its own tradeoffs. Non-CPI approaches are less common but offer alternate advantages.

FIXED PERCENTAGE INDEX FORMULA

Formulas based on a fixed percentage of rent allow for more predictability for both tenants and rental property owners, a quality that both groups value. However, setting a fixed percentage carries inherent risks. Depending on how high the fixed percentage is set, it could potentially allow housing suppliers to achieve close to market rate rents but would have the effect of limiting only the most extreme rent increases and therefore limiting protections for tenants. If the percentage is set too low relative to costs, it could quickly constrain Net Operating Income for property owners.

COST STUDY OR COST INDEX FORMULA

A formula tied to changes in operating costs for rental housing provides the most direct way to align rents with costs and protect property owner's ability to earn a "fair return". Studies have shown that developing a cost study is resource-intensive, typically involving time for the annual preparation of the study, public hearings, and deliberation regarding the appropriate rental increase.[1] One way to mitigate this challenge is to purchase a third-party report, such as the National Apartment Association Income & Expenses Survey, published annually by region. The data in this report lags real-time trends but may still more accurately account for operating costs over time. Using a third-party report would still likely require public comment, review, and approval by elected officials, adding time and administrative burden. Santa Monica previously used a cost study approach, but found it produced similar outcomes to what would have resulted from the use of a CPI-based formula and adopted a CPI-based formula in 2012.[2]

Sources:
1. San Jose ARO Study
2. Santa Monica Rent Control Charter Amendment & Regulations

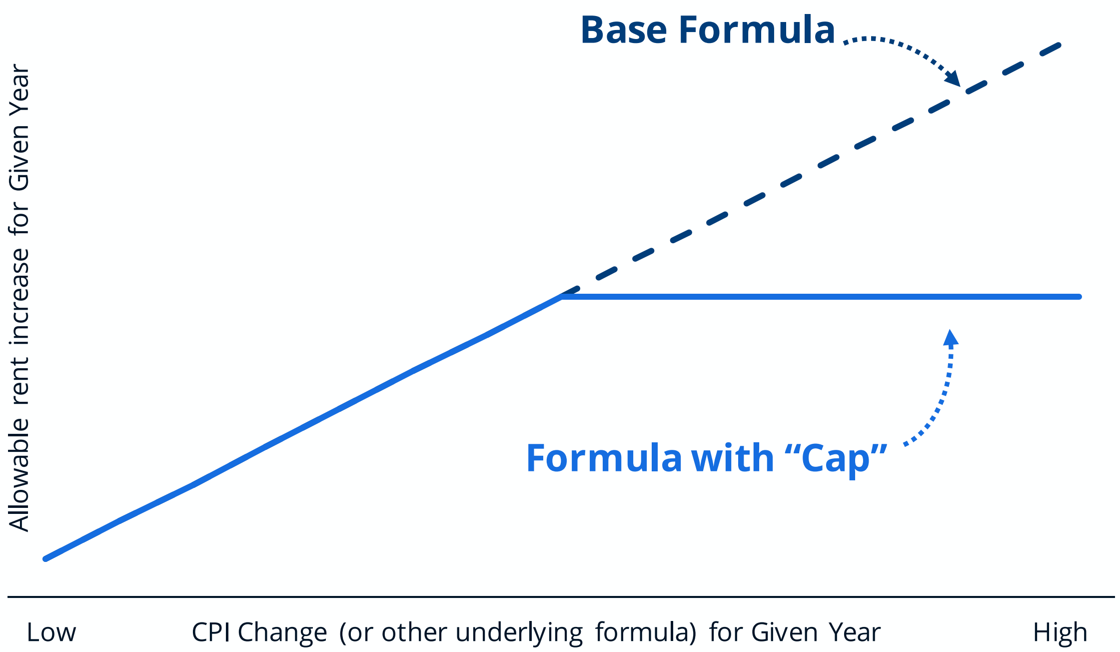
Rent stabilization formulas can protect tenants from large rent increases by setting set a "cap" or maximum allowable rent increase.

MAXIMUM ALLOWABLE RENT INCREASE ("CAP")

Setting a "cap" provides protection for tenants by ensuring that rents will not increase beyond a particular amount in a given year, even if CPI would otherwise allow a high increase.

- In high-inflation years, tenants need protection against large rent increases which could cause them to be unable to make new, higher rent payments and therefore result in housing instability or loss of housing.
- Increase "caps" can be set as a percentage of rent or a fixed dollar amount. However, jurisdictions that apply fixed dollar caps often apply caps to individual rent-stabilized units based on length of tenancy and cumulative annual allowable rent increases during that time, accounting for allowable increases to market rate due to vacancy decontrol between tenancies. This approach requires significant data collection and oversight to be effective and enforceable.

HOW A "CAP" ON RENT INCREASES LIMITS RENT GROWTH (ILLUSTRATIVE ONLY)

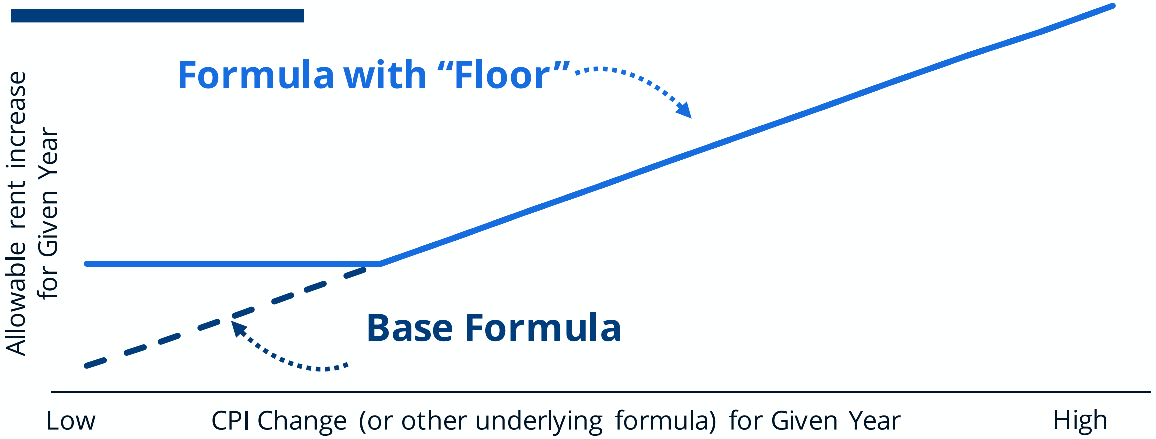


A "floor" protects property owners by ensuring a minimum allowable rent increase. LA County could also consider a "catch up" period for property owners after rent freezes.

MINIMUM GUARANTEED RENT INCREASE ("FLOOR")

Setting a minimum rent increase provides protection for property owners by ensuring an allowable annual rent increase. Policies without a floor typically still do not require property owners to reduce rents, even if costs decrease, effectively setting a floor of 0%. Low-inflation years might not reflect an otherwise strong housing market or increases in costs to providers, creating challenges to property owners.

HOW A "FLOOR" ON RENT INCREASES PROTECTS MINIMUM ANNUAL ALLOWABLE INCREASE (ILLUSTRATIVE ONLY)



"CATCH UP" PERIOD

Rent freezes during the COVID-19 pandemic prevented property owners from raising rents from 2019 to 2023. This means that the first allowable rent increase of 3% in 2023 was a rent increase above 2020 rents, not 2022 rents. Rental property owners believe that the County should account for this lag by permitting a temporary "catch up" period that allows for additional increases to correct for increases that would have been allowed without the rent freezes. To protect tenants from sudden increases in rent, any "catch up" period should be provided in the form of a small multi-year exception rather than a larger one-time exception. However, tenant advocates noted that many tenants are beginning payment plans for back rent, and thus already facing increases in monthly costs, making any "catch up" period potentially burdensome for tenants.

Changes in applicability of the allowable rent increase complicate the formula and its administration, but can help to correct market imbalances.

Source: Blue Rhino Media/Shutterstock

MOBILEHOMES

In unincorporated LA County, rent stabilization for mobilehomes is governed by a separate policy, the MRSMOPO. Whereas the RSTPO uses a formula based on 100% of CPI, the MRSMOPO uses 75% of CPI, with comparable cap (8%) and floor (3%) to the RSTPO formula. **This study is primarily focused on the RSTPO and not the MRSMOPO.**

In mobilehomes, unlike non-manufactured rental units, ownership is typically divided between the home itself and the land it sits on. Mobilehome owners generally pay for their own gas and electricity, whereas the landowners generally pay for sewer and refuse collection costs. Mobilehome park operating costs may include more infrastructure expenses than apartment buildings, but much fewer maintenance costs.

PROPERTY OR OWNERSHIP TYPE

Administration and compliance of a complex formula that treats properties differently by the number of units or type of owners would be overly complex. Property owners noted that a simpler policy is preferable. In addition, tenant advocates noted the importance of providing equal protection to tenants. **It is therefore not advisable to consider alternative formulas for small properties or small property owners.**

Source: The Economics of Mobilehome Ownership and Mobilehome Park Ownership in the City of Los Angeles and a Comparison of Local Regulations of Mobilehome Park Space Rents (2011), Mobile Home University

Changes in applicability of the allowable rent increase complicate the formula and its administration but can help to correct market imbalances.

Source: Elena Alex Ferns/Shutterstock

LUXURY UNITS

The RSTPO made a temporary exception for "luxury units", defined as units with two bedrooms or fewer with rent of at least $4,000, located in a single structure with at least 25 units. For a period of three years, the RSTPO allowed an additional 2% increase on rents, however due to pandemic-era rent freezes, property owners were not able to take advantage of this exception.

This luxury unit exception may provide relief to property owners of certain buildings with high-income tenants who do not need protection from rent increases. Property owners expressed that these buildings often have higher operating costs associated with the additional amenities they provide. They noted that tenants in luxury units often choose to rent instead of own and can easily afford their rents. This luxury unit exception has precedent in many jurisdictions, including the City of LA. However, offering this exception may encourage landlords of larger, moderate-income buildings to push their rents above the cutoff to receive the exception, reducing moderate income housing stock.

Because of the impacts of rent freezes, rising costs, and market differences for luxury units, the County should re-evaluate its treatment of luxury units and determine whether temporary or permanent exceptions are appropriate. Mechanisms to provide exceptions for luxury housing could include an alternate cap for luxury units or additional pass-throughs for tenant-requested upgrades.

Pass-throughs and petitions for additional rent increases provide protections for property owners, though bureaucratic processes can be difficult and costly.

APPLICATION TO INCREASE RENTS

LA County allows property owners to submit an application to increase rent above the allowable limit, up to the overall cap of 8%, if they cannot earn a fair return. The burden is on the property owner to demonstrate the need for an additional increase. The process requires substantial documentation and compliance with the County's Rent Registry which can be challenging for property owners with limited means or capacity.

Allowing these applications is the most direct way to protect property owners, particularly if the County sets a restrictive formula. **Regardless of the preferred formula, the County should ensure that the application process is as streamlined as possible.**

PASS-THROUGHS

The RSTPO permits property owners to pass-through certain costs to tenants through an administrative review process. The majority of allowable pass-throughs are intended to ensure property owners can make necessary repairs and capital improvements to maintain habitability. In addition, property owners can pass-through the Safe, Clean Water Act parcel tax and a portion of fees for the County's Rent Registry. In addition to capital expenses and local fees, some rent stabilization policies allow a percentage of utility costs as pass-through expenses.

The pass-through processes can be cumbersome for property owners and administrators, and any new pass-throughs would most likely carry an associated fee for property owners to process requests.

Additional policy levers are available, however these are not currently in effect through the RSTPO.

BANKING

Some policies allow property owners to defer a portion of allowable increases and impose it in a later year. **"Banking" reduces property owners' incentive to "use it or lose it",** or to increase rent by the maximum allowable amount every year. However, **it can also limit predictability for tenants and result in sudden, larger rent increases which could result in loss of housing**. In addition, banking requires more administrative oversight to manage and ensure compliance.

HABITABILITY STANDARDS

Some policies **set standards for property condition** to address concerns that rent stabilization may lead to disinvestment and reduced living standards. Tenants have reported concerns about habitability of rent-stabilized units. The County allows tenants to apply for a rent adjustment if the property owner has not maintained habitability, however housing quality inspections are not a standard part of compliance with the RSTPO. Habitability standards **can create potentially high costs for property owners to make improvements, which could result in displacement of the tenant as well, and they can create a significant administrative burden** if they require unit inspections.

MEANS TESTING

Some policies create a "means test" for tenants, so that units in which tenants fall above a particular income or wealth level are exempted from compliance. This **would address concerns about unduly regulating higher-end housing, however it can also lead to increased administrative burden, potential displacement if tenant incomes rise, and potential discrimination against lower-income tenants**. A luxury unit exception could similarly prevent overregulation of units with high-income tenants.

Evaluating the potential impacts of rent increases on tenants requires projecting both rent and income. A cap of 5 to 6% may limit severe cost burdens for tenants in LA County.

$61,000

Median renter household income

$1,612

Median RSTPO fully regulated unit rent based on available data from limited registration (32% of monthly income for a household making $61,000)

PERCENT OF INCOME SPENT ON RENT AFTER 10 YEARS

Annual Income Growth	Annual Rent Increase								
	0%	1%	2%	3%	4%	5%	6%	7%	8%
1%	29%	32%	35%	39%	43%	47%	52%	57%	62%
2%	26%	29%	32%	35%	39%	42%	47%	51%	56%
3%	24%	26%	29%	32%	35%	38%	42%	47%	51%
4%	21%	24%	26%	29%	32%	35%	38%	42%	46%

Source: ACS 1-Year Estimates, Bureau of Labor Statistics, LA County Rent Registry Data (2021 – 2023)
Note: Cells shaded in blue indicate that the renter in this hypothetical unit would be housing cost burdened, spending more than 30% of income on housing costs. The lightest blue color represents no change to the current level of cost burden. The darkest blue color indicates that the renter would be severely cost burdened, spending more than 50% of income on housing.

IMPACTS OF FUTURE RENT INCREASES ON RENTERS

Based on current market figures, a median-income renter household renting a median-rent fully regulated rental home in unincorporated LA County spends about 32% of household income on rent, making them cost burdened (more than 30 percent of income spent on rent).

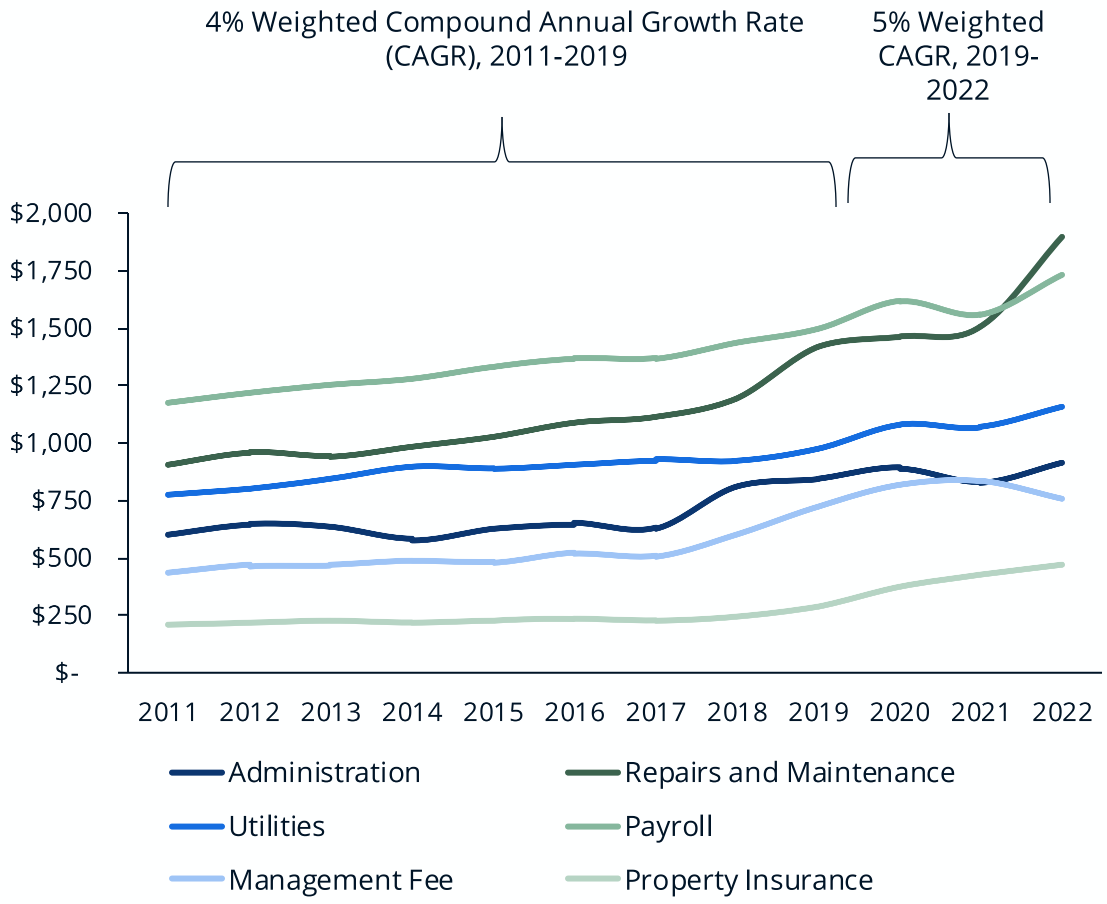
The impacts of rising rents on renter households are a function of both the scale of rent increases and changes in household income. Available data indicate that wages may grow annually between 2 and 4%*. If rents rise faster than incomes, cost burden will impact more households, and become more severe.

In unincorporated LA County, annual rent increases in excess of 5 or 6% will likely result in high cost burden+ even with modest income growth over the next 10 years.

**Note: This estimate is based on available wage and income data at the state and national level, and may not capture local labor trends or wage growth for lower-income workers*
+Note: For the purposes of this study, high cost burden is greater than 40% of income spent on rent. HUD considers more than 50% of income spent on rent “severe cost burden”

The impacts of rent stabilization on property owners will be a function of both allowable rent increases and growth of operating expenses.

TRENDS IN OPERATING EXPENSE GROWTH (PER UNIT)



Not all operating expenses grow at the same rate, nor at constant rates over time. Since 2011, annual growth rates have ranged from 0% to 11%. The goal for rent increase formulas will be to allow steady revenue growth over time that generally tracks long term changes in costs. Projected impacts of rent increases on Net Operating Income reflect three potential cost growth scenarios.

- **Low Growth:** 2%, a standard real estate assumption.
- **Middle Growth:** 3%, a standard real estate assumption, or 4%, or the weighted compound annual growth rate of operating expenses from 2011-2019. This is higher than the median annual growth rate from 2011 to 2019 (3.75%).
- **High Growth:** 5%, or the weighted compound annual growth rate of operating expenses from 2019-2022.

Source: *IREM Income/Expense Report (2022), Novogradac Low-Income Housing Tax Credit Income and Operating Expenses Report (2023)*

Setting allowable rent increases too low can impact property owners' ability to earn a fair return and maintain quality. A floor of 2% to 3% may help to sustain Net Operating Income as costs rise.

NET OPERATING INCOME AS A PERCENTAGE OF TOTAL INCOME AFTER 10 YEARS*

Annual OpEx Growth	Annual Rent Increase								
	0%	1%	2%	3%	4%	5%	6%	7%	8%
Low (2%)	61%	64%	66%	69%	72%	74%	76%	78%	80%
Moderate (3%)	56%	59%	63%	66%	69%	71%	74%	76%	78%
Mid-High (4%)	52%	56%	59%	63%	66%	69%	71%	73%	76%
High (5%)	47%	52%	56%	59%	63%	66%	69%	71%	73%

Note: Annual operating expense (OpEx) growth assumptions were made based on weighted compounded annual growth rate (CAGR) of historic operating expense data from Novogradac.
**Total income assumes 5% vacancy.*
**Net Operating Income may be used for capital improvements or debt service, as well as property owner income.*
Note: Cells shaded in the lightest red color reflect no change to the current level of NOI as a percentage of total income. Darker shaded cells indicate that the owner of this hypothetical unit would have a lower NOI as a percentage of total income in ten years than they do now,

66%

*Current Net Operating Income as a Percentage of Total Income**

IMPACTS OF FUTURE RENT INCREASES ON OWNERS

Annual operating expense growth trends since 2011 generally ranged from 4% to 5%, however recent years had unusually high cost growth. If annual rent increases do not keep up with annual operating expense growth, the NOI as a percentage of total income decreases, which constrains owners' ability to earn a fair return.

In unincorporated LA County, a floor of minimum rent increase of 2% to 3% will likely allow property owners to keep NOI close to the current regional average NOI even if cost growth remains high.

Source: IREM Income/Expense Report (2022), Novogradac Low-Income Housing Tax Credit Income and Operating Expenses Report (2023)

06

Policy Options for Consideration

OPTIONS FOR CONSIDERATION

Based on this analysis and in coordination with the County, this study explores the following policy levers as the County reviews its RSTPO formula.

FORMULA FOR ALLOWABLE RENT INCREASES

Basic Formula

- Consumer Price Index
- Fixed Percentage
- Cost Study

Maximum or Annual "Cap"

- 4% to 6% cap in some options

Minimum or Annual "Floor"

- 2% to 3% floor in some options

"Catch Up" Period

- The County could consider adding 1% (or some other percentage) to the rent increase otherwise allowed by the formula for a fixed number of years. This may make sense for some options more than others.

CHANGES IN APPLICABILITY

Because of the impacts of rent freezes, rising costs, and market differences for luxury units, **the County should re-evaluate its treatment of luxury units and determine whether temporary or permanent exceptions are appropriate.** Mechanisms to provide exceptions for luxury housing could include:

- An alternate cap for luxury units, or
- Additional pass-throughs for tenant-requested upgrades

These mechanisms are not included as part of the formula options, but rather could be employed regardless of the County's preferred formula.

NON-FORMULA POLICY CONSIDERATIONS

In some formula options, consideration of non-formula policy changes may be advisable. These considerations are noted in the overview of formula options.

In general, **the County should review opportunities to streamline administrative processes** (such as those for rental registry compliance, applications for alternate increases, and pass-throughs). This could include providing easy to access information about processes (such as checklists and a designated point of contact), ensuring staff are equipped to help property owners through processes, and setting performance metrics for County staff related to the timeliness and successful response to inquiries and applications.

OPTIONS FOR CONSIDERATION

This study evaluates several alternate options for rent increase formulas for LA County's consideration. The following pages outline the major considerations of each option.

	BASE FORMULA	MINIMUM ALLOWED INCREASE ("FLOOR")	MAXIMUM ALLOWED INCREASE ("CAP")
OPTION 1: KEEP THE CURRENT FORMULA	100% of CPI	Staggered 0% to 3%	8%
OPTION 2: STREAMLINE THE FORMULA AND REDUCE THE CAP	100% of CPI	2 to 3%	4 to 6%
OPTION 3: USE A PERCENTAGE OF CONSUMER PRICE INDEX	60 to 80% of CPI	2 to 3%	4 to 8%
OPTION 4: USE 60% OF CPI WITH A 3% CAP	60% of CPI	None	3%
OPTION 5: USE A FIXED PERCENTAGE	Fixed percentage 3 to 5%	N/A	N/A
OPTION 6: USE A COST STUDY	Annual cost increase based on study	None	4 to 6%

OPTION 1: KEEP THE CURRENT FORMULA

The current RSTPO formula already represents a compromise between the needs of tenants and property owners and is yet to be tested in the market due to rent freezes.

IMPLICATIONS FOR TENANTS

Benefits. Tenants would be protected from rent increases above 8% per year, and from rent increases in excess of CPI except in years with low CPI change. The formula will likely produce low to moderate rent increases most years.

Risks. In recent years, CPI growth has been high and even exceeded market rents. If high CPI growth continues, the RSTPO would offer little protection to tenants and rents could rise by up to 8% per year. Because of the high rates of rental cost burden, large rent increases can pose significant challenges.

IMPLICATIONS FOR PROPERTY OWNERS

Benefits. Property owners have made business decisions over the past few years based on the current formula. The formula allows higher rent increases in years with high CPI change, and allows rent increases to exceed CPI in years with low CPI change via a staggered minimum.

Risks. The current formula does not allow rent increases in years with CPI below -2%, which means that in years of economic contraction property owners are prevented from raising rents, even if costs increase.

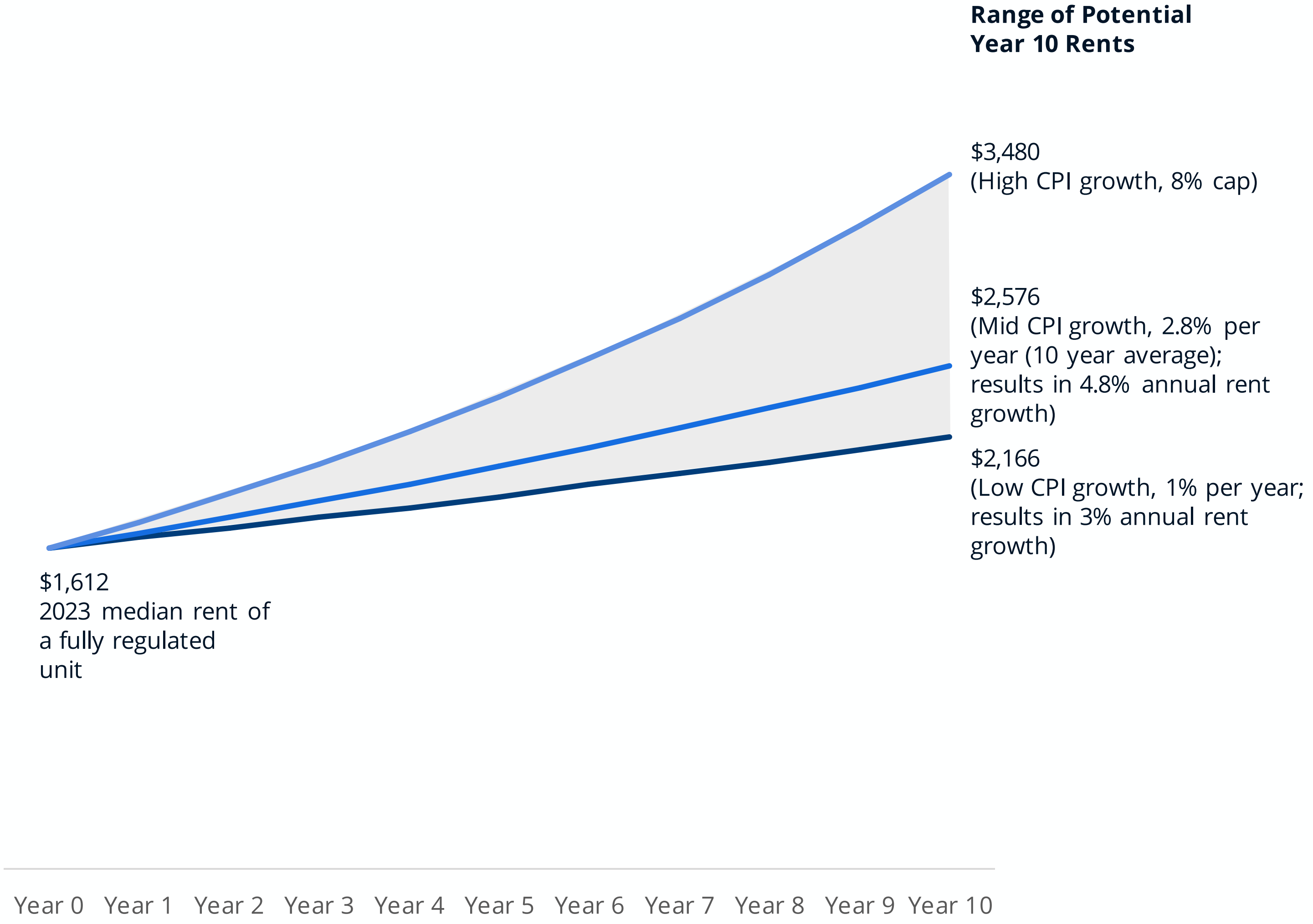
IMPLICATIONS FOR ADMINISTRATORS

Oversight of this policy would not change the County's administrative requirements.

Annual Change in Consumer Price Index (CPI)	RSTPO Allowable Annual Rent Increase
8% or Higher	8%
Between 3% and 8%	Equal to CPI
Between 1% and 3%	3%
Between -2% and 1%	Equal to CPI plus 2%
Less than -2%	No rent increase permitted

OPTION 1: KEEP THE CURRENT FORMULA

The current RSTPO formula already represents a compromise between the needs of tenants and property owners, and has not yet been tested in the market.



FORMULA IMPACTS OVER TIME

CPI	Annual Rent Growth	Year 10 Rent	Renter Impacts	Property Owner Impacts
0.0%	2.0%	$1,965	29%	59%
1.0%	3.0%	$2,166	32%	63%
2.0%	3.0%	$2,166	32%	63%
3.0%	3.0%	$2,166	32%	63%
4.0%	4.0%	$2,386	35%	66%
5.0%	5.0%	$2,626	38%	69%
6.0%	6.0%	$2,887	42%	71%
7.0%	7.0%	$3,171	46%	73%
8.0%	8.0%	$3,480	51%	76%

Note: Rows shown in green represent approximate 10-year average CPI growth of 2.8%
Renter Impacts: Percent of income spent on rent of a median income renter in a median rent unit after 10 years, assuming 3% income growth.
Property Owner Impacts: Net Operating Income as a percent of Total Income after 10 years, assuming 4% operating expense growth.

OPTION 2: STREAMLINE THE FORMULA AND REDUCE THE CAP

A streamlined formula would be more intuitive and predictable, and a reduced cap would provide stronger protection to tenants in high-inflation years.

IMPLICATIONS FOR TENANTS

Benefits. Tenants would be protected from rent increases above 4 to 6% per year. Because rent increases of 7% per year result in severe cost burden in most income growth scenarios, a cap of between 4% and 6% would better protect tenants. The formula will likely produce low to moderate rent increases most years. The narrower band of potential rent increases should offer predictability for tenants.

Risks. The simplified floor could subject tenants to 2 to 3% increases in rent even in years with limited CPI growth or contraction.

IMPLICATIONS FOR PROPERTY OWNERS

Benefits. The formula would resemble the current formula in moderate CPI years, and would ensure a minimum allowable increase of 2 to 3% in low CPI years (unlike the current formula with its staggered floor between 0% and 3%). The narrower band of potential rent increases would provide greater clarity and predictability for property owners.

Risks. A reduced cap could make it more difficult for property owners to keep pace with costs in high-inflation years.

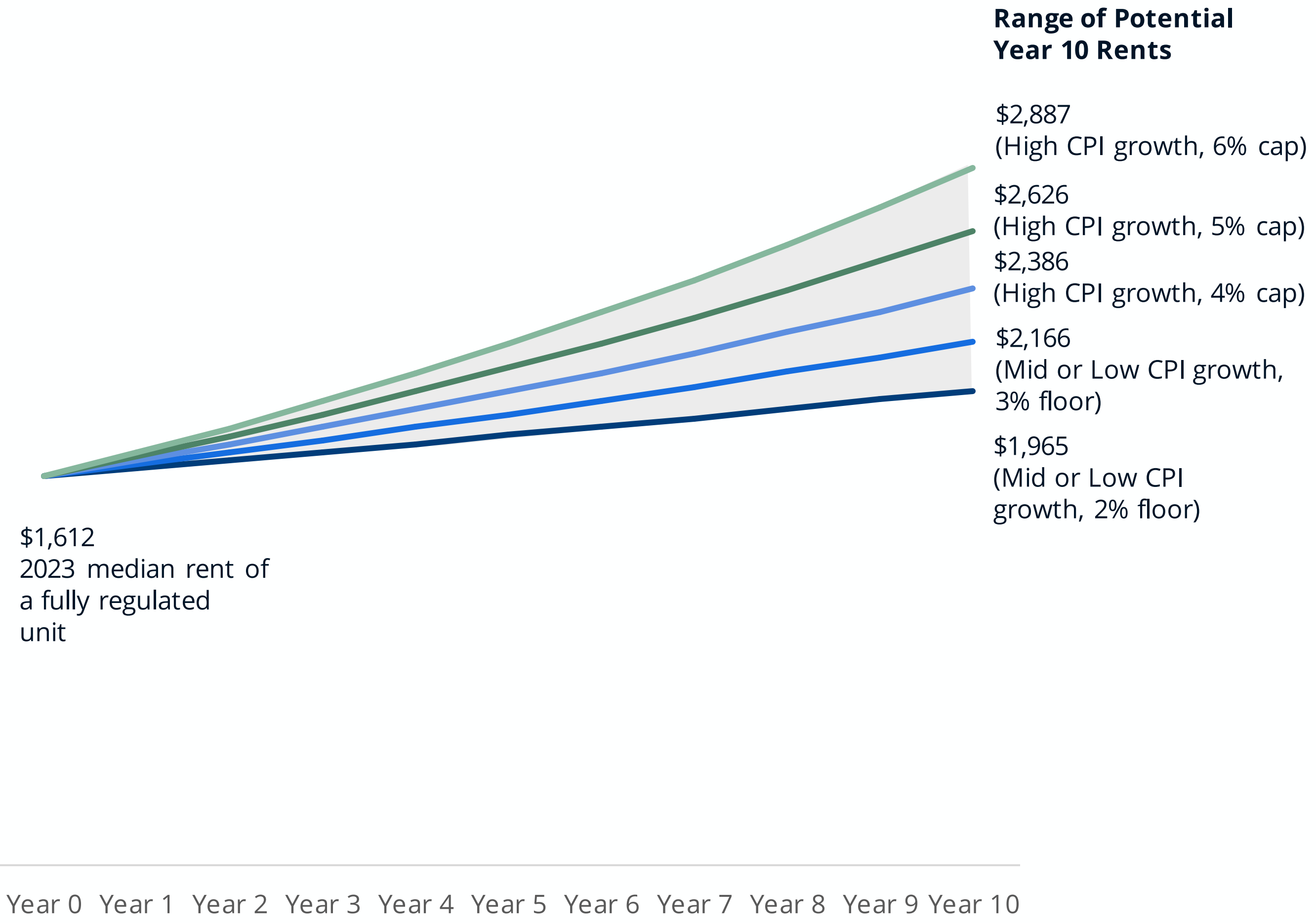
IMPLICATIONS FOR ADMINISTRATORS

Oversight of this policy would not substantially change the County's administrative requirements or processes. However, a reduced cap could result in an increased rate of rent increase petitions which may increase the County's costs or capacity needs.

Formula Component	Potential Values
Base Formula	100% of CPI Change
Maximum (Cap)	4 to 6%
Minimum (Floor)	2 to 3%

OPTION 2: STREAMLINE THE FORMULA AND REDUCE THE CAP

A streamlined formula would be more intuitive and predictable, and a reduced cap would provide stronger protection to tenants in high-inflation years.



FORMULA IMPACTS OVER TIME (6% CAP, 3% FLOOR)

CPI	Annual Rent Growth	Year 10 Rent	Renter Impacts	Property Owner Impacts
0.0%	3%	$2,166	32%	63%
1.0%	3%	$2,166	32%	63%
2.0%	3%	$2,166	32%	63%
3.0%	3%	$2,166	32%	63%
4.0%	4%	$2,386	35%	66%
5.0%	5%	$2,626	38%	69%
6.0%	6%	$2,887	42%	71%
7.0%	6%	$2,887	42%	71%
8.0%	6%	$2,887	42%	71%

Note: Rows shown in green represent approximate 10-year average CPI growth of 2.8%. Table assumes 6% cap and 3% floor.
Renter Impacts: Percent of income spent on rent of a median income renter in a median rent unit after 10 years, assuming 3% income growth.
Property Owner Impacts: Net Operating Income as a percent of Total Income after 10 years, assuming 4% operating expense growth.

OPTION 3: USE A PERCENTAGE OF CONSUMER PRICE INDEX

Using a percentage of CPI below 100% would curb rent increases and correct for linkages between market rents and CPI, but could require adjustments to protect property owners.

IMPLICATIONS FOR TENANTS

Benefits. Rent increases would be kept relatively low in moderate and high CPI years, and tenants would be protected against high inflation.

Risks. Maintaining a minimum guaranteed rent increase could subject tenants to 2 to 3% increases in rent even in years with limited CPI growth or contraction.

IMPLICATIONS FOR PROPERTY OWNERS

Benefits. The formula preserves a guaranteed allowable increase of 2 to 3% per year, even when CPI is low.

Risks. The formula reduces the correlation between rising consumer prices and rising rents, potentially creating a mismatch between operating costs and rents.

Formula Component	Potential Values
Base Formula	60 to 80% of CPI Change
Maximum (Cap)	4 to 8%
Minimum (Floor)	2 to 3%

IMPLICATIONS FOR ADMINISTRATORS

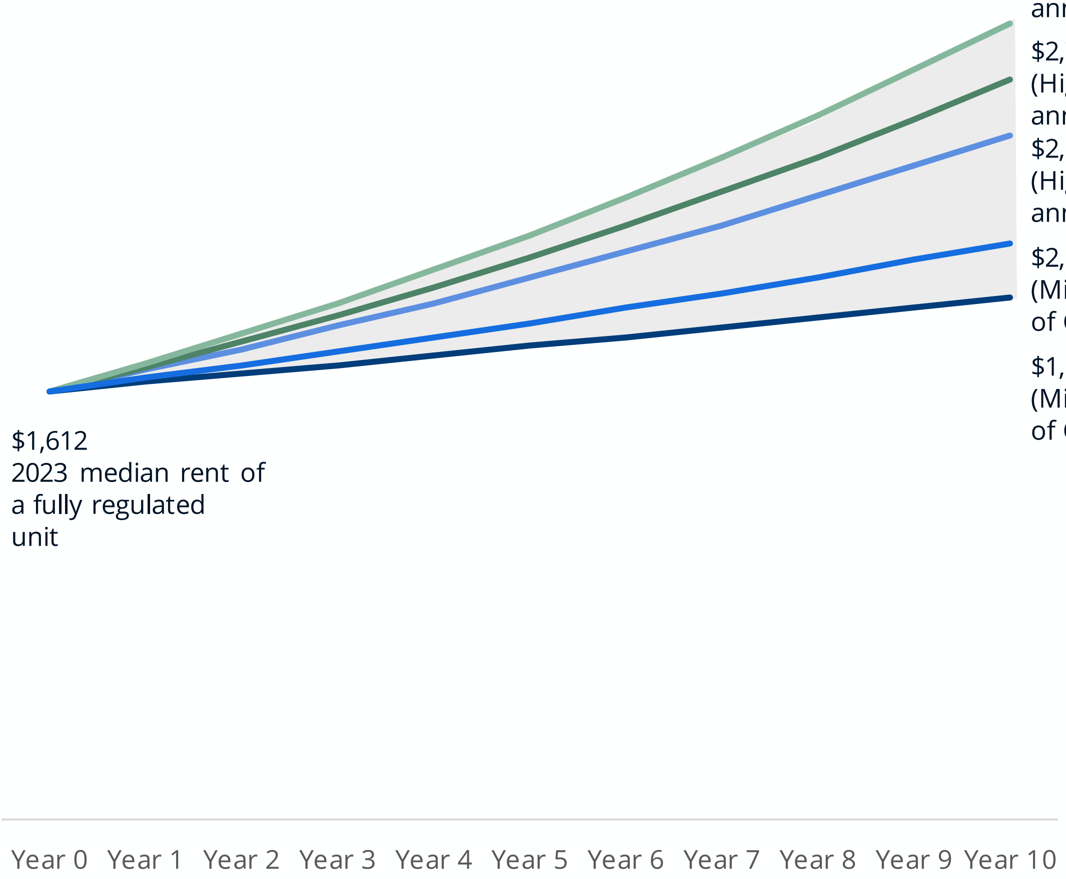
Oversight of this policy would not substantially change the County's administrative processes; this formula closely matches the current MRSMOPO formula. However, as noted below this approach could require the County to process a greater number of applications for additional increases, or to allow additional pass-throughs for property owners, which could also require a greater administrative capacity and new processes.

OTHER CONSIDERATIONS

The best way to mitigate risks to property owners is to maximize the number of pass-throughs that can be handled administratively and streamline the process to apply for additional increases, to provide property owners with recourse for rising costs. However, new pass-throughs would also carry an administrative fee that would most likely be paid by the property owner. The County could consider setting a slightly higher cap in this case because the formula would likely limit rent increases below the cap in most years, and the cap would primarily be relevant for property owners applying for an additional increase.

OPTION 3: USE A PERCENTAGE OF CONSUMER PRICE INDEX

Using a percentage of CPI below 100% would curb rent increases and correct for linkages between market rents and CPI, but could require adjustments to protect property owners.



Range of Potential Year 10 Rents

$2,998
(High CPI growth, 80% of CPI; annual rent growth 6.4%)

$2,780
(High CPI growth, 70% of CPI; annual rent growth of 5.6%)

$2,576
(High CPI growth, 60% of CPI; annual rent growth of 4.8%)

$2,166
(Mid or Low CPI growth, any % of CPI, 3% floor)

$1,965
(Mid or Low CPI growth, any % of CPI, 2% floor)

FORMULA IMPACTS OVER TIME (70% CPI, 6% CAP, 3% FLOOR)

CPI	Annual Rent Growth	Year 10 Rent	Renter Impacts	Property Owner Impacts
0.0%	3.0%	$2,166	32%	63%
1.0%	3.0%	$2,166	32%	63%
2.0%	3.0%	$2,166	32%	63%
3.0%	3.0%	$2,166	32%	63%
4.0%	3.0%	$2,166	32%	63%
5.0%	3.5%	$2,274	33%	64%
6.0%	4.2%	$2,432	36%	66%
7.0%	4.9%	$2,601	38%	68%
8.0%	5.6%	$2,780	41%	70%

Note: Rows shown in green represent approximate 10-year average CPI growth of 2.8%. Table assumes 70% CPI formula with a cap of 6% and floor of 3%.
Renter Impacts: Percent of income spent on rent of a median income renter in a median rent unit after 10 years, assuming 3% income growth.
Property Owner Impacts: Net Operating Income as a percent of Total Income after 10 years, assuming 4% operating expense growth.

OPTION 4: USE 60% OF CPI WITH A 3% CAP

Tenant advocates recommend mirroring other California jurisdictions by placing stricter limits on rent increases to prevent loss of housing by cost-burdened renter households.

IMPLICATIONS FOR TENANTS

Benefits. This options provides the greatest protection to tenants by preventing rent from rising more than 3% per year. Similar to Option 3, the formula corrects for linkages between CPI and market rents by keeping rent increases low relative to CPI. Over time, this option may result in decreased housing cost burden for tenants, rather than simply limiting increases in housing cost burden.

Risks. This option poses few risks to tenants.

Formula Component	Potential Values
Base Formula	60% of CPI
Maximum (Cap)	3%
Minimum (Floor)	None

IMPLICATIONS FOR PROPERTY OWNERS

Benefits. If CPI growth is moderate and operating expense increases are moderate to low, the allowed rent increases will likely be sufficient to maintain a fair return.

Risks. The formula reduces the correlation between rising consumer prices and rising rents, potentially creating a greater mismatch between operating costs and rents, more so than options with higher caps. This poses a risk to property owners if expenses grow quickly. The lack of a “floor” or minimum guaranteed allowable increase poses a risk to property owners if CPI is lower than growth in expenses.

IMPLICATIONS FOR ADMINISTRATORS

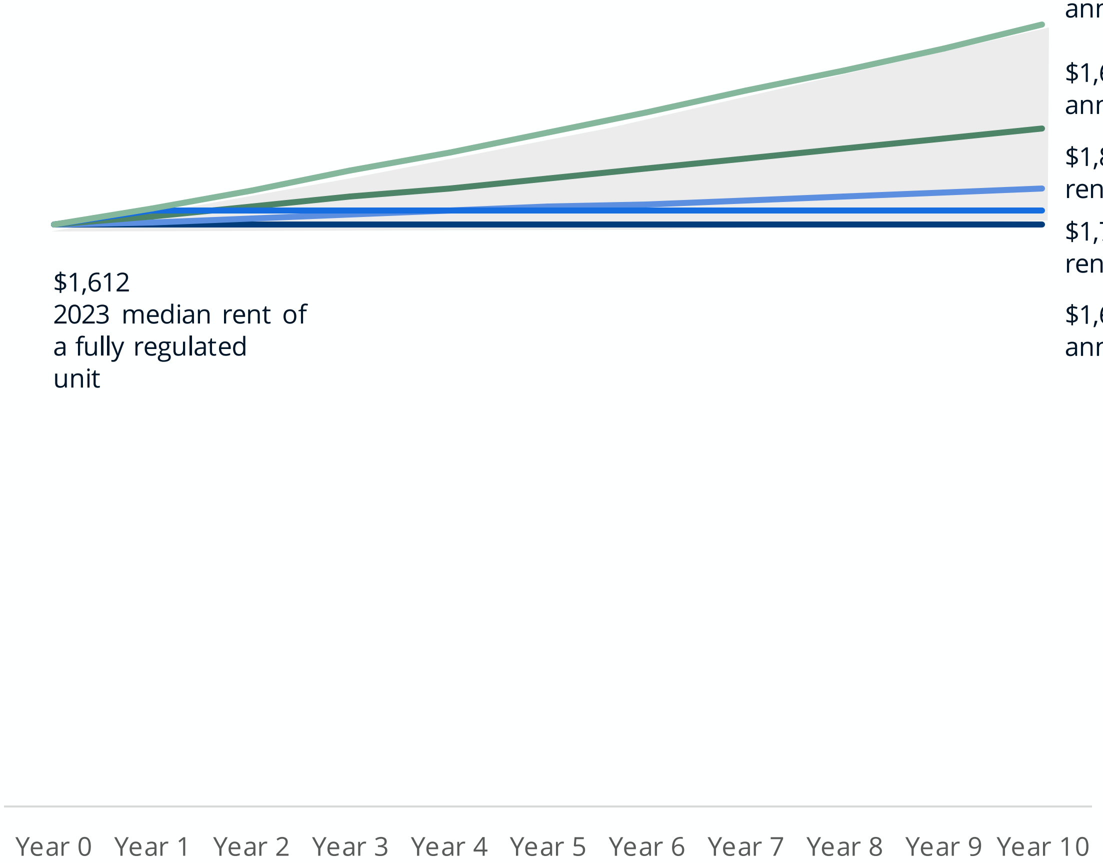
Oversight of this policy would not substantially change the County’s administrative processes. However, as noted below this approach could require the County to process a greater number of applications for additional increases, or to allow additional pass-throughs for property owners, which could also require a greater administrative capacity and new processes.

OTHER CONSIDERATIONS

As noted in Option 3, the best way to mitigate risks to property owners is to maximize the number of pass-throughs that can be handled administratively and streamline the process to apply for additional increases, to provide property owners with recourse for rising costs. However, new pass-throughs would also carry an administrative fee that would most likely be paid by the property owner. Because this option does not include a “floor”, the County could consider including a temporary “catch up” period for property owners, such as adding 1% (or some other percentage) to the rent increase otherwise allowed by the formula for a fixed number of years.

OPTION 4: USE 60% OF CPI WITH A 3% CAP

Tenant advocates recommend mirroring other California jurisdictions by placing stricter limits on rent increases to prevent loss of housing by cost-burdened renter households.



Range of Potential Year 10 Rents

$2,166 (CPI 5% or higher, 3% annual rent growth)

$1,651 (CPI 4%, 2.4% annual rent growth)

$1,882 (CPI 2.6%, 1.6% annual rent growth)

$1,711 (CPI 1%, 0.6% annual rent growth)

$1,612 (CPI 0% or lower, 0% annual rent growth)

FORMULA IMPACTS OVER TIME

CPI	Annual Rent Growth	Year 10 Rent	Renter Impacts	Property Owner Impacts
0.0%	0.00%	$1,612	24%	53%
1.0%	0.60%	$1,711	25%	55%
2.0%	1.20%	$1,816	27%	58%
3.0%	1.80%	$1,927	28%	60%
4.0%	2.40%	$2,043	30%	62%
5.0%	3.00%	$2,166	32%	64%
6.0%	3.00%	$2,166	32%	64%
7.0%	3.00%	$2,166	32%	64%
8.0%	3.00%	$2,166	32%	64%

Note: Rows shown in green represent approximate 10-year average CPI growth of 2.8%.
Renter Impacts: Percent of income spent on rent of a median income renter in a median rent unit after 10 years, assuming 3% income growth.
Property Owner Impacts: Net Operating Income as a percent of Total Income after 10 years, assuming 4% operating expense growth.

OPTION 5: USE A FIXED PERCENTAGE

A fixed percentage formula would offer maximum predictability, something both tenants and property owners have said they value.

IMPLICATIONS FOR TENANTS

Benefits. A fixed percentage maximum formula would provide certainty that rent increases could not exceed a specified amount.

Risks. If set too high, a fixed percentage formula would limit only the most extreme rent increases.

IMPLICATIONS FOR PROPERTY OWNERS

Benefits. A fixed percentage maximum formula would provide greater regulatory certainty to property owners than the more variable CPI-based formula.

Risks. A low fixed percentage might result in missed revenue-earning opportunities for housing suppliers during strong economic periods, while operating expenses may continue to increase.

IMPLICATIONS FOR ADMINISTRATORS

A fixed percentage formula should not require substantial change to the County's administrative capacity or processes. It would require some staff time to write and roll out new policy documents and informational materials.

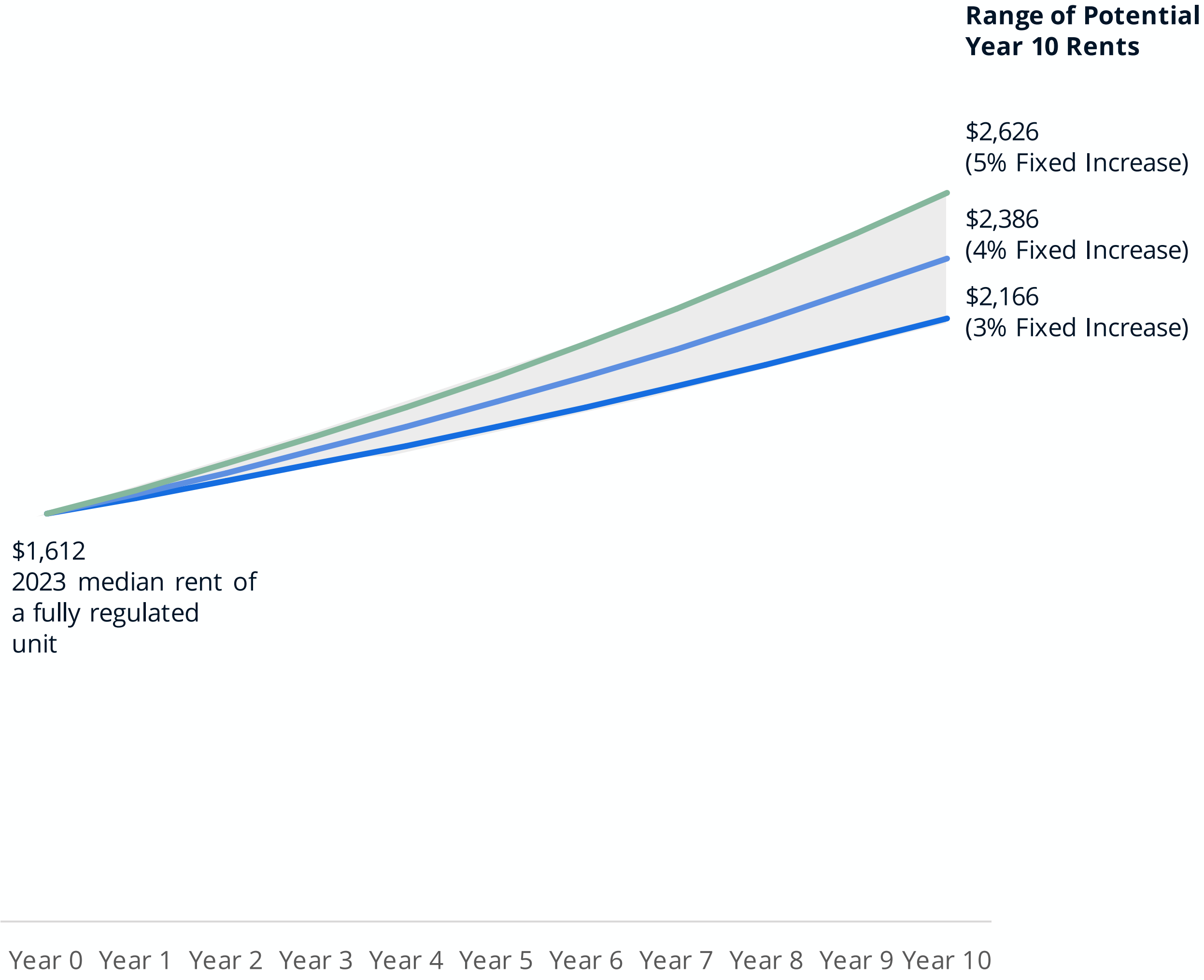
OTHER CONSIDERATIONS

The current formula allows property owners to apply for additional rent increases up to the overall cap of 8% per year. If the County moves to a fixed percentage formula, it will need to set an alternate cap and a standard for allowable additional increases. Some fixed-percentage jurisdictions build in flexibility by allowing pass-throughs and banked increases up to an annual cap, enabling property owners to increase rent more than the fixed percentage aligned with increased costs or foregone rent increases.

Formula Component	Potential Values
Base Formula	Fixed percentage of 3 to 5%

OPTION 5: USE A FIXED PERCENTAGE

A fixed percentage formula would offer maximum predictability, something both tenants and property owners have said they value.



FORMULA IMPACTS OVER TIME (3%, 4%, 5% FIXED)

Annual Rent Growth	Year 10 Rent	Renter Impacts	Property Owner Impacts
3.0%	$2,166	32%	64%
4.0%	$2,386	35%	67%
5.0%	$2,626	38%	69%

Note: Renter Impacts: Percent of income spent on rent of a median income renter in a median rent unit after 10 years, assuming 3% income growth.
Property Owner Impacts: Net Operating Income as a percent of Total Income after 10 years, assuming 4% operating expense growth.

OPTION 6: USE A COST STUDY

A third-party cost study could improve alignment between rents and costs while protecting tenants from large increases in rent, but this approach carries potential complications.

IMPLICATIONS FOR TENANTS

Benefits. A cost study approach would eliminate the need for a guaranteed minimum, thus creating the potential for very low rent increases in years when costs rise less than 3%. Including a cap on rental increases would continue to protect tenants from extreme rent increases.

Risks. Cost study data would be available a year or more after costs changed, creating the potential for rents to increase in a year of economic contraction if costs increased the previous year, or similar mismatches.

Formula Component	Potential Values
Base Formula	Third-party cost study overall % increase in operating expenses
Maximum (Cap)	4 to 6%
Minimum (Floor)	None

IMPLICATIONS FOR PROPERTY OWNERS

Benefits. A cost study approach would theoretically closely align allowable rent increases with actual changes in costs, minimizing risks for property owners.

Risks. Including a cap on rent increases could mean that in years with high cost growth, rental growth would not keep pace. A third-party rent study would be available a year or more after costs changed, creating the potential for allowable rent increases to lag behind incurred cost increases. Such a study would also reflect trends in a broad geography, and could obscure local cost drivers such as taxes, insurance, and utilities. The cost study approach does not include a "floor" for minimum rent increases because theoretically if costs do not increase, rents would need to increase, but this may pose a risk to property owners.

IMPLICATIONS FOR ADMINISTRATORS

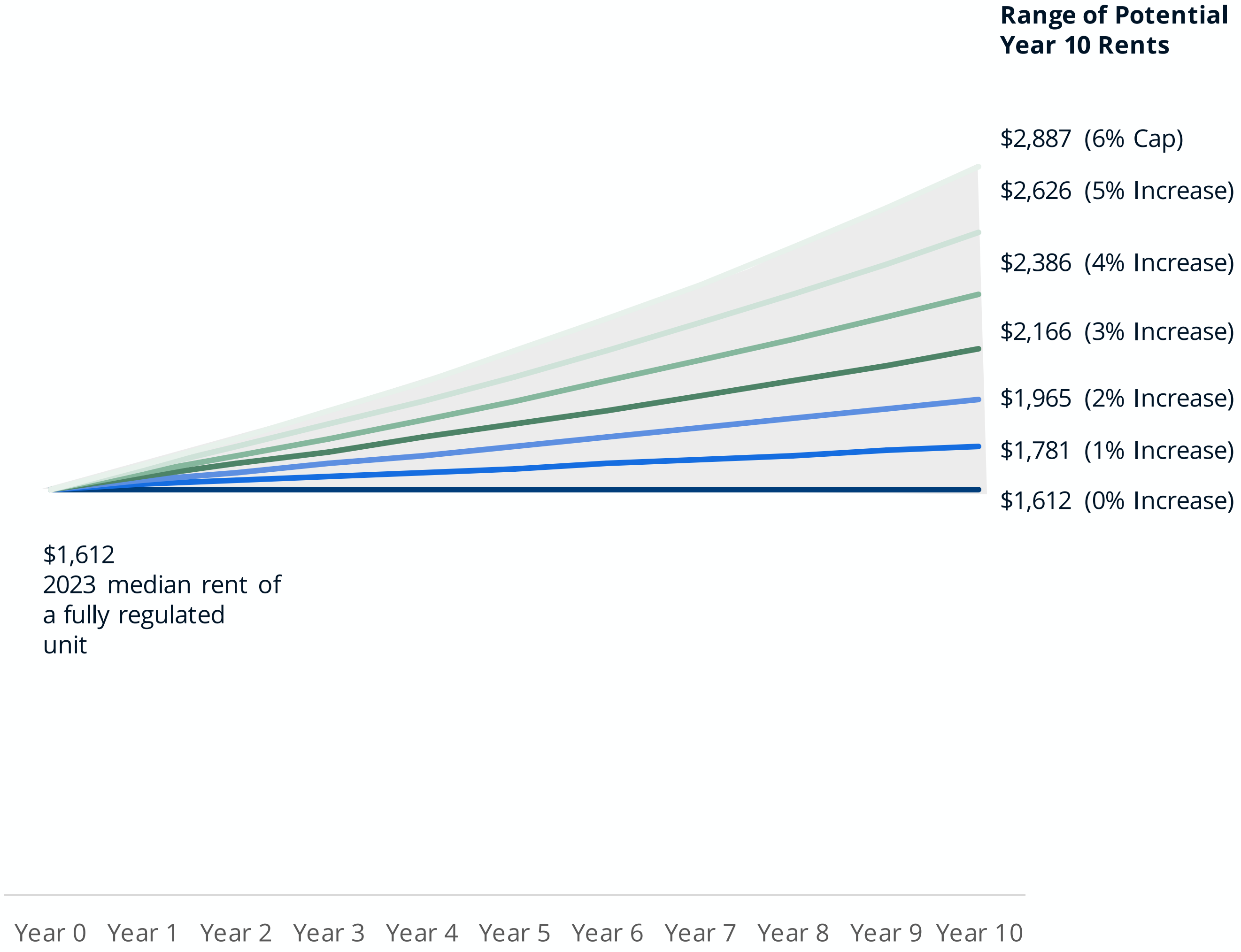
Purchasing a third-party report would minimize the potential costs for the County to produce its own study, but could still require added staff capacity to manage policy changes and the rollout of new procedures and informational materials. In addition, a cost study approach typically requires public comment and review by the Board of Supervisors annually to validate the report and its implications for allowable cost increases, and can thus become administratively burdensome and time consuming, in addition to creating uncertainty in the process.

OTHER CONSIDERATIONS

Because this option does not include a "floor", the County could consider including a temporary "catch up" period for property owners, such as adding 1% (or some other percentage) to the rent increase otherwise allowed by the formula for a fixed number of years.

OPTION 6: USE A COST STUDY

A third-party cost study could improve alignment between rents and costs while protecting tenants from large increases in rent, but this approach carries potential complications.



FORMULA IMPACTS OVER TIME (6% CAP)

OpEx Increase	Annual Rent Growth	Year 10 Rent	Renter Impacts	Property Owner Impacts
0.0%	0%	$1,612	24%	66%
1.0%	1%	$1,781	26%	66%
2.0%	2%	$1,965	29%	66%
3.0%	3%	$2,166	32%	66%
4.0%	4%	$2,386	35%	66%
5.0%	5%	$2,626	38%	66%
6.0%	6%	$2,887	42%	66%
7.0%	6%	$2,887	42%	64%
8.0%	6%	$2,887	42%	61%
9.0%	6%	$2,887	42%	57%
10.0%	6%	$2,887	42%	53%

Note: Renter Impacts: Percent of income spent on rent of a median income renter in a median rent unit after 10 years, assuming 3% income growth.
Property Owner Impacts: Net Operating Income as a percent of Total Income after 10 years, assuming costs grow as indicated in leftmost column.

06

Appendix

APPENDIX

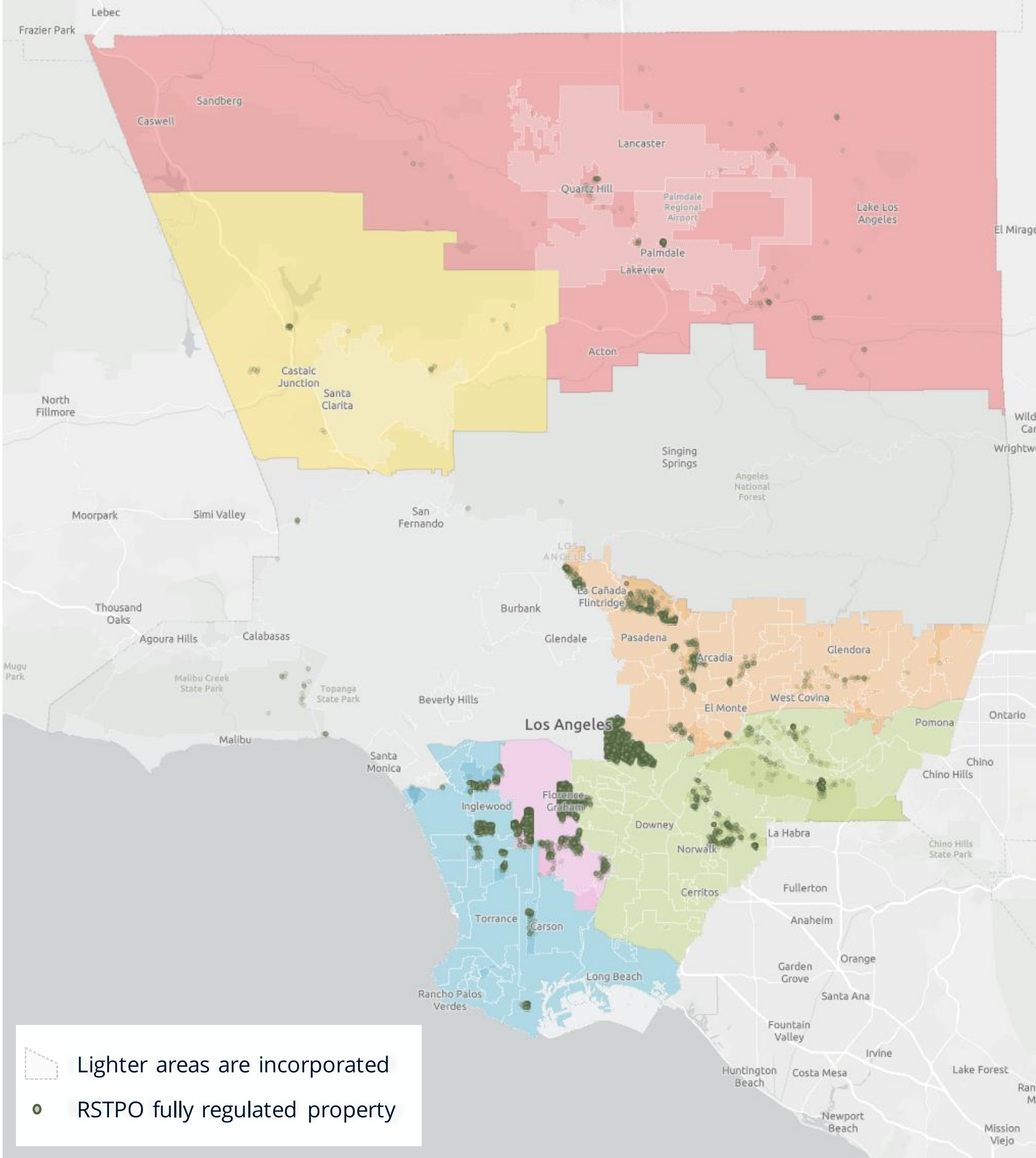
Fully regulated properties are mostly in East & South LA submarkets.

PROPERTIES AND UNITS SUBJECT TO RENT STABILIZATION

Submarket	Key	Properties	Units
Antelope Valley		229	948
Coastal South LA		1,330	6,400
East LA		4,308	20,662
San Gabriel Valley		1,163	7,823
Santa Clarita Valley		39	874
South LA		3,772	14,391
Not a Part of a Submarket		39	444

Source: LA County Rent Registry Data (2021 – 2023); Dept. of Regional Planning & KMA (2017)

FULLY REGULATED PROPERTIES IN LA COUNTY



APPENDIX

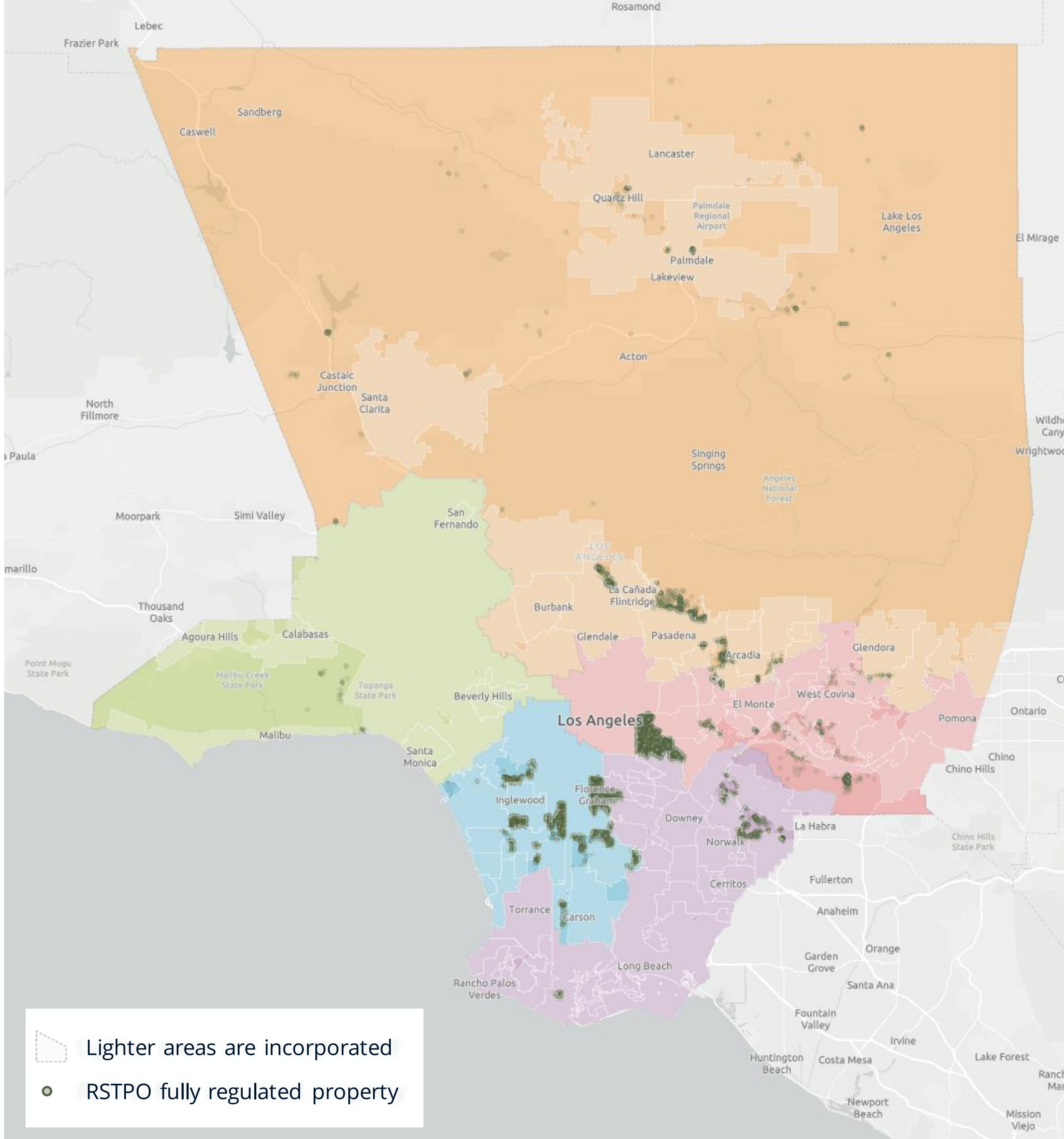
Fully regulated properties are mostly in Supervisorial Districts 1 and 2.

PROPERTIES AND UNITS SUBJECT TO RENT STABILIZATION

Supervisorial District	Key	Properties	Units
Supervisorial District 1		4,023	17,117
Supervisorial District 2		4,810	19,788
Supervisorial District 3		28	112
Supervisorial District 4		718	5,580
Supervisorial District 5		1,301	8,947

Source: LA County Rent Registry Data (2021 – 2023); Los Angeles County Department of Registrar-Recorder/County Clerk

FULLY REGULATED PROPERTIES IN LA COUNTY



On January 30, 2024, HR&A convened a roundtable of tenants and tenant advocates in Los Angeles County. There were 21 attendees.

Rent Increases and Rent Debt

- **Rent Debt and Increases:** Tenants struggle to repay rent debt from COVID, keep up with current rent, and absorb additional rent increases. Advocates believe that lower rent caps are critical for low-income tenants in this situation.
- **No banking or property owner size exceptions:** Tenant advocates believe that allowing "banking" and exceptions for certain types of property owners undermine the predictability of rent or create unfair differences for tenants, which is important for tenants to avoid falling behind.
- **Rent Relief Challenges:** Tenants have trouble accessing rent debt programs and meeting documentation requirements.

Harassment, Evictions, and Displacement

- **Owner Move-Ins and Harassment:** Tenants are experiencing an increase in evictions for owner move-ins.
- **Tenant Harassment:** Tenant advocates believe property owners use harassment as an extralegal strategy to get tenants to move when there is no legal reason for eviction.
- **Desire for Stability:** Tenant advocates suggest that tenants generally desire consistency and stability, and that RSTPO does not discourage tenants from moving out when they otherwise would.

Legal Protections and Accountability

- **Undocumented Tenants:** Tenant advocates say that many tenants face harassment from property owners and that undocumented tenants lack legal protection because of their undocumented status.
- **Accountability Needed:** Tenant advocates believe that there should be more accountability for property owners violating tenant rights and more enforcement of existing policies.

Housing Condition

- **Deferred Maintenance:** Tenant advocates say that deferred maintenance from the pandemic has undermined housing habitability.

On January 30, 2024, HR&A convened a roundtable of property owners and industry representatives in Los Angeles County. There were 63 attendees.

Concerns About Increased Restriction on Rent Increases

- **Perceptions of the study:** Property owners expressed frustration that the County is considering changes to the formula given that the current formula has not yet been "tested", and noted the perception that any change to the formula is unlikely to allow greater rent increases.
- **Rent Freeze:** Property owners expressed desire for a one-time remedy to allow rents to increase to where they would have been under RSTPO without a full freeze on increases.

Increasing Costs Not Reflected in Allowable Rent Increases

- **CPI Inadequacy:** Property owners criticized the CPI for not accurately reflecting costs. Instead, property owners suggest cost studies should inform allowable rent increases.
- **Insurance Costs:** Property owners noted that insurance costs have increased substantially in recent years, well beyond growth in CPI.
- **Mortgage Burden:** High-interest mortgage payments require greater income to maintain cash flows. New buyers struggle to cover mortgages due to inherited tenants with low rents and capped rent increases.
- **Property Tax:** Property owners are concerned about the imbalance between property tax increases and allowable rent increases.
- **Utilities and Trash Costs:** Property owners experienced significant increases in the costs of utilities and trash that they did not feel were reflected in allowable rent increases. Note that these comments appeared to pertain to the City of Los Angeles.

Rent Debt and Enforcement

- **Pandemic Losses:** Property owners are concerned that they will be able to recover very little of the rent they are owed from non-payment during COVID.
- **Tenant Default:** Property owners seek more protection against tenants who choose not to pay rent or pursue resources that could help them pay rent.

Consideration of Tenant Income for Properties Subject to RSTPO

- **High-Income Tenants:** Property owners feel that wealthy tenants should not have rent-capped units. They cited specific concerns for small property owners who may have lower incomes than their tenants, or for properties with high levels of amenities which require fees to maintain and operate.
- **Means Testing:** Property owners believe that the County should require means testing for rent-stabilized units.
- **Luxury Units:** Property owners believe that luxury units in certain types of buildings should receive exemptions or additional allowable increases.

Housing Supply Challenges

- **Property Improvement:** Property owners believe that a formula that uses less than CPI gives no incentive for property improvement.
- **Housing Supply:** Property owners believe that these challenges are causing an exodus of housing suppliers, which they believe could cause a shortage of rental housing supply.

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Burdensome Applications for Additional Rent Increases and Rent Relief, Lengthy and Imbalanced Eviction Processes

- **Mortgage Exclusion:** Property owners believe rental adjustments should consider mortgages.
- **Documentation Requirements for Additional Rent Increase Applications:** Property owners believe that applications for additional rent increases are overly burdensome.
- **Air Conditioning Requirement:** Property owners cited worries about high costs associated with compliance with a recent motion approved by the County Board of Supervisors that, if adopted, will establish a safe maximum indoor temperature for rental units and require these units be "cooling ready". They noted that these costs may not be allowable pass-through expenses to tenants under the RSTPO.
- **Property Owner Representation:** Property owners feel the cost of eviction proceedings further strains cases of non-payment and feel that tenants receiving free legal representation creates an imbalance.

Los Angeles County Rent Stabilization Study

Prepared for Los Angeles County

March 2024