



# Board of Supervisors Operations Cluster Agenda Review Meeting

**DATE:** May 1, 2024

**TIME:** 2:00 p.m. – 4:00 p.m.

**MEETING CHAIR:** John Leonard, 3<sup>rd</sup> Supervisorial District

**CEO MEETING FACILITATOR:** Thomas Luscombe

**This meeting will be held in a hybrid format which allows the public to participate virtually, or in-person, as permitted under the Board of Supervisors' March 19, 2024 order.**

To participate in this meeting in-person, the meeting location is:

Kenneth Hahn Hall of Administration  
500 West Temple Street  
Los Angeles, California 90012  
Room 374-A

To participate in this meeting virtually, please call teleconference number

1 (323) 776-6996 and enter the following 439827168# or [Click here to join the meeting](#)

Teams Meeting ID: 261 988 418 429

Passcode: PDSfQN

Members of the Public may address the Operations Cluster on any agenda item during General Public Comment. The meeting chair will determine the amount of time allowed for each item.  
**THIS TELECONFERENCE WILL BE MUTED FOR ALL CALLERS. PLEASE DIAL \*6 TO UNMUTE YOUR PHONE WHEN IT IS YOUR TIME TO SPEAK.**

**1. CALL TO ORDER**

**2. GENERAL PUBLIC COMMENT**

**3. DISCUSSION ITEM(S):**

- A) Board Letter:  
TEN-YEAR LEASE  
OFFICE OF THE ASSESSOR  
325 WEST ADAMS BLVD, LOS ANGELES  
CEO/RE - Alexandra Nguyen-Rivera, Section Chief, Leasing

**4. PRESENTATION ITEM(S):**

- A) REPORT ON EXTENSION OF RENTAL INCREASE LIMITS  
Presenter(s): Carrie Miller, Senior Manager (CEO),  
Rafael Carbajal, Director (DCBA), Judith Taylor and Sarah Kirk (HR&A)

**5. ADJOURNMENT**

**UPCOMING ITEM(S) FOR MAY 8, 2024:**

- A) MVA/CIO - APPROVAL TO UTILIZE FUNDS FROM THE COUNTY'S INFORMATION TECHNOLOGY INFRASTRUCTURE FUND FOR THE ACQUISITION AND IMPLEMENTATION OF THE VETERAN CUSTOMER EXPERIENCE SOLUTION AND APPROVE AN APPROPRIATION ADJUSTMENT FOR FISCAL YEAR 2023-24
- B) DHR - APPROVAL OF OCCUPATIONAL HEALTH MEDICAL EXAMINATION SERVICES MASTER AGREEMENT
- C) A-C - REQUEST FOR TEMPORARY TRANSFERS FROM AVAILABLE FUNDS TO MEET FINANCIAL OBLIGATIONS
- D) A-C - RECOMMENDATION TO AWARD A CONTRACT FOR THE ANNUAL COUNTY FINANCIAL AUDIT
- E) TTC - ISSUANCE AND SALE OF 2024-25 TAX AND REVENUE ANTICIPATION NOTES
- F) TTC - LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION LEASE REVENUE NOTE PROGRAM

## BOARD LETTER/MEMO CLUSTER FACT SHEET

 Board Letter

 Board Memo

 Other

<b>CLUSTER AGENDA REVIEW DATE</b>	5/1/2024	
<b>BOARD MEETING DATE</b>	5/21/2024	
<b>SUPERVISORIAL DISTRICT AFFECTED</b>	<input type="checkbox"/> All <input checked="" type="checkbox"/> 1 <sup>st</sup> <input type="checkbox"/> 2 <sup>nd</sup> <input type="checkbox"/> 3 <sup>rd</sup> <input type="checkbox"/> 4 <sup>th</sup> <input type="checkbox"/> 5 <sup>th</sup>	
<b>DEPARTMENT(S)</b>	Assessor	
<b>SUBJECT</b>	Ten-year lease and three two-year options for 10,833 square feet of office space and 71 on-site parking spaces at 325 West Adams Boulevard, Los Angeles, CA 90007	
<b>PROGRAM</b>	Regional service program	
<b>AUTHORIZES DELEGATED AUTHORITY TO DEPT</b>	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
<b>SOLE SOURCE CONTRACT</b>	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
	If Yes, please explain why: N/A	
<b>DEADLINES/ TIME CONSTRAINTS</b>	N/A	
<b>COST &amp; FUNDING</b>	Total cost: \$8,863,000 (\$14,559,00 if all options are exercised)	Funding source: The rental costs will be funded by 31.76 percent subvended funds through Senate Bills 2557 and 813 and the remaining 68.24 percent by net County cost (NCC) and is included in Assessor's Fiscal Year (FY) 2023-24 Budget. The Assessor will not be requesting additional NCC for this action.
	TERMS (if applicable): The proposed lease will have an annual lease cost of approximately \$1,881,000 for the first year, inclusive of Low Voltage costs, operating expenses, electric utilities, janitorial and reimbursable Tenant Improvements to be repaid in one lump sum.	
	Explanation: Assessor has sufficient funding in its FY 2023-24 operating budget to cover the proposed rent, County TI costs, and Low-Voltage Items for the first year. Future funding for the costs associated with the proposed lease will be addressed through the annual budget process for Assessor.	
<b>PURPOSE OF REQUEST</b>	Approval of the recommended actions will authorize and provide use of office space for the Assessor.	
<b>BACKGROUND (include internal/external issues that may exist including any related motions)</b>	The Office of the Assessor had to vacate their former offices when their landlord decided to reposition the property and did not renew the lease. The Assessor has been without office space since May 31, 2022. The office went to a hybrid teleworking model during this displacement period. The office lost the ability to provide local public service to clients within the West Los Angeles County area.	
<b>EQUITY INDEX OR LENS WAS UTILIZED</b>	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No If Yes, please explain how:	
<b>SUPPORTS ONE OF THE NINE BOARD PRIORITIES</b>	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No If Yes, please state which one(s) and explain how:	
<b>DEPARTMENTAL CONTACTS</b>	Alexandra Nguyen-Rivera, Section Chief, Leasing CEO- Real Estate Division 213-974-4189 arivera@ceo.lacounty.gov	



**Chief  
Executive  
Office.**

**COUNTY OF LOS ANGELES**

Kenneth Hahn Hall of Administration  
500 West Temple Street, Room 713, Los Angeles, CA 90012  
(213) 974-1101 ceo.lacounty.gov

**CHIEF EXECUTIVE OFFICER**

Fesia A. Davenport

"To Enrich Lives Through Effective and Caring Service"

May 21, 2024

The Honorable Board of Supervisors  
County of Los Angeles  
383 Kenneth Hahn Hall of Administration  
500 West Temple Street  
Los Angeles, CA 90012

Dear Supervisors:

**TEN-YEAR LEASE  
OFFICE OF THE ASSESSOR  
325 WEST ADAMS BOULEVARD, LOS ANGELES  
(FIRST DISTRICT) (3 VOTES)**

**SUBJECT**

Approval of a proposed new ten-year lease for 10,833 square feet of office space, and 71 on-site parking spaces for the County Office of the Assessor (Assessor).

**IT IS RECOMMENDED THAT THE BOARD:**

1. Find that the proposed lease is exempt from the California Environmental Quality Act (CEQA) for the reasons stated in this Board letter and in the record of the project.
2. Authorize the Chief Executive Officer, or her designee, to execute the proposed lease with Palmer/Flower Street Properties, a California limited partnership (Landlord), for approximately 10,833 square feet of office space, and 71 on-site parking spaces located at 325 West Adams Boulevard, Los Angeles (Premises) to be occupied by the Assessor. This proposes a lease for a term of ten years. The estimated maximum first year base rental cost is \$423,000. The estimated total proposed lease cost, including costs for parking, Heating, Ventilation, and Air Conditioning (HVAC), interior maintenance, tenant improvement (TI) and low-voltage costs, is \$8,863,000 over the ten-year term. The rental costs will be funded by 31.76 percent through Senate Bills 2557 and 813 and the remaining 68.24 percent by net County cost (NCC). The Assessor will not be requesting additional NCC for this action.

3. Authorize the Chief Executive Officer, or her designee, to reimburse the Landlord up to \$1,040,000 for the County's TI contribution, paid in lump sum upon TI completion.
4. Authorize the Assessor, or his designee, to contract with and direct the Internal Services Department, in coordination with the Chief Executive Officer, or her designee, for the acquisition and installation of telephone, data, and low-voltage systems and vendor installation (Low-Voltage Items) at a total cost not-to-exceed \$513,000 if paid in a lump sum or \$618,000 if amortized over five years at 10 percent interest per annum. The cost for the Low-Voltage Items is in addition to the rental costs and the County's TI contribution payable to the Landlord.
5. Authorize and direct the Chief Executive Officer, or her designee, to execute any other ancillary documentation necessary to effectuate the terms of the proposed lease, and to take actions necessary and appropriate to implement the proposed lease, including without limitation, exercising early termination rights and up to three options to renew the proposed lease for an additional period of two-years each.

#### **PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION**

The Assessor's West District Office was formerly located at 6120 Bristol Parkway, Culver City, and occupied a 30,507 square foot facility, housing 110 employees since April 17, 2000. The property was subsequently purchased by a landlord with plans to reposition the property from office use to a life-sciences research and development use and the County was asked to vacate the property at the expiration of their lease term on May 31, 2022. The Assessor's operations went to a hybrid teleworking model during this temporary displacement period until a new office or offices could be located. Further, the Assessor could no longer provide local public service to clients that reside within the West Los Angeles County area and had to redirect the public to other offices.

The Assessor set up temporary workstations at their downtown Los Angeles headquarters located in the Kenneth Hahn Hall of Administration, as well as at their South District office, located at 1401 East Willow Street, Signal Hill, until permanent office space is leased and ready for occupancy. To accommodate the temporary placement of the West District staff, the Hall of Administration staff were displaced. Once the space is freed up by the staff that will be moving to the new location, the Assessor will re-introduce the displaced staff and assess, based on operational needs, whether to include hoteling space.

The Assessor has their headquarters in downtown Los Angeles, three district offices in the north, east, and south districts, and one regional office in Lancaster. The offices provide both administrative functions and direct services functions. The administrative

services include real property and business assessments for tax purposes, and maintaining records of residential, commercial, industrial property, and businesses within their respective geographical areas. The Assessor's services include providing taxpayers with information on property tax assessments, property ownership, as well as information on building and property lot descriptions.

The Assessor decided to reconfigure from a district organizational model to a smaller regional office model, proposing to replace the one large district office with two separate and smaller offices. One regional office would serve as the Assessor's client facing component, and the other regional office would maintain the Assessor's administrative functions, including housing a majority of the appraisal staff. On September 12, 2023, the Board adopted a lease located at 6167 Bristol Parkway, Culver City for the Assessor's regional office that will house the client facing component. This proposed lease at 325 West Adams Boulevard, Los Angeles is the second regional office that will replace the former West District office, and will primarily perform the administrative function, serving properties in the Western region of Los Angeles County areas.

There will be approximately 88 employees located in the Premises, comprised of appraisers, using 78 hoteling workstations. The Assessor will continue to use a partial telework model and to better serve the public, the Assessor will require staff to report to this location on a rotating schedule. The former District office was 30,507 square feet, and with the proposed split into two regional offices, the same number of employees will be housed in a total of 18,783 square feet. Due to the Assessor's continued efforts with teleworking and creating better configured space, the programs will be able to continue operating, but in approximately 40 percent less space. The 88 employees that previously occupied approximately 15,250 square feet of District office space, will be transitioning to work in 10,833 square feet of regional office space. The hoteling model will allow for the growth of additional appraisers, which was requested in the Fiscal Year 2024-2025 Budget.

The Premises will provide adequate parking spaces for staff, and additional visitor parking spaces will be available through the purchase of validations, as needed. The Premises is in proximity to local public transportation routes in a location adequately served by local transit services, including the Metro Rail (E Line), the Metro Local bus and is accessible from the 110 and the 10 freeways.

### **Implementation of Strategic Plan Goals**

The Countywide Strategic Plan Goal 3 - *"Realize Tomorrow's Government Today"* - provides that our increasingly dynamic, and complex environment, challenges our collective abilities to respond to public needs and expectations. We want to be an innovative, flexible, effective, and transparent partner focused on advancing the common good.

The proposed lease is also consistent with Strategic Asset Management Goal Strengthen connection between service priorities and asset decisions and Key Objective No. 4 - Guide Strategic Decision-Making.

The proposed lease supports the above goals and objective by maximizing the County's use of assets in an efficient manner, reducing the amount of office space required by the program.

The proposed lease conforms with the Asset Management Principles outlined in Enclosure A.

### **FISCAL IMPACT/FINANCING**

The estimated maximum first year base rental cost is \$423,000. The aggregate cost associated with the proposed lease over the initial ten-year term, including parking, HVAC, interior maintenance, Low Voltage Items costs, and TI costs is \$8,863,000. If all three two-year options to extend the term are exercised, the aggregate cost of the option terms is \$5,696,000, for an estimated total lease cost of \$14,559,000, over a 16-year term as shown in Enclosure B. The Assessor will be responsible for utilities and janitorial services. The proposed first year lease costs will be funded by 31.76 percent subvention funding and 68.24 percent by NCC that is already included in the Assessor's existing budget. The Assessor will not be requesting additional NCC for this action.

Sufficient funding to cover the proposed rent for the first year of the proposed lease term is included in the Fiscal Year 2023-24 Rent Expense budget and will be billed back to the Assessor. The Assessor has sufficient funding in its Fiscal Year 2023-24 Operating Budget to cover the proposed rent for the first year. Future funding for the costs associated with the proposed lease will be addressed through the annual budget process for the Assessor.

### **FACTS AND PROVISIONS/LEGAL REQUIREMENTS**

In addition to the terms previously stated, the proposed lease also includes the following provisions:

- The annual rental rate will be \$39 per square foot, per year and is subject to fixed annual increases of 3 percent.
- Total TI costs are expected to be \$2,036,604. The Landlord will provide \$996,636 (\$92 per square foot) base TI allowance.
- The County will reimburse the Landlord up to \$1,039,968 (\$96 per square foot) as the County's lump sum TI contribution.

- Through ISD, the Assessor will pay up to \$513,000 for the lump sum cost of the Low-Voltage Items. If the Assessor elects to pay in installments, this amount will be amortized over five years with interest at 10 percent for a fully amortized amount not to exceed \$618,000.
- The Landlord is responsible for the operating and maintenance cost of the building and the County is responsible for utilities and janitorial costs. The County is not subject to the building's operating expense increases.
- The County is responsible for HVAC and interior maintenance at a monthly rate of \$1,805.50 (\$0.167 per square foot) and is not subject to any increases during the proposed lease term.
- The proposed lease provides for 71 parking spaces at \$200 per space per month, or \$14,200 per month or \$170,400 per year. Rates will be subject to periodic market rate fluctuations or price increases but capped at 5 percent.
- A ten-year initial term with three options to extend the lease for an additional two years each with 180 days' written notice, at a predetermined rent of a fixed 3 percent increase over the prior year's rent. If all options are exercised, the total term of the proposed lease would be 16 years.
- The County has the right to terminate the proposed lease any time after the 60<sup>th</sup> month, with 180 days' written notice, subject to payment of a termination fee in the form of reimbursement of the Landlord's unamortized tenant improvement allowance, amortized over the initial ten-year term at an interest rate of 9 percent.
- Holdover at the proposed lease expiration is permitted on the same terms and conditions except the monthly base rent during the holdover period will continue the annual increase by 3 percent over the current rent at the time of the proposed lease expiration.
- The proposed lease will be effective upon approval by the Board and full execution of the proposed lease, but the term and rent will commence upon completion of the TIs by the Landlord and acceptance of the proposed Premises by the County.
- The proposed lease gives the County a Right of First Offer to lease additional premises.



The Chief Executive Office (CEO) issued a flyer soliciting proposals for available space from landlords, brokers, and other owner representatives, for this space need, through the Board's Executive Office website and Real Estate's County website. This property was marketed on real estate websites and submitted to the County as a potential location in response to the flyer solicitation. The CEO conducted a market search of available office space for lease but was unable to identify any sites that could accommodate this requirement more economically. Based upon a review of available industry data, it has been established that the annual rental range for a comparable lease in the area is between \$39 and \$55.80 per square foot, per year. The base annual rental rate of \$39 per square foot, per year for the proposed lease represents a rate that is on the low end of the market range for the area. We recommend the Premises as the most suitable to meet the County's space requirements.

Co-working office space was not considered for this requirement because of the confidential documents and information handled and participation in the Assessment Appeals Board hearings.

Enclosure C shows all County-owned and leased facilities within the surveyed areas and there are no County-owned or leased facilities available for this space requirement.

The Department of Public Works indicated the facility was suitable for County occupancy, and due to the newer construction year built, waived the facility inspection. Construction of the TIs will be completed in compliance with relevant building and construction laws and regulations, including the Americans with Disabilities Act. The required notification letter to the City of Los Angeles has been sent in accordance with Government Code Section 25351.

County Counsel has reviewed the proposed lease and has approved it as to form. The proposed lease is authorized by Government Code Section 25351, which allows the County to enter into leases and agreements for the leasing of buildings, as necessary, to carry out the work of the county government.

The proposed lease will provide for a suitable office location for the Assessor's programs, which is consistent with the County's Facility Location Policy, adopted by the Board on July 24, 2012, as outlined in Enclosure D.

## **ENVIRONMENTAL DOCUMENTATION**

This project is exempt from CEQA, as specified in Class 1 of the Environmental Document Reporting Procedures and Guidelines adopted by the Board, and section 15301 of the State CEQA Guidelines (Existing Facilities). The proposed lease, which involves the leasing of existing office space with minor TIs within an existing building, with no expansion of the existing building, is within a class of projects that have been determined not to have a significant effect on the environment and meets the criteria set forth in

section 15301 of the State CEQA Guidelines (Guidelines), and Class 1 of the County's Environmental Document Reporting Procedures and Guidelines, Appendix G. In addition, based on the proposed project records, it will comply with all applicable regulations, and there are no cumulative impacts, unusual circumstances, damage to scenic highways, listing on hazardous waste site lists compiled, pursuant to Government Code Section 65962.5, or indications that it may cause a substantial adverse change in the significance of a historical resource that would make the exemption inapplicable.

Upon the Board's approval of the recommended actions, a Notice of Exemption will be filed with the Registrar-Recorder/County Clerk in accordance with section 21152 of the California Public Resources Code.

**IMPACT ON CURRENT SERVICES (OR PROJECTS)**

The proposed lease will adequately provide the necessary office space, and parking spaces for this County requirement. The Assessor concurs with the proposed lease and recommendations.

Respectfully submitted,

FESIA A. DAVENPORT  
Chief Executive Officer

FAD:JMN:JTC  
JLC:HD:ANR:gb

Enclosures

c: Executive Office, Board of Supervisors  
County Counsel  
Assessor  
Auditor-Controller  
Internal Services

**ASSESSOR  
325 WEST ADAMS BOULEVARD, LOS ANGELES**

**Asset Management Principles Compliance Form<sup>1</sup>**

1.	<b><u>Occupancy</u></b>	Yes	No	N/A
A	Does lease consolidate administrative functions? <sup>2</sup>	X		
B	Does lease co-locate with other functions to better serve clients? <sup>2</sup> This is one of two regional offices, which split the former West District Office functions.		X	
C	Does this lease centralize business support functions? <sup>2</sup>			X
D	Does this lease meet the guideline of 200 sq. ft of space per person? <sup>2</sup> Based on 88 employees, it is 119 SF per person and is due to telework schedule.		X	
E	Does lease meet the 4/1000 sq. ft. parking ratio guideline? <sup>2</sup> 71 spaces is a 6.8/1,000 parking ratio to accommodate staff and visitors.		X	
F	Does public parking and mass-transit exist to facilitate employee, client and visitor access to the proposed lease location? <sup>2</sup>	X		
2.	<b><u>Capital</u></b>			
A	Is it a substantial net County cost (NCC) program?	X		
B	Is this a long-term County program?	X		
C	If yes to 2 A or B; is it a capital lease or an operating lease with an option to buy?		X	
D	If no, are there any suitable County-owned facilities available?		X	
E	If yes, why is lease being recommended over occupancy in County-owned space?			X
F	Is Building Description Report enclosed as Enclosure C?		X	
G	Was build-to-suit or capital project considered? <sup>2</sup> The County is a tenant in a multi-tenant building		X	
3.	<b><u>Portfolio Management</u></b>			
A	Did department use the CEO Space Request Evaluation (SRE)?	X		
B	Was the space need justified?	X		
C	If a renewal lease, was co-location with other County departments considered?			X
D	Why was this program not co-located?			
	1. ____ The program clientele requires a "stand alone" facility.			
	2. ____ No suitable County occupied properties in project area.			
	3. <b><u>X</u></b> No County-owned facilities available for the project.			
	4. ____ Could not get City clearance or approval.			
	5. ____ The Program is being co-located.			
E	Is lease a full-service lease? <sup>2</sup> County pays HVAC, maintenance, utilities and janitorial		X	
F	Has growth projection been considered in space request?	X		
G	<sup>1</sup> Has the Dept. of Public Works completed seismic review/approval?	X		
<sup>1</sup> As adopted by the Board of Supervisors 11/17/98				
<sup>2</sup> If not, why not?				

**OVERVIEW OF THE PROPOSED BUDGETED LEASE COSTS**

325 W Adams Blvd, Los Angeles, CA  
Office of the Assessor

Leased Area (sq. ft.)	10,833											
Term (months)	120	10 years										
Annual Rent Adjustment	3%											
	<b>Cost Per SF Per Month</b>	<b>Cost Per SF Per Year</b>										
Base Rent	\$3.25	\$39.00										
TI Allowance (Reimbursable) (\$96 SF)	<b>Lump Sum Cost</b>											
	\$1,039,968											
	<b>Lump Sum Cost</b>	<b>Amortized Cost @ 10%, 5 Yrs</b>										
LV (TESMA Labor & Materials)	\$513,000	\$ 617,432.22										

	1 <sup>st</sup> Year	2 <sup>nd</sup> Year	3 <sup>rd</sup> Year	4 <sup>th</sup> Year	5 <sup>th</sup> Year	6 <sup>th</sup> Year	7 <sup>th</sup> Year	8 <sup>th</sup> Year	9 <sup>th</sup> Year	10 <sup>th</sup> Year	Total 10 Year Rental Costs
Annual Base Rent <sup>(1)</sup>	\$422,487	\$435,162	\$448,216	\$461,663	\$475,513	\$489,778	\$504,472	\$519,606	\$535,194	\$551,250	<b>\$4,844,000</b>
Parking <sup>(2)</sup>	\$170,400	\$178,920	\$187,866	\$197,259	\$207,122	\$217,478	\$228,352	\$239,770	\$251,758	\$264,346	<b>\$2,144,000</b>
HVAC and maintenance costs to LL	\$21,666	\$21,666	\$21,666	\$21,666	\$21,666	\$21,666	\$21,666	\$21,666	\$21,666	\$21,666	<b>\$217,000</b>
Tenant Improvement Costs	\$1,039,968	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	<b>\$1,040,000</b>
Total Costs Paid to the Landlord	\$1,654,521	\$635,748	\$657,748	\$680,588	\$704,301	\$728,923	\$754,490	\$781,042	\$808,618	\$837,262	<b>\$8,244,000</b>
Low Voltage Costs (TESMA)	\$226,410	\$97,755	\$97,755	\$97,755	\$97,755	\$0	\$0	\$0	\$0	\$0	<b>\$618,000</b>
<b>Total Annual Lease Costs<sup>(3)</sup></b>	<b>\$1,880,931</b>	<b>\$733,503</b>	<b>\$755,504</b>	<b>\$778,344</b>	<b>\$802,057</b>	<b>\$728,923</b>	<b>\$754,490</b>	<b>\$781,042</b>	<b>\$808,618</b>	<b>\$837,262</b>	<b>\$8,863,000</b>

**Option Rents**

Option 1	1 <sup>st</sup> Year	2 <sup>nd</sup> Year	Total 2 Year Rental Costs	Option 2	1 <sup>st</sup> Year	2 <sup>nd</sup> Year	Total 2 Year Rental Costs	Option 3	1 <sup>st</sup> Year	2 <sup>nd</sup> Year	Total 2 Year Rental Costs
Annual Base Rent <sup>(1)</sup>	\$567,787	\$584,821	<b>\$1,153,000</b>	Annual Base Rent	\$602,365	\$620,436	<b>\$1,223,000</b>	Annual Base Rent	\$639,049	\$658,221	<b>\$1,298,000</b>
Parking <sup>(2)</sup>	\$277,564	\$291,442	<b>\$570,000</b>	Parking <sup>(2)</sup>	\$306,014	\$321,315	<b>\$628,000</b>	Parking <sup>(2)</sup>	\$337,380	\$354,249	<b>\$692,000</b>
HVAC and maintenance costs to LL	\$21,666	\$21,666	<b>\$44,000</b>	HVAC/Maint	\$21,666	\$21,666	<b>\$44,000</b>	HVAC/Maint	\$21,666	\$21,666	<b>\$44,000</b>
<b>Total Annual Lease Costs<sup>(3)</sup></b>	<b>\$867,017</b>	<b>\$897,929</b>	<b>\$1,767,000</b>	<b>Total</b>	<b>\$930,045</b>	<b>\$963,417</b>	<b>\$1,895,000</b>	<b>Total</b>	<b>\$998,096</b>	<b>\$1,034,136</b>	<b>\$2,034,000</b>

**Footnotes**

- <sup>(1)</sup> The Base Rent is subject to fixed three percent (3%) increases per annum.
- <sup>(2)</sup> Parking cost is for 71 spaces at \$200 per space per month and is subject to market increases capped at 5%.
- <sup>(3)</sup> County is responsible for utility and janitorial costs. This is a new lease acquisition and estimates are unavailable.

	<b>Est. Aggregate costs of 3 options</b>	<b>\$5,696,000</b>
<b>*Calculation note: All numbers are rounded up to ensure sufficient funds available to pay the specified expense.</b>	<b>Est. Aggregate costs of 16 yr Term</b>	<b>\$14,559,000</b>

**ASSESSOR  
SPACE SEARCH – 5 MILE RADIUS  
325 WEST ADAMS BOULEVARD, LOS ANGELES**

<b>PROP. ID</b>	<b>Name</b>	<b>Address</b>	<b>Ownership Type</b>	<b>Gross SqFt</b>	<b>Net SqFt</b>	<b>Vacant</b>
10108	Vermont Corridor - Site 1	510 S Vermont Ave Los Angeles 90020	Revenue-Leaseback	478877	395192	NONE
6304	Crenshaw Area Office	3606 W Exposition Blvd Los Angeles 90016	Owned	19112	14020	NONE
3155	Performing Arts Center - De Lisa Building/The Annex	301 N Grand Ave Los Angeles 90012, 601 W Temple St. Los Angeles 90012	Owned	27582	17978	NONE
X317	Le Sage Complex 4 Story Bldg	3175 W 6th St. Los Angeles 90020	Owned	52,230	40,146	NONE
X550	Mental Health - Le Sage Complex Tower	550 S Vermont Ave Los Angeles 90020	Owned	171,651	148,400	NONE
5456	Health Services Administration Building	313 N Figueroa St. Los Angeles 90012	Owned	221,359	130,143	NONE
A405	Arts Commission - Wilshire - Bixel Building	1055 Wilshire Blvd Ste. 800 Los Angeles 90017	Leased	10,358	9,840	NONE
A441	AB-109 South LA Office	236 E 58th St Los Angeles 90011 5811 S San Pedro St. Los Angeles 90011	Leased	16,237	15,425	NONE
A369	DCFS - Headquarters Annex	501 Shatto Pl Los Angeles 90020	Leased	17,751	15,976	NONE
10450	DHS-Interim Housing	1426 Paloma St Los Angeles 90021	Leased	17,917	17,021	NONE
10264	DMH - DHS (FSP & MCRSEC) PROGRAMS	208 E 6th St. Los Angeles 90014	Leased	26,049	24,747	NONE
A429	HS - Office of Diversion and Reentry	222 S Hill St. Los Angeles 90012	Leased	35,397	33,629	NONE
B922	DPSS - Wilshire Special District Office	2415 W 6th St. Los Angeles 90057	Leased	46,228	42,065	NONE
A627	County Admin Offices LA World Trade Center	350 S Figueroa St. Los Angeles 90071	Leased	68,314	65,511	NONE
A532	PH Health - Wilshire Metroplex Building	3530 Wilshire Blvd Los Angeles 90010	Leased	113,027	101,920	NONE
A675	DA - Metro Court/DCFS Metro North/ERCP/Call Center	1933 S Broadway Los Angeles 90007	Leased	148,483	141,059	NONE
A600	Central Civil West Courthouse	600 S Commonwealth Ave Los Angeles 90005	Leased	281,988	237,432	NONE

## FACILITY LOCATION POLICY ANALYSIS

**Proposed lease:** Lease for the Department of Assessor – 325 West Adams Boulevard, Los Angeles – First Supervisorial District.

**A. Establish Service Function Category** – Regional service program.

**B. Determination of the Service Area** – The proposed lease will provide a ten-year term for the Office of the Assessor within Service Planning Area 4.

**C. Apply Location Selection Criteria to Service Area Data**

- Need for proximity to service area and population: This program provides public service to property owners within the west Los Angeles County area. The residents of the area are provided with assistance on questions relating to property ownership, assessments, building and property lot descriptions, and property tax assessments.
- Need for proximity to existing County facilities: Close to several other County departments including Public Health, Mental Health, Human Resources, and Fire.
- Need for proximity to Los Angeles Civic Center: N/A
- Economic Development Potential: N/A
- Proximity to public transportation: The location is adequately served by local transit services, including the Metro Rail (E Line) and Metro Local bus and accessible from the 110 and 10 freeways.
- Availability of affordable housing for County employees: The surrounding area provides for affordable housing and rental opportunities.
- Use of historic buildings: N/A
- Availability and compatibility of existing buildings: There is no space available in existing County-owned buildings to meet the departments service needs.
- Compatibility with local land use plans: The City of Los Angeles has been notified of the proposed County use which is consistent with its use and zoning for office space at this location.

- Estimated acquisition/construction and ongoing operational costs: The aggregate cost associated with the proposed lease over the initial ten-year term, including parking, HVAC and interior maintenance, low voltage costs, and tenant improvement costs is \$8,863,000. If all three two-year options to extend the term are exercised, the aggregate cost of the option terms is \$5,696,000 for an estimated total lease cost of \$14,559,000 over a 16-year term.

**D. Analyze results and identify location alternatives**

It has been established that the annual rental range for a comparable lease in the area is between \$39 and \$55.80 per square foot, per year. The base annual rental rate of \$39 per square foot, per year for the proposed lease represents a rate that is on the low end of the market range for the area.

**E. Determine benefits and drawbacks of each alternative based upon functional needs, service area, cost, and other Location Selection Criteria**

The proposed lease will provide adequate and efficient office space for 88 employees and clients consistent with the County's Facility Location Policy, adopted by the Board on July 24, 2012.

**COUNTY OF LOS ANGELES  
CHIEF EXECUTIVE OFFICE**

**LEASE AGREEMENT**

**TENANT:**

**COUNTY OF LOS ANGELES**

**LANDLORD:**

**PALMER/FLOWER STREET PROPERTIES,  
a California Limited Partnership**

**325 WEST ADAMS BOULEVARD  
LOS ANGELES, CALIFORNIA 90007**



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## **EXHIBITS**

- Exhibit A – Floor Plan of the Premises
- Exhibit B – Commencement Date Memorandum and Confirmation of Lease Terms
- Exhibit C – Heating, Ventilation, and Air Conditioning Standards
- Exhibit D – Cleaning and Maintenance Schedule
- Exhibit E – Subordination, Non-disturbance and Attornment Agreement
- Exhibit F – Tenant Estoppel Certificate
- Exhibit G – Community Business Enterprises Form
- Exhibit H – Memorandum of Lease Terms
- Exhibit I – Landlord's Work Letter
- Exhibit J – Amortization Table of Landlord's TI Allowance
- Exhibit K – Approved Parking Relocation Area

COUNTY OF LOS ANGELES  
CHIEF EXECUTIVE OFFICE

LEASE AGREEMENT

This LEASE AGREEMENT ("Lease") is entered into as of the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_ between PALMER/FLOWER STREET PROPERTIES, a California limited partnership ("Landlord"), and COUNTY OF LOS ANGELES, a body corporate and politic ("Tenant" or "County").

Landlord and Tenant agree:

**1. BASIC LEASE INFORMATION**

1.1 Terms

The following terms as used herein shall have the meanings provided in this Section 1, unless otherwise specifically modified by provisions of this Lease:

(a) Landlord's Address for Notices:	Palmer/Flower Street Properties 270 N. Canon Drive, Penthouse Beverly Hills, CA 90210 Attn: Drue Marshall Email: <a href="mailto:drue@ghpalmer.com">drue@ghpalmer.com</a>
(b) Tenant's Address for Notices:	County of Los Angeles Chief Executive Office - Real Estate Division 320 West Temple Street, 7th Floor Los Angeles, CA 90012 Attention: Director of Real Estate  With a copy to:  County of Los Angeles Office of the County Counsel 648 Kenneth Hahn Hall of Administration 500 West Temple Street, Suite 648 Los Angeles, CA 90012-2713 Attention: Property Division
(c) Premises:	Approximately 10,833 rentable square feet, designated as Suite(s) A, B, C and D, in the Building (defined below), as shown on <u>Exhibit A</u> attached hereto.

(d) Building:	The Building located at 325 W. Adams Boulevard, Los Angeles, California 90007, which is currently assessed by the County Assessor as APN 5126-017-017 (collectively, the "Property");
(e) Term:	Ten (10) years, commencing the first day of the first calendar month following thirty (30) days after the date of Tenant's Acceptance of the Premises, as defined in Section 4.1 (the "Commencement Date"), and terminating at midnight on the day before the tenth (10th) annual anniversary of the Commencement Date (the "Termination Date"), subject to earlier termination by Tenant as provided herein. The phrase "Term of this Lease" or "the Term hereof" as used in this Lease, or words of similar import, shall refer to the initial Term of this Lease together with any additional Extension Term for which an option has been validly exercised.
(f) Estimated Commencement Date:	Thirty days following Substantial Completion of Tenant Improvements and acceptance of Premises by Tenant.
(g) Tenant Maintenance Cost Reimbursement:	Tenant to pay to Landlord a fixed \$1,805.50 per month (i.e., \$0.167 per RSF per month or \$2.00 per RSF per year) for HVAC and interior maintenance, not subject to any increases during the Lease Term.
(h) Base Rent:	\$3.25 per rentable square foot (RSF) per month (i.e., \$35,207.25 per month or \$422,487.00 per year). Base Rent adjustable only as provided in Section 5.2 hereof.
(i) Early Termination (see Section 4.4)	One hundred eighty (180) days' notice on or after the sixtieth (60th) month following the commencement date.
(j) Rentable Square Feet in the Premises:	10,833 rentable square feet
(k) Initial Departmental Use:	Office use for the Assessor Department, subject to Section 6.
(l) Parking Spaces:	71 exclusive reserved spaces at the rate of \$200 per space per month (i.e., \$14,200 /month), subject to market rate increases, Monday through Friday, from 7:00 a.m. to 7:00 p.m.; Landlord to sell Tenant parking

	validations at a maximum rate of \$10.00 per car per day, subject to market rate increases (as provided in Section 21.1).
(m) Tenant's Hours of Operation:	7:00 a.m. to 7:00 p.m. Monday through Friday, and 7:00 a.m. to 1:00 p.m. on Saturdays
(n) Asbestos Report:	Waived
(o) Seismic Report	Waived
(p) Disabled Access Survey	Waived

1.2 Defined Terms Relating to Landlord's Work Letter

(a) Landlord's TI Allowance:	\$996,636.00 (\$92.00 per rentable square foot)
(b) Tenant's TI Contribution:	\$1,039,968.00 (\$96.00 per rentable square foot)
(c) Intentionally Omitted	
(d) Intentionally Omitted	
(e) Tenant's Work Letter Representative:	<u>Tina Hovsepian, Project Manager</u>
(f) Landlord's Work Letter Representative:	<u>Drue Marshall</u>
(g) Landlord's Address for Work Letter Notices:	Palmer/Flower Street Properties c/o G.H. Palmer Associates 270 N. Canon Dr., Penthouse Beverly Hills, CA 90210 Attention: Drue Marshall
(h) Tenant's Address for Work Letter Notices:	County of Los Angeles Chief Executive Office - Real Estate Division 320 West Temple Street, 7th Floor Los Angeles, CA 90012 Attention: Director of Real Estate

<p>1.3     <u>Exhibits to Lease</u></p>	<p>Exhibit A - Floor Plan of Premises  Exhibit B - Commencement Date Memorandum and Confirmation of Lease Terms  Exhibit C - HVAC Standards  Exhibit D - Cleaning and Maintenance Schedule  Exhibit E - Subordination, Non-Disturbance and Attornment Agreement  Exhibit F - Tenant Estoppel Certificate  Exhibit G - Community Business Enterprises Form  Exhibit H - Memorandum of Lease  Exhibit I - Landlord's Work Letter  Exhibit J- Amortization Table of Landlord's TI Allowance</p>
<p>1.4     <u>Addendum No. 1</u></p> <p>(Executed concurrently with this Lease and incorporated herein by this reference):</p>	<p>Additional Terms to Lease Agreement-N/A</p>

**2.     PREMISES**

2.1     Lease of Premises

Landlord does hereby lease to Tenant, and Tenant does hereby lease from Landlord, upon the terms and conditions herein set forth, the Premises described in Section 1.1 and depicted on Exhibit A attached hereto.

2.2     Measurement of Premises

Tenant shall have a one-time right within thirty (30) days of delivery of the Premises to field-measure and verify the exact footage of the Premises and/or the Building. All measurements shall be taken in accordance with the methods of measuring rentable area as described in the Standard Method for Measuring Floor Area in Office Buildings, ANSI/BOMA Z65.1-2010, as promulgated by the Building Owners and Management Association ("BOMA") International, except that no penthouse mechanical room space shall be included in the measurement. Should this measurement be less than the square footage stated above, then Tenant shall have the right to adjust such square footage and reduce the Base Rent in Section 1.1 accomplished by the mutual execution of an amendment to this Lease. Landlord acknowledges the space has been marketed at the above-indicated rental amount and in the event of subsequent physical measurements, Landlord agrees there will be no increase made to the Base Rent if the measured square footage exceeds the amount represented by Landlord.

**3.     COMMON AREAS**

Tenant may use the following areas ("Common Areas") in common with Landlord and any other tenants of the Building: the entrances, lobbies, corridors and other public areas of the Building, walkways, landscaped areas, driveways necessary for access to the



Premises, parking areas and other common facilities designated by Landlord from time to time for common use of all tenants of the Building. Tenant shall comply with all reasonable, non-discriminatory rules and regulations regarding the use of the Common Area established by Landlord.

#### **4. COMMENCEMENT AND EXPIRATION DATES**

##### **4.1 Term**

The term of this Lease shall commence upon the Commencement Date and terminate on the Termination Date. Within thirty (30) days of determining the Commencement Date, Landlord and Tenant shall acknowledge in writing the Commencement Date by executing a Commencement Date Memorandum and Confirmation of Lease Terms in the form attached hereto as Exhibit B. The term "Tenant's Acceptance of the Premises" as used in this Lease shall mean the date upon which the Tenant Improvements and the Premises are Substantially Complete, Tenant has inspected the Premises, and Tenant has accepted the Tenant Improvements and the Premises in writing. The terms "Substantial Completion" or "Substantially Complete" as used in this Lease shall mean compliance with all of the following:

- (a) The shell and core of the Building are complete and in compliance with all applicable laws and codes, and all of the building systems are operational to the extent necessary to service the Premises;
- (b) Landlord has sufficiently completed all the work required to be performed by Landlord in accordance with this Lease and Landlord's Work Letter (if any), including the installation of modular furniture systems, if so required (except minor punch list items which Landlord shall thereafter promptly complete), such that Tenant can conduct normal business operations from the Premises;
- (c) Landlord has obtained a certificate of occupancy for the Building, or a temporary certificate of occupancy for that portion of the Building that includes all of the Premises, or inspection card with appropriate inspector's signature and date, or its equivalent;
- (d) Tenant has been provided with the number of parking privileges and spaces to which it is entitled under this Lease; and
- (e) If Landlord is responsible for the installation of telecommunications systems, then such systems shall be completely operational.

##### **4.2 Termination Right**

If the Commencement Date has not occurred within ninety (90) days after the Estimated Commencement Date, subject to Tenant Delays or Force Majeure Delays, as provided in Landlord's Work Letter executed concurrently herewith and attached hereto as Exhibit I and incorporated herein by reference, then Tenant may thereafter, at any time before the Commencement Date occurs, terminate this Lease effective upon the giving of written notice to Landlord, and the parties shall have no further rights or obligations to one another hereunder.

#### 4.3 Early Entry

Tenant shall be entitled to enter the Premises not less than thirty (30) days prior to the Commencement Date for the purpose of installing Tenant's furniture, fixtures, and equipment in the Premises so long as such installation does not interfere with or hinder the completion of the Landlord's Work. Such early entry shall be subject to all provisions hereof, but shall not advance the Termination Date, and Tenant shall not pay Base Rent nor any other charges for such early entry period.

#### 4.4 Early Termination

Tenant shall have the right to terminate this Lease at any time after the Early Termination date specified in Section 1.1, by giving Landlord not less than one hundred-eighty days (180) days prior written notice, executed by Tenant's Chief Executive Officer or his/her designee. If Tenant exercises the early termination right, Tenant will reimburse Landlord for the unamortized Landlord's TI Allowance, balance due at the point in time the expiration takes effect. The Landlord's TI allowance will be amortized over the 10 year term at an interest rate of nine percent (9.0%). The Amortization table is attached hereto as Exhibit J.

### 5. RENT

#### 5.1 Base Rent

Tenant shall pay Landlord the Base Rent stated in Section 1.1 during the Term hereof (a) within fifteen (15) business days after the Commencement Date, and (b) within five (5) business days after the first day of each calendar month thereafter, provided that at least fifteen (15) business days prior to the Commencement Date, Landlord must provide the Auditor of the County of Los Angeles with the following information: (i) name and address of Landlord or other party to whom Base Rent should be paid, (ii) Landlord's federal tax ID number; (iii) name of contact person and contact information (including phone number) for Landlord; (iv) a completed IRS form W-9, and (v) evidence of insurance in compliance with Section 20.2. If Landlord fails to timely provide the information required pursuant to this Section 5.1, or to provide updates for any changed information, then Tenant shall not be required to pay Base Rent to Landlord until fifteen (15) business days after Landlord provides such information. Base Rent for any partial calendar month during the Term shall be prorated in proportion to the number of days during the Term within such calendar month. All monetary obligations of Tenant hereunder shall constitute "Rent". Notwithstanding the forgoing to the contrary, in the event that Landlord assigns its interest in this Lease to a successor Landlord ("Successor Landlord"), Tenant shall have fifteen (15) business days after the first day of the first calendar month after the effective date of such assignment (such first day, the "First Payment Date") to pay to Successor Landlord Base Rent, provided that at least thirty (30) business days prior to the First Payment Date, Successor Landlord must provide the Auditor of the County of Los Angeles with the information set forth in subclauses (i)-(v) of the first sentence of this Section 5.1. If Successor Landlord fails to timely provide the information required pursuant to this Section 5.1, or to provide updates for any changed information, then Tenant shall not be required to pay Base Rent to Successor Landlord until fifteen (15) business days after Successor Landlord provides such information.

5.2 Base Rent Adjustments

On each anniversary of the Commencement Date, yearly Base Rent shall be adjusted by increasing it by three (3%) per annum. Tenant shall pay Base Rent during the Term(s) as follows:

<b>Months</b>	<b>Rate per rentable square foot</b>	<b>Monthly Rent*</b>
1-12	\$3.25	\$35,207.25
13-24	\$3.35	\$36,263.47
25-36	\$3.45	\$37,351.37
37-48	\$3.55	\$38,471.91
49-60	\$3.66	\$39,626.07
61-72	\$3.77	\$40,814.85
73-84	\$3.88	\$42,039.30
85-96	\$4.00	\$43,300.48
97-108	\$4.12	\$44,599.49
109-120	\$4.24	\$45,937.48

5.3 Tenant's Maintenance Costs

Tenant shall pay Landlord the Tenant Maintenance Cost Reimbursement stated in Section 1.1(g) during the Term hereof (a) within fifteen (15) business days after the Commencement Date, and (b) within five (5) business days after the first day of each calendar month thereafter. Tenant Maintenance Cost Reimbursement shall be a fixed cost, not subject to any increases during the Lease Term. In addition to the base rent, Tenant will pay a fixed \$1,805.50 per month (\$0.167/RSF/month or \$2.00/rsf/year) for HVAC and interior maintenance. Notwithstanding the forgoing to the contrary, in the event of a Successor Landlord, Tenant shall have fifteen (15) business days after the First Payment Date to pay to Successor Landlord the Tenant Maintenance Cost Reimbursement, provided that at least thirty (30) business days prior to the First Payment Date, Successor Landlord must provide the Auditor of the County of Los Angeles with the information set forth in subclauses (i)-(v) of the first sentence of Section 5.1. If Successor Landlord fails to timely provide the information required pursuant to this Section 5.1, or to provide updates for any changed information, then Tenant shall not be required to pay the Tenant Maintenance Cost Reimbursement to

Successor Landlord until fifteen (15) business days after Successor Landlord provides such information.

**6. USES**

Landlord agrees that the demised Premises, together with all appurtenances thereto, shall be used by the Tenant for the government department set forth in Section 1.1, any other County Department the County designates, any other governmental purposes, or other lawful purposes that do not materially adversely interfere with other uses in the Building, during Tenant's Hours of Operation, after Tenant's Hours of Operation, and on weekends and holidays.

**7. HOLDOVER**

If Tenant remains in possession of the Premises or any part thereof after the expiration of the term of this Lease, such occupancy shall be a tenancy which is terminable only upon ninety (90) days written notice from Landlord or thirty (30) days written notice from Tenant's Chief Executive Officer or his/her designee at the last monthly Base Rent payable under this Lease (increased by 3%), plus any other charges payable under this Lease, and subject to all of the terms, covenants and conditions of this Lease.

**8. COMPLIANCE WITH LAW**

Tenant shall, at Tenant's expense, comply promptly with all applicable statutes, ordinances, rules, regulations, orders and requirements in effect during the term hereof regulating the use, occupancy or improvement of the Premises by Tenant. Landlord, not Tenant, shall, at its sole cost, at all times cause the Premises and the Building to comply with all applicable statutes, ordinances, rules, regulations, orders and requirements in effect and binding upon Tenant or Landlord during the term hereof, including but not limited to the Americans with Disabilities Act ("ADA"), except if such compliance is made necessary as a result of Tenant's particular use of or alterations or improvements to the Premises.

**9. DAMAGE OR DESTRUCTION**

9.1 Damage

If any portion of the Premises is damaged by fire or any other cause rendering the Premises totally or partially inaccessible or unusable, and the Premises may be restored to a complete architectural unit of substantially the same value, condition and character that existed immediately prior to such casualty in less than two hundred seventy (270) days, then Landlord shall promptly, at Landlord's expense, repair such damage, and this Lease shall continue in full force and effect. If all or any portion of the Premises shall be made unusable by fire or other casualty, Landlord shall immediately secure the area to prevent injury to persons and/or vandalism to the improvements. Landlord shall promptly, but in any event within thirty (30) days, cause an architect or general contractor selected by Landlord to provide Landlord and Tenant with a written estimate of the amount of time required to substantially complete the repair and restoration of the Premises and make the Premises leasable again using standard working methods. The failure to do so shall be a material default hereunder. Base Rent shall abate to the extent that the Premises are unusable by Tenant.

## 9.2 Tenant Termination Right

If any portion of the Premises is damaged by fire or any other cause rendering the Premises totally or partially inaccessible or unusable, and the Premises will not be restored to a complete architectural unit of the substantially the same value, condition and character that existed immediately prior to such casualty in less than two hundred seventy ( 270) days for any reason, then Tenant may terminate this Lease by giving Landlord written notice within ten days after Tenant's receipt of written notice from Landlord or its agents specifying such time period of repair; and this Lease shall terminate and the Base Rent shall be abated from the date the Premises became unusable. If Tenant does not elect to terminate this Lease, then Landlord shall promptly commence and diligently prosecute to completion the repairs to the Building or Premises, provided that insurance proceeds are available to repair the damages. Notwithstanding the forgoing, if (a) the portion of the Premises that cannot be restored within two hundred seventy days (270) as required by this Section 9 is Tenant's parking spaces and (b) Landlord exercises its cure right set forth Section 21.2, Tenant shall not be entitled to terminate this Lease.

## 9.3 Damage In Last Year

Notwithstanding the foregoing provisions, if any material destruction to the Premises occurs during the last year of the Term, then either Landlord or Tenant may terminate this Lease by giving written notice to the other not more than thirty (30) days after such destruction, in which case:

- (a) Landlord shall have no obligation to restore the Premises;
- (b) Landlord may retain all insurance proceeds relating to such destruction, and
- (c) This Lease shall terminate as of the date which is thirty (30) days after such written notice of termination.

## 9.4 Default By Landlord

If Landlord is required to repair and restore the Premises as provided for in this Section 9, and Landlord thereafter fails to commence to diligently prosecute said repair and restoration work to completion within thirty (30) days of notice from Tenant, then Tenant may, at its sole election:

- (a) Declare a default hereunder, or
- (b) Perform or cause to be performed the restoration work and deduct the cost thereof up to three (3) months' of the then-current monthly Base Rent from the next installment(s) of Base Rent due as a charge against the Landlord.

# 10. REPAIRS AND MAINTENANCE

## 10.1 Landlord Representations

- (a) Landlord represents to Tenant that, as of the date hereof and on the Commencement Date:

- i. The Premises, the Building, and all Common Areas (including electrical, heating, ventilating, and air conditioning ("HVAC"), mechanical, plumbing, gas and fire/life safety systems in the Building and similar building service systems) comply with all current laws, codes, and ordinances, including but not limited to the Americans With Disabilities Act, and are in good working order and condition;
  - ii. The Building and the Premises comply with all covenants, conditions, restrictions and insurance underwriter's requirements;
  - iii. The Premises, the Building and the Common Areas are free of the presence of Hazardous Materials (as hereinafter defined) in violation of law; and
  - iv. Landlord has not received any written notice from any governmental agency that the Building or the Premises are in violation of any law or regulation.
- (b) Landlord represents, based upon a professional inspection of the Premises and the Building and the Asbestos Report (as defined in Section 1.1) that the Premises and the Building contain no asbestos containing materials (other than as may be reflected in the Asbestos Report). Landlord shall, prior to Tenant's occupancy, abate, at Landlord's sole cost and expense, all asbestos-containing materials to the extent required by law and provide Tenant with an updated report from a licensed California Asbestos contractor to that effect.
- (c) CASp Inspection:

In accordance with California Civil Code Section 1938, Landlord hereby states that the Premises and the Common Areas:  
*[Check the appropriate box]*

Have undergone inspection by a Certified Access Specialist (a "CASp") and have been determined to meet all applicable construction related accessibility standards pursuant to California Civil Code Section 55.53. Landlord shall provide Tenant with a copy of the CASp inspection report and a current disability access inspection certificate for the Premises within seven (7) days after the execution of this Lease.

Have undergone inspection by a Certified Access Specialist and have not been determined to meet all applicable construction related accessibility standards pursuant to California Civil Code Section 55.53. Landlord has provided Tenant with a copy of the CASp inspection report at least 48 hours prior to the execution of this Lease. A Certified Access Specialist (CASp) can inspect the subject premises and determine whether the subject premises comply with all of the applicable construction-related accessibility standards under state law. Although state law does not require a CASp inspection of the subject premises, the commercial property owner or lessor may not prohibit the lessee or tenant from obtaining a CASp inspection of the subject premises for the occupancy or potential

occupancy of the lessee or tenant, if requested by the lessee or tenant. The parties shall mutually agree on the arrangements for the time and manner of the CASp inspection, the payment of the fee for the CASp inspection, and the cost of making any repairs necessary to correct violations of construction-related accessibility standards within the premises.

Have not undergone inspection by a Certified Access Specialist. A Certified Access Specialist (CASp) can inspect the subject premises and determine whether the subject premises comply with all of the applicable construction-related accessibility standards under state law. Although state law does not require a CASp inspection of the subject premises, the commercial property owner or lessor may not prohibit the lessee or tenant from obtaining a CASp inspection of the subject premises for the occupancy or potential occupancy of the lessee or tenant, if requested by the lessee or tenant. The parties shall mutually agree on the arrangements for the time and manner of the CASp inspection, the payment of the fee for the CASp inspection, and the cost of making any repairs necessary to correct violations of construction-related accessibility standards within the premises.

The foregoing statement is provided solely for the purpose of complying with California Civil Code Section 1938 and shall not affect the Landlord's and Tenant's respective responsibilities for compliance with any design and construction related accessibility obligations as provided under this Lease or any Work Letter.

- (d) Landlord agrees to indemnify and hold harmless Tenant from all damages, costs, and expenses, which result from a material breach of Landlord's representations contained in this Section 10.1.

## 10.2 Landlord Obligations

- (a) Landlord shall keep and maintain the Property in good condition and repair and promptly make repairs to and perform maintenance upon and replace as needed:
  - i. the structural elements of the Building, including without limitation, all permanent exterior and interior walls, floors and ceilings, foundations, roof, concealed plumbing, stairways, concealed electrical systems and intra-building telephone network cables;
  - ii. mechanical (including HVAC), electrical, plumbing and fire/life systems serving the Building;
  - iii. the Common Areas;
  - iv. exterior windows of the Building; and
  - v. elevators serving the Building.
- (b) Landlord, at its sole cost and expense, shall also perform all maintenance and repairs to the Premises, and shall keep the Premises in good condition

and repair, reasonable wear and tear excepted. Landlord's repair obligations include, without limitation, repairs to, or replacements of:

- i. the floor covering (if such floor covering is carpeting it shall be replaced as needed, but not less often than after five (5) years of use);
  - ii. interior partitions;
  - iii. doors, door frames and hardware;
  - iv. the interior side of demising walls (which shall be repainted as needed but not less often than every five (5) years);
  - v. signage;
  - vi. emergency exit signage and battery replacement;
  - vii. HVAC equipment dedicated to the mechanical rooms housing Tenant's computer servers and related equipment; and
  - viii. Light fixtures, bulbs, tubes and ballasts.
- (c) Landlord shall provide, to the extent the same is in Landlord's possession or control, all maintenance reports, maintenance records, or other maintenance documentation as may be requested in writing from time to time.

### 10.3 Tenant Obligations

Without limiting Landlord's repair and maintenance obligations, Tenant shall be responsible for (i) the cost of repairing any area of the Property damaged by Tenant or by Tenant's agents, employees, invitees or visitors, and (ii) the repair of low voltage electronic, phone and data cabling and related equipment that is installed by or for the exclusive benefit of Tenant. All repairs and replacements shall:

- (a) be made and performed by contractors or mechanics approved by Landlord, which consent shall not be unreasonably withheld, conditioned or delayed, all of which contractors and/or mechanics shall maintain the types and amounts of insurance required by Landlord or Tenant;
- (b) be at least equal in quality, value and utility to the original work or installation; and
- (c) be in accordance with all applicable laws.

### 10.4 Tenant's Right to Repair

- (a) If Tenant provides written notice (or oral notice in the event of an emergency, such as damage or destruction to or of any portion of the Building structure and/or the Building systems, and/or anything that could cause material disruption to Tenant's business) to Landlord of an event or circumstance which requires the action of Landlord with respect to repair



and/or maintenance, and if Landlord fails to provide such action within a reasonable period of time given the circumstances after the giving of such notice, but in any event not later than five (5) days after the giving of such notice, then Tenant may proceed to take the required action (provided, however, that no such notice shall be required in the event of an emergency which threatens life or where there is imminent danger to property or a possibility that a failure to take immediate action could cause a material disruption in Tenant's normal and customary business activities). Tenant shall have access to the Building to the extent necessary to perform the work contemplated by this provision. If such action was required under the terms of this Lease to have been taken by Landlord and was not taken by Landlord within such period (unless such notice was not required as provided above), and Tenant took such required action, then Tenant shall be entitled to prompt reimbursement by Landlord of Tenant's reasonable costs and expenses in having taken such action in an amount of up to three (3) months' of the then-current monthly Base Rent. If not reimbursed by Landlord within ten (10) days after written notice, then Tenant shall be entitled to deduct from Base Rent payable by Tenant under this Lease the amount set forth in its invoice for such work. The remedies provided in this Section are in addition to the remedies provided in Section 15.

- (b) If not reimbursed by landlord within ten (10) days after written notice, then Tenant shall be entitled to deduct from Base Rent payable by Tenant under this Lease the amount set forth in its invoice for such work. The remedies provided in this Section are in addition to the remedies provided in Section 15.
- (c) Notwithstanding any provisions of this Lease to the contrary, Tenant, acting through the County's Chief Executive Office, may request that the Landlord perform, supply and administer any repairs, maintenance, building services and/or alterations that are the responsibility of the Tenant (except for Low Voltage, Telecommunications and other equipment installed by Tenant), not to exceed \$5,000, as part of a separate purchase order issued by the County on Tenant's behalf. Any improvements by Landlord shall be subject to (i) the Work Letter provisions regarding selection and bidding of contractors, Landlord-Tenant coordination and audit rights, and Tenant's remedies found in said Work Letter; and (ii) compliance with County Internal Services Department Purchasing Policy and Procedure No. A-0300, effective November 22, 2016, delivered to Landlord and incorporated by reference herein. This Section shall not apply to any Tenant Improvements as defined in Section 24.

## **11. SERVICES AND UTILITIES**

11.1 Services. Landlord shall furnish the following services and utilities to the Premises which utilities will either be separately metered or submetered by the Landlord and shall be paid for by the Tenant:

- (a) Heating, Ventilation and Air Conditioning (HVAC)

Landlord shall furnish heating, ventilation and air conditioning ("HVAC"), during Tenant's Hours of Operations in amounts required for the use and

occupancy of the Premises for normal office purposes to a standard comparable to other first-class buildings and not less than the standard set forth in Exhibit C attached hereto. In addition, Landlord shall furnish HVAC at all times (i.e., twenty-four (24) hours per day, seven (7) days per week, three hundred sixty-five (365) days per year) to the mechanical rooms housing Tenant's computer servers and related equipment.

(b) Electricity

Landlord shall furnish to the Premises the amount of electric current provided for in the Landlord's Work Letter (if applicable) but in any event not less than seven (7) watts of electric current (connected load) per square foot of rentable square feet in the Premises, for power and lighting and electric current for HVAC, and Landlord shall provide the existing or new transformers or sub-panels on each floor of the Premises necessary for Tenant to utilize such capacity in the Premises.

(c) Elevators

Landlord shall furnish freight and passenger elevator services to the Premises during Tenant's Hours of Operations. During all other hours, Landlord shall furnish passenger elevator cab service in the elevator bank serving the Premises on an as needed basis, and, by prior arrangement with Landlord's building manager, freight elevator service.

(d) Water

Landlord shall make available in the Premises warm and cold water for normal lavatory and kitchen purposes and potable water for drinking purposes, all of which shall meet applicable government standards.

(e) Janitorial

Landlord shall provide janitorial service five (5) nights per week, generally consistent with that furnished in comparable office buildings in the County of Los Angeles, but not less than the services set forth in the specifications set forth in Exhibit D attached hereto.

Landlord to provide an annual estimate of janitorial costs, frequency, and scope of janitorial services to Tenant at least 30 days prior to the start of Landlord entering into any contract or contract renewal for janitorial services. Tenant is to reimburse Landlord in monthly installments along with rent. At any time during the Term of the Lease, Tenant may procure janitorial services directly with a vendor, with approval from the Landlord, which approval shall not be unreasonably withheld, conditioned, or delayed.

(f) Access

Landlord shall furnish to Tenant's employees and agents access to the Building, Premises and Common Areas on a seven day per week, 24 hour per day basis, subject to compliance with such reasonable security measures as shall from time to time be in effect for the Building. If required,

Landlord shall provide initial access cards or fobs to all Tenant employees for Building entry, elevators, and/or floor access, at Landlord's sole cost and expense. If any access cards or fobs need to be re-issued or replaced due to loss or damage, then Tenant will reimburse landlord (at cost) for their replacement.

(g) Pest Control

Landlord at its sole cost and expense shall provide any and all pest control services to the Premises per the specifications set forth in Exhibit D attached hereto.

11.2 Utilities

Tenant agrees to pay, at its sole cost, when due, all charges for the use of the sewer effluent treatment, when and if imposed by any governmental authority, all water, electricity, gas and other lighting, heating and power charges, associated with the HVAC, and other utility charges accruing or payable in connection with the Premises, whether the same are pro-rated or measured by separate meters.

Landlord agrees to pay, at its sole cost when due all charges for all trash removal service, fire/life safety systems accruing or payable in connection with the Premises and the Common Areas. Landlord agrees to pay for all Common Area sewer, effluent treatment, when and if imposed by any governmental authority, all water, electricity, gas, heating, common area power and lighting, trash removal service, fire/life safety systems, charges associated with the HVAC, and other utility rents and charges accruing or payable during the Term of this Lease or any renewal, extension, or holdover thereof, whether the same are pro-rated or measured by separate meters. In the event Landlord fails or refuses to pay any or all of such charges when due, Tenant may give Landlord ten (10) calendar days prior written notice and thereafter pay directly such charges and deduct the payments from the next installments of rent due as a charge against the Landlord.

12. TAXES

Landlord, at its sole cost and expense, shall pay, prior to delinquency, all real property taxes, assessments and special assessments which may be levied or assessed against the Premises or the Building during the term of this Lease or any renewal or holdover period thereof.

In the event Landlord fails or refuses to pay any or all taxes or assessments when due, Tenant may, at its sole discretion, give Landlord thirty (30) calendar days prior written notice and thereafter pay such taxes and assessments and deduct the payments from the next installments of rent due as a charge against the Landlord.

13. LANDLORD ACCESS

Tenant shall permit Landlord and its agents to enter the Premises during Tenant's Hours of Operations upon prior written notice (other than in case of emergency, in which event no such prior written notice is required) only for the purpose of inspecting the Premises or for any reasonable purpose, including, without limitation, performing Landlord's maintenance, repair and replacement work as required herein. If Landlord temporarily closes any portion of the Premises, Base Rent shall be prorated based upon the

percentage of the Premises rendered unusable and not used by Tenant. Landlord shall have the right at any and all times to enter the Premises in the event of an emergency and notify Tenant immediately thereafter.

## **14. TENANT DEFAULT**

### **14.1 Default**

The occurrence of any one or more of the following events shall constitute a material default and breach of this Lease by Tenant ("Default"):

- (a) the failure by Tenant to make any payment of Base Rent or any other payment required to be made by Tenant hereunder (except to the extent an offset is expressly permitted hereunder) as and when due, and the failure continues for a period of ten (10) days after written notice to Tenant;
- (b) the failure by Tenant to observe or perform any of the other covenants, conditions or provisions of this Lease, where such failure shall continue for a period of thirty (30) days after written notice from Landlord specifying in detail the nature of the default; provided, however, if more than thirty (30) days are reasonably required for its cure then Tenant shall not be deemed to be in default if Tenant commences such cure, within said thirty (30)-day period and thereafter diligently prosecutes such cure to completion, but in no event shall such period extend beyond ninety (90) days.

### **14.2 Termination**

Tenant agrees that if a Default should occur and should not be cured within the time periods set forth above, it shall be lawful for Landlord to terminate this Lease upon the giving of written notice to Tenant. In addition thereto, Landlord shall have such other rights or remedies as may be provided by law.

### **14.3 No Effect on Indemnity**

Nothing in this Article shall be deemed to affect either Landlord or Tenant's right to indemnification under any indemnification clause or clauses set forth in this Lease.

## **15. LANDLORD DEFAULT**

### **15.1 Remedies**

In addition to the provisions for Landlord's default provided by Sections 9.4, 10.4, 19, 21.2 and 32.3, Landlord shall be in default ("Landlord Default") in the performance of any obligation required to be performed by Landlord under this Lease if Landlord has failed to commence to perform such obligation within ten (10) days after the giving of written notice with respect thereto by Tenant (which notice shall be, if appropriate, the same notice given under Section 10.4); provided, however, that if the nature of the Landlord Default is such that the same cannot reasonably be cured within such five day period, Landlord shall not be deemed to be in Landlord Default if Landlord shall within such period commence such cure and thereafter diligently prosecute the same to completion. If the Landlord Default is of such a nature that it materially and substantially interferes with Tenant's occupancy and use of the Premises and if such Landlord Default is not cured within

the foregoing cure period, then Tenant shall have the right, at its option, with or without further notice or demand of any kind to Landlord or any other person, to any one or more of the following described remedies in addition to all other rights and remedies provided at law or in equity or elsewhere herein:

- (a) to remedy such default or breach and deduct the costs thereof (including but not limited to attorney' fees) up to three (3) months' of the then-current monthly Base Rent from the installments of Base Rent next falling due;
- (b) to pursue the remedy of specific performance;
- (c) to seek money damages for loss arising from Landlord's failure to discharge its obligations under this Lease or offset such damages against Base Rent next coming due; and/or
- (d) to terminate this Lease.

#### 15.2 Waiver

Nothing herein contained shall relieve Landlord from its duty to effect the repair, replacement, correction or maintenance required to restore any affected services, or to perform any other obligations to the standard prescribed in this Lease, nor shall this Section be construed to obligate Tenant to undertake any such work.

#### 15.3 Emergency

Notwithstanding the foregoing cure period, Tenant may cure any default where the failure promptly to cure such default would, in the reasonable opinion of Tenant, create or allow to persist an emergency condition, or materially and adversely affect the operation of Tenant's business in the Premises. In such cases, Tenant may perform the necessary work through its Internal Services Department and deduct the cost of said work from the Base Rent next due.

### **16. ASSIGNMENT AND SUBLETTING**

#### 16.1 Assignment and Subletting

Tenant may assign, mortgage, encumber or otherwise transfer this Lease or sublet the whole or any part of the Premises without first obtaining Landlord's prior consent, to a governmental or quasi-governmental agency; provided, however, no such assignment, subletting or other transfer shall relieve Tenant of any liability under this Lease unless Landlord has given its written consent thereto to such release, which Landlord shall not unreasonably withhold if the assignee has a financial condition which is reasonably sufficient for it to be responsible for all future obligations under this Lease. Tenant may not otherwise assign, mortgage, encumber or otherwise transfer this Lease or sublet the whole or any part of the Premises, without first obtaining Landlord's prior consent, not to be unreasonably withheld.

#### 16.2 Sale

If Landlord sells or conveys the Property, then all liabilities and obligations of Landlord accruing under this Lease after the sale or conveyance shall be binding

upon the new owner, and the transferor shall be released from all liability under this Lease accruing subsequent to such sale or conveyance, provided that the transferee assumes Landlord's remaining obligations hereunder in writing. Nothing in this Section 16.2 shall be deemed to release Landlord's successor in interest from responsibility for any condition (including but not limited to deferred maintenance) existing on the date of transfer.

Upon any sale or transfer of the Property by Landlord, Landlord shall provide thirty (30) days prior written notice of said sale or transfer to Tenant. In addition, Landlord shall provide the following information to Tenant, at Tenant's Address for Notice (set forth in Section 1.1 hereof), as a condition of Tenant's obligation to pay Base Rent to the new owner:

- (a) A letter from the Landlord confirming that the Property was transferred to the new owner, along with written evidence of the transfer of the Property (e.g., a recorded deed).
- (b) A signed letter from the new owner including the following information:
  - i. Name and address of new owner or other party to whom Base Rent should be paid
  - ii. Federal tax ID number for new owner
  - iii. Name of contact person and contact information (including phone number) for new owner
  - iv. Proof of insurance
- (c) A W-9 form for new owner.

Tenant shall not be obligated to pay any rental amounts to any party other than the Landlord named herein until such time as all the requirements of this Section 16.2 are satisfied.

## **17. ALTERATIONS AND ADDITIONS**

### **17.1 Landlord Consent**

Tenant shall not make any structural alterations, improvements, additions, or utility installations in or about the Premises (collectively, "Alterations") without first obtaining the written consent of Landlord, which consent shall not be unreasonably withheld, conditioned or delayed. If Landlord fails to respond in writing within twenty (20) days after Tenant's request, then Tenant shall provide Landlord with a second written request for consent. If Landlord fails to respond in writing within ten (10) days after Tenant's second request, then Landlord shall be deemed to have approved the requested Alterations. However, Landlord's consent shall not be required for any Alteration that satisfies all of the following criteria:

- (a) complies with all laws;
- (b) is not visible from the exterior of the Premises or Building;

- (c) will not materially affect the systems or structure of the Building;
- (d) does not unreasonably interfere with the normal and customary business office operations of other tenants in the Building; and
- (e) which cost in the aggregate, with all Alterations made pursuant to this Section in each calendar year, do not exceed one month of the then current Base Rent.

#### 17.2 End of Term

Any Alterations not removed by Tenant shall become the property of Landlord and remain upon and be surrendered with the Premises at the expiration of the Term.

### 18. CONDEMNATION

#### 18.1 Controlling Terms

If during the Term, or during the period of time between the execution of this Lease and the Commencement Date, there is any taking of all or any part of the Premises or any interest in this Lease by Condemnation (as defined below), this Section shall determine the rights and obligations of Tenant and Landlord. "Condemnation" shall mean the exercise of any governmental power to take title to any portion of the Premises, whether by legal proceedings or otherwise, by a Condemnor (as defined below) or a voluntary sale or transfer by Landlord to any Condemnor either under threat of a Condemnor's exercise of such power or while legal proceedings are pending for the exercise of such power. "Condemnor" shall mean any public or quasi-public authority, or private corporation or individual, having the power of Condemnation.

#### 18.2 Total Taking

If the Premises are totally taken by Condemnation, this Lease shall terminate on the date the Condemnor has a right to possession of the Premises (the "Date of Taking").

#### 18.3 Partial Taking

If any portion, but not all, of the Premises or the Common Areas is taken by Condemnation, this Lease shall remain in effect, except that Tenant may elect to terminate this Lease if, in Tenant's reasonable judgment, the remaining portion of the Premises (including the space available for parking, subject to Landlord's cure right set forth in Section 21.2) is rendered unsuitable for Tenant's continued use of the Premises. If Tenant elects to so terminate this Lease, Tenant must exercise its right to terminate by giving notice to Landlord within thirty (30) days after the date that the nature and the extent of the Condemnation have been determined (the "Determination Date"), which notice shall set forth the date of termination. Such termination date shall not be earlier than thirty (30) days nor later than ninety (90) days after Tenant has notified Landlord of its election to terminate; except that this Lease shall terminate on the Date of Taking if the Date of Taking falls on a date before the termination date designated by Tenant. If Tenant does not so notify Landlord within thirty (30) days after the Determination Date, all obligations of Tenant under this Lease shall remain in effect, except that

Base Rent shall be equitably abated in proportion to the degree to which Tenant's use of the Premises and the Common Areas is impaired by such Condemnation.

#### 18.4 Restoration

Notwithstanding the preceding paragraph, if, within thirty (30) days after the Determination Date, Landlord notifies Tenant that Landlord, at its sole cost, will add to the remaining Premises and/or the Common Areas so that the Premises and the space available for parking, will be substantially the same (as reasonably determined by Tenant) after the Date of Taking as they were before the Date of Taking, and Landlord commences the restoration promptly and, subject to reasonable allowance for delays that are not caused by Landlord, completes it within ninety (90) days after Landlord so notifies Tenant, then this Lease shall continue in effect. In such event, all obligations of Tenant under this Lease shall remain in effect, except that Base Rent shall be equitably abated or reduced during the period from the Date of Taking until the completion of such restoration.

#### 18.5 Award

The Award (as defined below) shall be divided between Landlord and Tenant as their respective interests may appear. "Award" shall mean all compensation, sums or anything of value awarded, paid or received on a total or partial Condemnation of the Premises. Tenant shall be entitled to any awards for relocation benefits or goodwill belonging to Tenant.

#### 18.6 Waiver of Statute

Landlord and Tenant hereby waive the provision of California Code of Civil Procedure Section 1265.130 allowing Landlord or Tenant to petition the Superior Court to terminate this Lease in the event of a partial taking of the Premises.

### 19. **INDEMNIFICATION**

#### 19.1 Landlord's Indemnity

Except to the extent arising from Tenant's gross negligence or willful misconduct, the Landlord shall indemnify, defend and hold harmless the Tenant from and against any and all liability, loss, injury or damage including (but not limited to) demands, claims, actions, fees, costs and expenses (including attorney and expert witness fees), arising from or connected with the Landlord's repair, maintenance and other acts and omissions arising from and/or relating to the Landlord's ownership of the Building. Tenant hereby agrees that in no event shall Landlord be liable for consequential damages, including injury to Tenant's business or any loss of income therefrom, .

#### 19.2 Tenant's Indemnity

Except to the extent arising from Landlord's gross negligence or willful misconduct, the Tenant shall indemnify, defend and hold harmless the Landlord, from and against any and all liability, loss, injury or damage, including (but not limited to) demands, claims, actions, fees, costs and expenses (including attorney and expert witness fees) arising from or connected with the Tenant's repair, maintenance and other acts and omissions arising from and/or relating to the Tenant's use of the



Building. Subject to Tenant's obligations under Sections 7 and 22, Landlord hereby agrees that in no event shall Tenant be liable for consequential damages hereunder.

## 20. **INSURANCE**

During the term of this Lease, the following insurance requirements will be in effect:

### 20.1 Waiver

Both the Tenant and Landlord each agree to release the other and waive their rights of recovery against the other for damage to their respective property arising from perils insured in the Causes-of-Loss Special Form (ISO form CP 10 30).

### 20.2 General Insurance Provisions – Landlord Requirements

Without limiting the Landlord's indemnification of Tenant and during the term of this Lease, and until all of its obligations pursuant to this Lease have been met, Landlord shall provide and maintain at its own expense insurance coverage satisfying the requirements specified in this Lease. These minimum insurance coverage terms, types and limits (the "Required Insurance") also are in addition to and separate from any other contractual obligation imposed upon Landlord pursuant to this Lease. The Tenant in no way warrants that the Required Insurance is sufficient to protect the Landlord for liabilities which may arise from or relate to this Lease.

#### (a) Evidence of Coverage and Notice to Tenant

- i. Certificate(s) of insurance coverage ("Certificate") satisfactory to Tenant, and a copy of an Additional Insured endorsement confirming that Tenant and its Agents (defined below) has been given insured status under the Landlord's General Liability policy, shall be delivered to Tenant at the address shown below and provided prior to the start day of this Lease.
- ii. Renewal Certificates shall be provided to Tenant not less than 10 days prior to Landlord's policy expiration dates. The Tenant reserves the right to obtain complete, certified copies of any required Landlord insurance policies at any time.
- iii. Certificates shall identify all Required Insurance coverage types and limits specified herein, reference this Lease by name or number, and be signed by an authorized representative of the insurer(s). The Insured party named on the Certificate shall match the name of the Landlord identified in this Lease. Certificates shall provide the full name of each insurer providing coverage, its NAIC (National Association of Insurance Commissioners) identification number, its financial rating, the amounts of any policy deductibles or self-insured retentions exceeding twenty-five thousand (\$25,000.00) dollars, and list any Tenant-required endorsement forms.

- iv. Neither the Tenant's failure to obtain, nor the Tenant's receipt of, or failure to object to a non-complying insurance certificate or endorsement, or any other insurance documentation or information provided by the Landlord, its insurance broker(s) and/or insurer(s), shall be construed as a waiver of any of the Required Insurance provisions.
- v. Certificates and copies of any required endorsements, and/or notices of cancellation shall be delivered to:

County of Los Angeles  
Chief Executive Office - Real Estate Division  
320 West Temple Street, 7th Floor  
Los Angeles, CA 90012  
Attention: Director of Real Estate

Landlord also shall promptly notify Tenant of any third party claim or suit filed against Landlord which arises from or relates to this Lease, and could result in the filing of a claim or lawsuit against Landlord and/or Tenant.

(b) Additional Insured Status and Scope of Coverage

The Tenant, which is the County of Los Angeles, its Special Districts, Elected Officials, Officers, Agents, Employees and Volunteers (collectively, "Tenant and its Agents"), shall be provided additional insured status under Landlord's General Liability policy with respect to liability arising from or connected with the Landlord's acts, errors, and omissions arising from and/or relating to the Landlord's operations on and/or its ownership of the premises. Tenant's additional insured status shall apply with respect to liability and defense of suits arising out of the Landlord's acts or omissions, whether such liability is attributable to the Landlord or to the Tenant. The full policy limits and scope of protection also shall apply to the Tenant as an additional insured, even if they exceed the Tenant's minimum Required Insurance specifications herein. Use of an automatic additional insured endorsement form is acceptable providing it satisfies the Required Insurance provisions herein.

(c) Cancellation of or Changes in Insurance

Landlord shall provide the Tenant with, or Landlord's insurance policies shall contain a provision that the Tenant shall receive, written notice of cancellation or any change in Required Insurance, including insurer, limits of coverage, term of coverage or policy period. The written notice shall be provided to the Tenant at least ten (10) days in advance of cancellation for non-payment of premium and thirty (30) days in advance for any other cancellation or policy change. Failure to provide written notice of cancellation or any change in Required Insurance may constitute a material breach of the Lease, in the sole discretion of the Tenant, upon which the Tenant may suspend or terminate this Lease.

(d) Failure to Maintain Insurance

Landlord's failure to maintain or to provide acceptable evidence that it maintains the Required Insurance shall constitute a material breach of the Lease if such failure is not cured within ten (10) days of receipt of written notice of such failure from Tenant to Landlord, upon which County immediately may withhold payments due to Landlord, and/or suspend or terminate this Lease. County, at its sole discretion, may obtain damages from Landlord resulting from said breach. Alternatively, the County may purchase the Required Insurance, and without further notice to Landlord, deduct the premium cost from sums due to Landlord or pursue Landlord reimbursement.

(e) Insurer Financial Ratings

Insurance is to be provided by an insurance company authorized to do business in California and acceptable to the Tenant, with an A.M. Best rating of not less than A:VII, unless otherwise approved by the Tenant.

(f) Landlord's Insurance Shall Be Primary

Landlord's insurance policies, with respect to any claims related to this Lease, shall be primary with respect to all other sources of coverage available to Tenant. Any Landlord maintained insurance or self-insurance coverage shall be in excess of and not contribute to any Tenant coverage.

(g) Waiver of Subrogation

To the fullest extent permitted by law, the Landlord hereby waives its and its insurer(s) rights of recovery against Tenant under all required insurance policies for any loss arising from or related to this Lease. The Landlord shall require its insurers to execute any waiver of subrogation endorsements which may be necessary to affect such waiver.

(h) Deductibles and Self-Insured Retentions ("SIRs")

Landlord's policies shall not obligate the Tenant to pay any portion of any Landlord deductible or SIR. The Tenant retains the right to require Landlord to reduce or eliminate policy deductibles and SIRs as respects the Tenant, or to provide a bond guaranteeing Landlord's payment of all deductibles and SIRs, including all related claims investigation, administration and defense expenses. Such bond shall be executed by a corporate surety licensed to transact business in the State of California.

(i) Claims Made Coverage

If any part of the Required Insurance is written on claims made basis, any policy retroactive date shall precede the start date of this Lease. Landlord understands and agrees it shall maintain such coverage for a period of not less than three (3) years following Lease expiration, termination or cancellation.

(j) Application of Excess Liability Coverage

Landlord may use a combination of primary and excess insurance policies which provide coverage as broad as ("follow form" over) the underlying primary policies, to satisfy the Required Insurance provisions.

(k) Separation of Insureds

All liability policies shall provide cross-liability coverage as would be afforded by the standard ISO (Insurance Services Office, Inc.) separation of insureds provision with no insured versus insured exclusions or limitations.

(l) Tenant Review and Approval of Insurance Requirements

The Tenant reserves the right to review and adjust the Required Insurance provisions, conditioned upon Tenant's determination of changes in risk exposures.

20.3 Insurance Coverage Types And Limits

(a) Tenant Requirements: During the term of this Lease, Tenant shall maintain a program of insurance coverage as described below:

i. Commercial General Liability Insurance, providing scope of coverage equivalent to ISO policy form CG 00 01, naming Landlord and its Agents as an additional insured, with limits of not less than:

General Aggregate:	\$ 2 million
Products/Completed Operations Aggregate:	\$ 1 million
Personal and Advertising Injury:	\$ 1 million
Each Occurrence:	\$ 1 million

Tenant, at its sole option, may satisfy all or any part of this insurance requirement through use of a program of self-insurance (self-funding of its liabilities). Certificate evidencing coverage or letter evidencing self-funding will be provided to Landlord after execution of this Lease at Landlord's request.

20.4 Landlord Requirements

During the term of this Lease, Landlord shall provide and maintain the following programs of insurance coverage:

(a) Commercial General Liability Insurance, providing scope of coverage equivalent to ISO policy form CG 00 01, naming Tenant and Tenant's Agents as an additional insured, with limits of not less than:

General Aggregate:	\$ 5 million
Products/Completed Operations Aggregate:	\$ 5 million
Personal and Advertising Injury:	\$ 2.5 million
Each Occurrence:	\$ 2.5 million

- (b) Commercial Property Insurance. Such insurance shall:
  - i. Provide coverage for Tenant's property and any tenant improvements and betterments to the Premises; this coverage shall be at least as broad as that provided by the Causes-of-Loss Special Form (ISO form CP 10 30), excluding earthquake and including flood and ordinance or law coverage.
  - ii. Be written for the full replacement cost of the Property, with a deductible no greater than \$250,000 or 5% of the Property value, whichever is less. Insurance proceeds shall be payable to the Landlord and Tenant, as their interests may appear.

## **21. PARKING**

### **21.1 Tenant's Rights**

Tenant shall have the right to the number of exclusive reserved parking spaces and unreserved parking spaces set forth in Section 1.1, at the rate specified therein, subject to market rate increases, which rates will not exceed more than five percent (5%) in any one-year period (rate charges will be per parking space per month), for the Term of this Lease. No tandem parking shall be required or allowed, and Tenant shall be entitled to full in/out privileges at all times. Tenant's parking rights shall be subject to reasonable parking rules and regulations adopted by Landlord from time to time, provided that such procedures shall be uniformly applied to all tenants. Tenant acknowledges that all unreserved parking spaces are not for the exclusive use of Tenant, rather, all such parking spaces are to be used on a non-exclusive, first-come, first-served basis by Tenant and other tenants, occupants, licensees, invitees and permittees of the Building. Landlord, at its sole expense, shall provide Tenant with at least one (1) parking access card or key fob for each reserved or unreserved parking space set forth in Section 1.1, if applicable.

Parking Validations: Landlord to provide Tenant parking validations at a maximum rate stated in section 1.1 (I), during the term of the lease. The validation rate will be per car per day. Tenant shall purchase or reimburse the Landlord for the parking validations on a monthly basis (or any other arrangement mutually agreeable to the Tenant and Landlord). The validation rates will be subject to occasional market rate increases, which validation rates increase will not exceed more than five percent (5%) in any one-year period.

In addition to the parking days and hours listed in Section 1.1 (I), on an occasional basis, with prior notification from the Tenant in writing (e-mail acceptable) and approval by the Landlord, which shall not be unreasonably withheld, Tenant may request a specified amount parking spaces (but in no instance shall it be at full capacity) on Saturdays between the hours of 7:00 a.m. and 1:00 p.m. at no extra cost.

### **21.2 Remedies**

Landlord acknowledges that it is a material term of this Lease that Tenant receives all of the parking spaces to which it is entitled under this Lease for the entire Term of this Lease and that it would be impracticable and extremely difficult to fix the

actual damages for a breach of such provisions. It is therefore agreed that if, for any reason whatsoever, a material number of the parking spaces required above are not available to Tenant within ten (10) days of receipt of written notice from Tenant to Landlord (in addition to the rights given to Tenant under Section 14 and Sections 9 and 17 in the event of casualty or condemnation), then Tenant may:

- (a) terminate this Lease by giving written notice of such termination to Landlord, which notice shall be effective thirty (30) days thereafter, or
- (b) deduct from the Base Rent thereafter accruing hereunder an amount each month equal to the Base Rent times the percentage of parking spaces not so provided times the number 1.5, but such deduction from Base Rent shall be not less than ten percent (10%) nor more than one hundred percent (100%) of the Base Rent.
- (c) Notwithstanding the foregoing to the contrary, if a material number of the required parking spaces are not available to Tenant, including, without limitation, due to casualty or condemnation, then Landlord shall have the right to temporarily cure such deficit by providing to Tenant alternative parking spaces located in the area indicated on the attached Exhibit K (Approved Parking Relocation Area) or such other area as may be reasonably approved by Tenant for a period not to exceed thirty (30) consecutive days ("Temporary Parking Relocation Period"). During the Temporary Parking Relocation Period Tenant shall not be entitled to exercise the remedies found in Section 21.2(a) or 21.2(b).

## **22. ENVIRONMENTAL MATTERS**

### **22.1 Hazardous Materials**

Tenant shall not cause nor permit, nor allow any of Tenant's employees agents, customers, visitors, invitees, licensee, contractor, assignees or subtenants to cause or permit, any Hazardous Materials to be brought upon, stored, manufactured, generated, blended, handled, recycled, treated, disposed or used on, under or about the Premises, the Building or the Common Areas, except for routine office and janitorial supplies in usual and customary quantities stored, used and disposed of in accordance with all applicable Environmental Laws. As used herein, "Hazardous Materials" means any chemical, substance, material, controlled substance, object, condition, waste, living organism or combination thereof, whether solid, semi solid, liquid or gaseous, which is or may be hazardous to human health or safety or to the environment due to its radioactivity, ignitability, corrosivity, reactivity, explosivity, toxicity, carcinogenicity, mutagenicity, phytotoxicity, infectiousness or other harmful or potentially harmful properties or effects, including, without limitation, molds, toxic levels of bacteria, tobacco smoke within the Premises, petroleum and petroleum products, asbestos, radon, polychlorinated biphenyls (PCBs), refrigerants (including those substances defined in the Environmental Protection Agency's "Refrigerant Recycling Rule," as amended from time to time) and all of those chemicals, substances, materials, controlled substances, objects, conditions, wastes, living organisms or combinations thereof which are now or become in the future listed, defined or regulated in any manner by any Environmental Law based upon, directly or indirectly, such properties or effects. As used herein, "Environmental Laws"

means any and all federal, state or local environmental, health and/or safety-related laws, regulations, standards, decisions of courts, ordinances, rules, codes, orders, decrees, directives, guidelines, permits or permit conditions, currently existing and as amended, enacted, issued or adopted in the future which are or become applicable to Tenant, the Premises, the Building or the Common Areas.

## 22.2 Landlord Indemnity

Landlord shall indemnify, protect, defend (by counsel reasonably acceptable to Tenant) and hold harmless Tenant from and against any and all claims, judgments, causes of action, damage, penalties, fines, taxes, costs, liabilities, losses and expenses arising at any time during or after the Term as a result (directly or indirectly) of, or in connection with, the presence of Hazardous Materials on, under or about the Building or Common Areas or other violation of laws relating to Hazardous Materials other than those caused by Tenant or on, under or about the Premises, except to the extent arising from Tenant's gross negligence or willful misconduct. This indemnity shall include, without limitation, the cost of any required or necessary repair, cleanup or detoxification, and the preparation and implementation of any closure, monitoring or other required plans, as such action is required by local or state laws or any governmental agency. Landlord shall promptly deliver to Tenant a copy of any notice received from any governmental agency during the Term of this Lease concerning the presence of Hazardous Materials in the Building or the Premises. Landlord's obligations pursuant to the foregoing indemnity shall survive the expiration or termination of this Lease. A default by Landlord under this Section shall constitute a material default under this Lease.

## 22.3 Tenant Indemnity

Tenant shall indemnify, protect, defend and hold harmless Landlord from and against any and all claims, judgments, causes of action, damage, penalties, fines, , costs, liabilities, losses and expenses arising at any time during or after the Term as a direct result of, or in connection with, the presence of Hazardous Materials on, under or about the Premises, Building or Common Areas or other violation of laws relating to Hazardous Materials caused by Tenant, except to the extent arising from Landlord's actions or directives, gross negligence or willful misconduct. This indemnity shall include, the reasonable cost of any required or necessary repair, cleanup or detoxification, and the preparation and implementation of any closure, monitoring or other required plans, as such action is required by local or state laws or any governmental agency. Tenant's obligations pursuant to the foregoing indemnity shall survive the expiration or termination of this Lease for five (5) years. A default by Tenant under this Section shall constitute a material default under this Lease.

## 23. ESTOPPEL CERTIFICATES

Tenant shall, within 30 calendar days after written request of Landlord, execute, acknowledge and deliver to Landlord or its designee a written statement in substantially the form of Exhibit F attached hereto (properly completed) but shall have no other obligation to deliver any other form of estoppel certificate. It is intended that any such statement delivered pursuant to this Section may be relied upon by a prospective

purchaser of Landlord's interest in the Premises or a holder or potential holder of any mortgage upon Landlord's interest in the Premises.

**24. TENANT IMPROVEMENTS**

Prior to the Commencement Date, Landlord shall construct the Tenant Improvements in the manner set forth in Landlord's Work Letter executed by Landlord and Tenant concurrently herewith.

**25. LIENS**

Tenant shall keep its interest in this Lease and the Premises free from any liens arising out of any work performed or materials ordered or obligations incurred by Tenant. Landlord shall keep its interest in this Lease and the Premises free from any liens which would impair the interest of Tenant hereunder and hereby indemnifies and holds Tenant harmless from any liability or loss from any such lien.

**26. SUBORDINATION AND MORTGAGES**

26.1 Subordination and Non-Disturbance

Tenant agrees, at Landlord's option, to subordinate this Lease to the lien of any mortgages or deeds of trust now or hereafter in force against the Building; provided, however, Tenant's obligation to subordinate this Lease is expressly conditioned upon Tenant receiving a written agreement in the form of Exhibit E attached hereto and provided further that no such subordination shall affect any option to extend the Term of this Lease, right of first offer to lease additional premises, option to purchase, or right of first offer to purchase the Property included herein.

26.2 Existing Deeds of Trust

The beneficiary under any existing deed of trust affecting the Building shall provide a written agreement to Tenant in substantially the form of Exhibit E attached hereto within 30 days after the execution of this Lease, with the revisions thereto agreed upon by Tenant and Landlord's lender prior to the execution of this Lease.

26.3 Notice of Default

If any mortgagee or beneficiary under a deed of trust affecting the Property gives written notice of its name and address to Tenant by registered mail and requests copies of any notice of default that Tenant serves upon Landlord, Tenant agrees to use its best efforts (but without liability for failure to do so) to give such mortgagee or beneficiary a copy of any notice of default that Tenant serves upon Landlord which could permit Tenant to terminate this Lease, along with an additional ten days within which to cure such default.

**27. SURRENDER OF POSSESSION**

Subject to casualty, at the expiration of the Term of this Lease, whether by lapse of time or otherwise, Tenant shall promptly and peacefully surrender the Premises to Landlord in a "broom-clean" condition. Tenant may (but shall not be required to) remove, at its own



expense, all fixtures, equipment and all other personal property placed or installed in or upon the Premises by Tenant, or under its authority (including any modular furniture).

**28. SIGNAGE**

Tenant shall be allowed building standard signage on the directory located in the ground floor lobby of the Building (if any) and elevator lobbies of the floors of the Premises (if any) and suite signage, all of which shall be at Landlord's expense. In addition, subject to Landlord's approval, which shall not be unreasonably withheld, conditioned or delayed, Tenant shall be allowed to install, at Tenant's sole cost and expense, exterior building signage. Tenant shall be entitled to the available exterior signage in proportion to Tenant's share of the commercial space at the Property. Tenant shall comply with all governmental municipality sign regulations and the building's project sign program.

**29. QUIET ENJOYMENT**

So long as Tenant is not in default hereunder, Tenant shall have the right to the peaceful and quiet enjoyment and possession of the Premises and the Common Areas during the Term of this Lease, subject to the terms and conditions of this Lease.

**30. GENERAL**

30.1 Headings

Titles to Sections of this Lease are not a part of this Lease and shall have no effect upon the construction or interpretation of any part hereof.

30.2 Successors and Assigns

All of the covenants, agreements, terms and conditions contained in this Lease shall inure to and be binding upon the Landlord and Tenant and their respective successors and assigns.

30.3 Brokers

Landlord and Tenant each represent and warrant to each other that it has not engaged any broker, finder or other person who would be entitled to any commission or fees in respect of the negotiation, execution or delivery of this Lease other than Avison Young, the Landlord's Broker, and Tenant Advocates, Inc. dba as CRESA ("CRESA"), the Tenant's Broker, as disclosed to the other in writing and shall indemnify and hold harmless each other against any loss, cost, liability or expense incurred by the other party as a result of any claim asserted by any such broker, finder or other person on the basis of any arrangements or agreements made or alleged to have been made in variance with this representation. Landlord and Tenant agree that the Landlord shall be solely responsible for the payment of any brokerage commission to either Avison Young or CRESA, and that Tenant shall have no responsibility therefor. CRESA shall as a result of the execution of this Lease, receive from Landlord or Landlord's broker, a commission payment, as set forth in a separate written agreement between Landlord and Landlord's broker.

#### 30.4 Entire Agreement

This Lease (including all exhibits hereto and the Landlord's Work Letter) is the final and complete expression of Landlord and Tenant relating in any manner to the leasing, use and occupancy of the Premises, to Tenant's use of the Building and other matters set forth in this Lease. No prior agreements or understanding pertaining to the same shall be valid or of any force or effect, and the covenants and agreements of this Lease shall not be altered, modified or added to except in writing signed by both Landlord and Tenant.

#### 30.5 Severability

Any provision of this Lease which shall prove to be invalid, void or illegal shall in no way affect, impair or invalidate any other provision hereof, and the remaining provisions hereof shall nevertheless remain in full force and effect.

#### 30.6 Notices

The parties shall give all notices in writing by (i) personal delivery, (ii) national-recognized, next-day courier service, or (iii) first-class registered or certified mail, postage prepaid, to the Landlord's Address for Notice and Tenant's Address for Notice as set forth in Section 1.1. Without limiting the generality of the foregoing, Landlord's notices to Tenant shall not be effective if they are delivered to the Premises or to another address that is not set forth in Section 1.1(b) hereof. Any notice given under this Lease shall be deemed effective upon the date of delivery (whether accepted or refused), which, for certified mail and courier service, shall be established by U.S. Post Office return receipt or the courier's proof of delivery, respectively.

#### 30.7 Governing Law and Venue

This Lease shall be governed by and construed in accordance with the internal laws of the State of California. Any litigation with respect to this Lease shall be conducted in the County of Los Angeles, State of California.

#### 30.8 Waivers

No waiver by Landlord or Tenant of any provision hereof shall be deemed a waiver of any other provision hereof or of any subsequent breach by Landlord or Tenant of the same or any other provision. Landlord's or Tenant's consent to or approval of any act shall not be deemed to render unnecessary the obtaining of Landlord's or Tenant's consent to or approval of any subsequent act by Landlord or Tenant.

#### 30.9 Time of Essence

Time is of the essence for the performance of all of the obligations specified hereunder.

#### 30.10 Consent

Whenever any consent is required by Landlord or Tenant hereunder, such consent shall not be unreasonably withheld, conditioned or delayed and, unless otherwise specifically provided herein, shall be deemed granted if not refused within ten (10)

business days after written request is made therefore, together with all necessary information.

30.11 Community Business Enterprises

Landlord shall complete and deliver to Tenant concurrently with the execution hereof a Community Business Enterprises form set forth as Exhibit G attached hereto.

30.12 Memorandum of Lease

If requested by Tenant, Landlord and Tenant shall execute and acknowledge a Memorandum of Lease in the form of Exhibit H attached hereto, which Memorandum may be recorded by Tenant in the Official Records of Los Angeles County.

30.13 Counterparts; Electronic Signatures

This Lease and any other documents necessary for the consummation of the transaction contemplated by this Lease may be executed in counterparts, including both counterparts that are executed on paper and counterparts that are in the form of electronic records and are executed electronically. An electronic signature means any electronic sound, symbol or process attached to or logically associated with a record and executed and adopted by a party with the intent to sign such record, including facsimile or e-mail electronic signatures. All executed counterparts shall constitute one agreement, and each counterpart shall be deemed an original. The parties hereby acknowledge and agree that electronic records and electronic signatures, as well as facsimile signatures, may be used in connection with the execution of this Lease and electronic signatures, facsimile signatures or signatures transmitted by electronic mail in so-called pdf format shall be legal and binding and shall have the same full force and effect as if a paper original of this Lease had been delivered had been signed using a handwritten signature. Landlord and Tenant (i) agree that an electronic signature, whether digital or encrypted, of a party to this Lease is intended to authenticate this writing and to have the same force and effect as a manual signature, (ii) intended to be bound by the signatures (whether original, faxed or electronic) on any document sent or delivered by facsimile or, electronic mail, or other electronic means, (iii) are aware that the other party will rely on such signatures, and (iv) hereby waive any defenses to the enforcement of the terms of this Lease based on the foregoing forms of signature. If this Lease has been executed by electronic signature, all parties executing this document are expressly consenting under the United States Federal Electronic Signatures in Global and National Commerce Act of 2000 ("E-SIGN") and California Uniform Electronic Transactions Act ("UETA")(Cal. Civ. Code § 1633.1, et seq.), that a signature by fax, email or other electronic means shall constitute an Electronic Signature to an Electronic Record under both E-SIGN and UETA with respect to this specific transaction.

30.14 Landlord Exculpation

Tenant agrees to look solely to Landlord's, its partners, subpartners, and their respective officers, agents, servants, employees, and independent contractors (the "Landlord Parties") interest in the Property and the rents, profits and insurance, condemnation and other proceeds from the Premises for the

satisfaction of any judgment (or any other obligation of Landlord to Tenant) and no other property or assets of the Landlord Parties shall be subject to levy, execution, or other judicial procedures for satisfaction of such judgment or other obligations. Tenant shall not seek recourse against the Landlord Parties or any of their personal assets for satisfaction of any liability with respect to this Lease. Neither Landlord, nor any of the Landlord Parties shall have any personal liability therefor, and Tenant hereby expressly waives and releases such personal liability on behalf of itself and all persons claiming by, through or under Tenant. The limitations of liability contained in this Section 30.14 shall inure to the benefit of Landlord's and the Landlord Parties' present and future partners, beneficiaries, officers, directors, trustees, shareholders, agents and employees, and their respective partners, heirs, successors and assigns. Notwithstanding any contrary provision herein, neither Landlord nor the Landlord Parties shall be liable under any circumstances for injury or damage to, or interference with, Tenant's business, including but not limited to, loss of profits, loss of rents or other revenues, loss of business opportunity, loss of goodwill or loss of use, in each case, however occurring. Notwithstanding anything contained in this Lease to the contrary, in no event shall Landlord or the Landlord Parties ever be liable pursuant to this Lease for incidental damages, lost profits or consequential, speculative or punitive damages.

### **31. AUTHORITY**

Only the County's Board of Supervisors ("Board of Supervisors") has the authority, by formally approving and/or executing this Lease, to bind Tenant to the terms included herein. Landlord understands that no material terms of this Lease may be altered or deleted, nor may any new material terms be added to this Lease, without the express written approval of the Board of Supervisors, either through an amendment to the Lease or by other formal board action. No County officer, employee, agent or independent contractor has any authority to alter, add or delete the material terms of this Lease, and Landlord may not rely upon any representations to the contrary. This limitation of authority applies to all material terms of the Lease including, without limitation, any monetary ceiling established for Tenant Improvements or other project costs of Landlord which are subject to reimbursement by Tenant. Tenant shall not reimburse Landlord for any expenses which exceed this ceiling. Notwithstanding the foregoing, the Chief Executive Office of the County (the "Chief Executive Office") may take any administrative act on behalf of Tenant hereunder which does not have the effect of increasing Base Rent or other financial obligations of Tenant under this Lease, including without limitation, granting any approvals, terminating this Lease in the manner provided herein by an early termination notice or otherwise, signing estoppel certificates, signing the Commencement Date Memorandum and Confirmation of Lease Terms or subordinating this Lease. Each individual executing this Lease on behalf of Landlord represents and warrants that he or she is duly authorized to execute and deliver this Lease on behalf of Landlord, and that this Lease is binding upon Landlord in accordance with its terms.

### **32. ACKNOWLEDGEMENT BY LANDLORD**

Landlord acknowledges that it is aware of the following provisions:

#### **32.1 Consideration of GAIN Program Participants**

Should Landlord require additional or replacement personnel after the effective date of this Lease, Landlord shall give consideration for any such employment

openings to participants in the County Department of Public Social Services' Greater Avenues for Independence ("GAIN") Program who meet Landlord's minimum qualifications for the open position. The County will refer GAIN participants by job category to Landlord.

### 32.2 Solicitation of Consideration

It is improper for any County officer, employee or agent to solicit consideration in any form from a landlord. A landlord shall not offer or give, either directly or through an intermediary, consideration in any form to a County officer, employee or agent who has had any involvement in the procurement, negotiation, consummation, administration or management of a lease.

Landlord shall immediately report any attempt by a County officer, employee or agent to solicit such improper consideration. The report shall be made to the County Auditor-Controller's Employee Fraud Hotline at (800) 544-6861.

Landlord hereby represents and warrants that it has not provided, and will not provide, any financial benefits to any County official, employee or agent who has had any involvement in the procurement, negotiation, consummation, administration or management of this Lease. Landlord hereby agrees that if it violates any of the terms of this Section 32.2, then the County may declare this Lease null and void, and the County reserves the right to exercise any and all other remedies available under applicable law.

### 32.3 Landlord Assignment

- (a) Landlord may assign, transfer, mortgage, hypothecate or encumber Landlord's right, title and interest in and to this Lease or any portion thereof (including the right to receive rental payments but excluding its duties and obligations hereunder), and Landlord may execute any and all instruments providing for the payment of Base Rent directly to an assignee or transferee, but only if the conditions set forth in this Section are met.
- (b) Any document or agreement purporting to assign, transfer, mortgage, hypothecate or encumber Landlord's right, title and interest in and to this Lease, or any portion thereof, as security for the Landlord's obligation to repay any monetary obligation, is hereinafter referred to as a "Security Agreement." Any Security Agreement which is executed without full compliance with the requirements of this Section shall be void.
- (c) Each assignee or transferee under the Security Agreement shall certify and agree in writing that such assignee or transferee has read and is familiar with the requirements of Sections 5950-5955 of California Government Code, which prohibits the offer or sale of any security constituting a fractional interest in this Lease or any portion thereof, without the prior written consent of the Tenant. Notwithstanding the foregoing, the Tenant hereby acknowledges and agrees that Landlord shall have the right to encumber the Property with CMBS (commercial mortgage backed securities) financing or other traditional real estate financing. However, Landlord may not encumber the Property through any type of bond financing vehicle, including but not limited to certificate of participation financing.

- (d) Violation by Landlord of the provisions of Section 5951 of the California Government Code will constitute a material breach of this Lease, upon which the Tenant may impose damages in an amount equal to the greater of \$500,000 or 10% of the aggregate principal portion of all rental payments payable by the Tenant during the entire Term of this Lease, it being expressly agreed that the aforesaid amount shall be imposed as liquidated damages, and not as a forfeiture or penalty. It is further specifically agreed that the aforesaid amount is presumed to be the amount of damages sustained by reason of any such violation, because from the circumstances and nature of the violation it would be impracticable and extremely difficult to fix actual damages. In addition, the Tenant may exercise or pursue any other right or remedy it may have under this Lease or applicable law.
- (e) Landlord shall give Tenant written notice and a copy of each and every assignment, transfer, hypothecation or encumbrance of Landlord's interest in this Lease and any instrument relating thereto (including, but not limited to, instruments providing for the payment of Base Rent directly to an assignee or transferee) at least thirty (30) days prior to the effective date thereof.
- (f) Landlord shall not furnish any information concerning Tenant or the subject matter of this Lease (including, but not limited to, offering memoranda, financial statements, economic and demographic information, and legal opinions rendered by the office of counsel for the Tenant) to any person or entity, except with Tenant's prior written consent. Landlord shall indemnify, defend and hold Tenant and its officers, agents and employees harmless from and against all claims and liability alleged to arise from the inaccuracy or incompleteness of any information furnished by Landlord in violation of this Section 32.3.
- (g) The provisions of this Section 32.3 shall be binding upon and applicable to the parties hereto and their respective successors and assigns. Whenever in this Section Landlord is referred to, such reference shall be deemed to include Landlord's successors or assigns, and all covenants and agreements by or on behalf of Landlord herein shall bind and apply to Landlord's successors and assigns, whether so expressed or not.

#### 32.4 Smoking in County Facilities.

The Surgeon General of the United States has concluded that passive smoke exposure is the third leading cause of preventable death in the United States. The United States Environmental Protection Agency has found second-hand smoke to be a known carcinogen. It is recognized that the County has a responsibility to establish, maintain and promote a healthful and safe working environment and to reduce health and safety risks of its employees and the public at large. Tobacco smoke is a hazard to the health of County employees and the general public and represents an annoyance which should be regulated and banned in all county facilities to the end that air quality in all such facilities be improved for the preservation and improvement of the health of all County employees and the public. Therefore, to the greatest extent possible, the rights and comfort of all employees shall be respected. Reasonable effort shall be made to provide smokers a place to smoke in areas open to the sky or otherwise located outside

County facilities and, except as provided under Los Angeles County, California - Code of Ordinances Chapter 2.126 ("LAMC 2.126"), all portions of County-owned facilities and all portions of facilities leased by or from the County, which areas are not open to the sky, shall be designated as "no smoking" areas. Smoking, including the use of electronic smoking devices, shall be prohibited in the following areas of County facilities: (1) Within 50 feet of any operable entry or exit door or operable window of any County building and within 25 feet of any access ramp or handicap path; (2) Within any County parking lot, parking structure, or parking garage, whether enclosed or open to the sky; or (3) Within any driving range and eating area, including outdoor eating areas, of any County golf course. International no-smoking signs and other appropriate signs which designate no-smoking areas shall be clearly, sufficiently and conspicuously posted in every room, building or other place so covered by LAMC 2.126. The manner of such posting, including the wording, size, color and place of posting, whether on the walls, doors, tables, counters, stands or elsewhere, shall be at the discretion of the building proprietor so long as clarity, sufficiency and conspicuousness are apparent in communicating the intent. (Los Angeles County, California - Code of Ordinances Chapter 2.126.)

### **33. IRREVOCABLE OFFER**

In consideration for the time and expense that Tenant will invest in this Lease, including but not limited to preliminary space planning, legal review, and preparation and noticing for presentation to the Tenant Real Estate Management Commission of Los Angeles County, as necessary, in reliance on Landlord's agreement to lease the Premises to Tenant under the terms of this Lease, Landlord irrevocably offers to enter into this Lease and not to revoke this offer until the Irrevocable Offer Expiration Date, as defined in Section 1.1.

### **34. OPTIONS TO EXTEND**

#### **34.1 Option Terms**

Provided that no material Default has occurred and is continuing under the Lease at the time the option is exercised, Tenant shall have three (3) options to renew this Lease for an additional period of two (2) years each (respectively, the "First Extension Term", the "Second Extension Term", and the "Third Extension Term," and collectively, the "Extension Terms(s)").

#### **34.2 Exercise of Option.**

(a) Tenant must exercise its Option to Extend this Lease, by giving Landlord written notice of its intention to do so (its "Notice of Intent") no later than one hundred eighty (180) days, nor earlier than two hundred forty (240) days, prior to the end of the initial Term, or the First Extension Term, or the Second Extension Term, as applicable.

(b) The actual exercise of the option shall be only by the Board of Supervisors of the County of Los Angeles or by the Chief Executive Officer pursuant to a special delegated authority from the Board of Supervisors.

#### **34.3 Terms and Conditions of Option Extension Term.**

The Extension Term(s) shall be on all the terms and conditions of this Lease, except that the Base Rent shall increase at the commencement of the Extension Term and on each anniversary of the commencement of the Extension by a fixed rate of three percent (3%) over the prior year's base rent. Tenant shall pay Base Rent during the Extension Terms as follows:

First Extension Term (Months)	Monthly Rate/RSF	Monthly Rent
1-12	\$4.37	\$47,315.60
13-24	\$4.50	\$48,735.07

Second Extension Term (Months)	Monthly Rate/RSF	Monthly Rent
1-12	\$4.63	\$50,197.12
13-24	\$4.77	\$51,703.03

Third Extension Term (Months)	Monthly Rate/RSF	Monthly Rent
1-12	\$4.92	\$53,254.12
13-24	\$5.06	\$54,851.75

**35. RIGHT OF FIRST OFFER TO LEASE ADDITIONAL PREMISES**

- (a) Subject to any pre-existing rights of expansion, extension, first offer and/or refusal which Landlord or Landlord's predecessors may have granted other tenants in the Building at the time this Lease is executed, and provided that no Default has occurred and is continuing under the Lease, if at any time prior to the last twelve (12) months of the Term, Landlord intends to offer leasable space located contiguous to the Premises (the "Additional Premises") for lease to third parties or to accept an offer of a third party to lease the Additional Premises, Landlord shall first give written notice to Tenant of the rental rate and other material terms upon which Landlord is willing to lease the Additional Premises ("Landlord's Lease Notice"). Landlord's Lease Notice shall constitute an offer to lease the Additional Premises to Tenant at the rental rate and upon the terms and conditions contained in Landlord's Lease Notice and shall state the anticipated date of availability of the Additional Premises. Tenant shall have thirty (30) business days after receipt of Landlord's Lease Notice to accept such offer. Tenant shall accept such offer, if at all, only by delivery to Landlord of Tenant's irrevocable written commitment to lease the Additional Premises



at the rental rate and upon the terms and conditions contained in Landlord's Lease Notice (the "Expansion Commitment").

- (b) If Tenant delivers to Landlord the Expansion Commitment within such thirty(30) business day period, all (but not part) of the Additional Premises shall be leased to Tenant commencing on the earlier of (a) the date Tenant first uses the Additional Premises for the Permitted Use; or (b) thirty (30) days after Landlord provides Tenant with possession of the Additional Premises and continuing for a period of time coterminous with the remaining Term, including any options to extend the Term. Tenant shall lease the Additional Premises upon the same terms, conditions and covenants as are contained in the Lease except that (i) the Base Rent for the Additional Premises shall be at the rate set forth in Landlord's Lease Notice, and (ii) any terms and conditions set forth in Landlord's Lease Notice that are inconsistent with the terms and conditions of the Lease shall control.
- (c) Except as otherwise set forth in Landlord's Lease Notice, possession of the Additional Premises shall be delivered to Tenant on an "as-is" basis. Landlord shall prepare and Landlord and Tenant shall execute and deliver a written agreement modifying and supplementing the Lease and specifying that the Additional Premises are part of the Premises and, except as otherwise specified in Landlord's Lease Notice, subject to all of the terms and conditions of the Lease.
- (d) Time is of the essence with respect to the exercise by Tenant of its rights granted hereunder. In the event Tenant fails to deliver to Landlord Tenant's Expansion Commitment within the thirty (30) business day period prescribed above, all rights of Tenant to lease the Additional Premises shall terminate and Landlord shall have no further obligation to notify Tenant of any proposed leasing of the Additional Premises, and Landlord shall thereafter have the unconditional right to lease the Additional Premises to third parties or to accept offers from third parties to lease the Additional Premises without further obligation to Tenant.

IN WITNESS WHEREOF this Lease has been executed the day and year first set forth above.

LANDLORD:

PALMER/FLOWER STREET PROPERTIES,  
a California limited partnership

By: Palmer/Flower Street Properties, LLC,  
a California limited liability company,  
its General Partner

By:   
Name: Geoffrey H. Palmer  
Its: Sole Member

TENANT:

COUNTY OF LOS ANGELES,  
a body corporate and politic

FESIA A. DAVENPORT  
Chief Executive Officer

By: \_\_\_\_\_  
John T. Cooke  
Assistant Chief Executive Officer

ATTEST:

DEAN C. LOGAN  
Registrar-Recorder/County Clerk  
of the County of Los Angeles

By: \_\_\_\_\_  
Deputy

APPROVED AS TO FORM:

DAWYN R. HARRISON  
County Counsel

By:   
Senior Deputy

**EXHIBIT A**

**FLOOR PLAN OF PREMISES**

*(To be provided by County Space Planner)*

**EXHIBIT B**

**COMMENCEMENT DATE MEMORANDUM  
AND CONFIRMATION OF LEASE TERMS**

Reference is made to that certain Lease Agreement ("Lease") dated \_\_\_\_\_, 20\_\_\_, between County of Los Angeles, a body corporate and politic ("Tenant"), and \_\_\_\_\_, a \_\_\_\_\_ ("Landlord"), whereby Landlord leased to Tenant and Tenant leased from Landlord certain premises in the building located at \_\_\_\_\_ ("Premises"),

Landlord and Tenant hereby acknowledge as follow:

- 1) Landlord delivered possession of the Premises to Tenant in a Substantially Complete condition on \_\_\_\_\_ ("Possession Date");
- 2) Tenant has accepted possession of the Premises and now occupies the same;
- 3) The Lease commenced on \_\_\_\_\_ ("Commencement Date");
- 4) The Lease expires on \_\_\_\_\_ ("Expiration Date");
- 5) The Premises contain 10,833 rentable square feet of space; and
- 6) Base Rent Schedule (per Section 5.2)

<b>Months</b>	<b>Rate per rentable square foot</b>	<b>Monthly Rent*</b>
1-12	\$3.25	\$35,207.25
13-24	\$3.35	\$36,263.47
25-36	\$3.45	\$37,351.37
37-48	\$3.55	\$38,471.91
49-60	\$3.66	\$39,626.07
61-72	\$3.77	\$40,814.85
73-84	\$3.88	\$42,039.30
85-96	\$4.00	\$43,300.48
97-108	\$4.12	\$44,599.49
109-120	\$4.24	\$45,937.48

Signature page to follow

IN WITNESS WHEREOF, this memorandum is executed this \_\_\_\_\_ day of \_\_\_\_\_,  
20\_\_\_\_.

Tenant:

Landlord:

COUNTY OF LOS ANGELES,  
a body corporate and politic

\_\_\_\_\_,  
a \_\_\_\_\_

By: \_\_\_\_\_  
Name \_\_\_\_\_  
Its \_\_\_\_\_

By: \_\_\_\_\_  
Name \_\_\_\_\_  
Its \_\_\_\_\_

## **EXHIBIT C**

### **HEATING, VENTILATION AND AIR CONDITIONING**

Landlord shall supply cooling, ventilating and heating with capacity to produce the following results effective during Tenant's Hours of Operation established by the Lease and within tolerances normal in comparable office buildings; maintenance of inside space conditions of not greater than 78 degrees Fahrenheit when the outside air temperature is not more than 93 degrees Fahrenheit dry bulb and 70 degrees Fahrenheit wet bulb, and not less than 70 degrees Fahrenheit when the outside air temperature is not lower than 42 degrees Fahrenheit dry bulb. Interior space is designated at a rate of one zone for approximately each 1,000 square feet and one diffuser for each 200 square feet of usable/net square footage within the Premises. If energy requirements prohibit Landlord from complying with these requirements, Tenant shall not unreasonably withhold its consent to temporary waivers or modifications.

## EXHIBIT D

### CLEANING AND MAINTENANCE SCHEDULE

#### A. DAILY (Monday through Friday)

1. Carpets vacuumed.
2. Composition floors dust-mopped.
3. Desks, desk accessories and office furniture dusted. Papers and folders left on desk not to be moved.
4. Waste baskets, other trash receptacles emptied.
5. Chairs and waste baskets returned to proper position.
6. Fingerprints removed from glass doors and partitions.
7. Drinking fountains cleaned, sanitized and polished.
8. Lavatories, toilets and toilet rooms cleaned and mopped. Toilet supplies replenished.
9. Bulb and tube replacements, as required.
10. Emergency exit signage and egress battery replacement (if applicable)
11. Graffiti expunged as needed within two working days after notice by Tenant
12. Floors washed as needed.
13. Standard kitchen/lunchroom/restroom supplies replenished, including, but, not limited to, paper supplies and soap.
14. Exclusive day porter service from \_\_\_\_ a.m. to \_\_\_\_\_ p.m. [County may elect to add day porter during the Term of the Lease].

#### B. WEEKLY

15. Low-reach areas, chair rungs, baseboards and insides of door jambs dusted.
16. Window sills, ledges and wood paneling and molding dusted.

#### C. MONTHLY

17. Floors washed and waxed in uncarpeted office area.
18. High-reach areas, door frames and tops of partitions dusted.
19. Upholstered furniture vacuumed, plastic and leather furniture wiped

20. Picture moldings and frames dusted.
21. Wall vents and ceiling vents vacuumed.
22. Carpet professionally spot cleaned as required to remove stains.
23. HVAC chiller water checked for bacteria, water conditioned as necessary.

D. QUARTERLY

24. Light fixtures cleaned and dusted, but not less frequently than quarterly.
25. Wood furniture polished.
26. Draperies or mini-blinds cleaned as required, but not less frequently than quarterly.
27. HVAC units serviced for preventative maintenance purposes, all filters changed.

E. SEMI-ANNUALLY

28. Windows washed as required inside and outside but not less frequently than twice annually.
29. All painted wall and door surfaces washed and stains removed.
30. All walls treated with vinyl covering washed and stains removed.

F. ANNUALLY

31. Furniture Systems and any other fabric or upholstered surfaces including chairs, couches, walls, etc., spot cleaned, or if determined to be necessary in Tenant's sole discretion, professionally cleaned in their entirety using a water extraction system.
32. Bathroom and any other ceramic tile surfaces professionally cleaned using a hand scrub process. All grout and porous surfaces resealed with a professional grade sealant.
33. Touch-up paint all interior painted surfaces in a color and finish to match existing.

G. AS NEEDED

34. Premises and the sidewalks, driveways, parking areas and all means of access and egress for the Premises should be maintained in good repair, and in clean and safe condition at all times.
35. All lawns, shrubbery and foliage on the grounds of the Premises should be maintained in good condition and neat in appearance. Grass and shrubbery must be replanted as needed to maintain the grounds in good appearance and condition.



36. Interior and exterior pest control inspections and remediation frequency is to be determined by a licensed exterminator.
37. Carpets to be cleaned using a non-detergent, low moisture, soil encapsulation system as recommended by the carpet manufacturer. The following schedule will be maintained for carpet cleaning:
  - i. heavy traffic areas cleaned as needed, with a minimum frequency of bi-monthly [six (6) times per year];
  - ii. moderate traffic areas cleaned as needed, with a minimum of once every six (6) months [two (2) times per year]; and
  - iii. clean light traffic areas a minimum of once per year.

Landlord agrees that bonnet cleaning is not an acceptable method of cleaning carpets.

38. All walls repainted and wall coverings replaced throughout the Premises. The paint finish should be eggshell or semi-gloss as directed by Tenant and in a color acceptable to Tenant. In no event will Landlord be required to repaint or replace wall coverings more than one (1) time in a five (5) year period (the "Occurrence") except for touch-up paint as provided in Paragraph 6.C. of this Exhibit E. The initial tenant improvements completed prior to Tenant's occupancy or as a condition to the renewal of the Lease shall not constitute an Occurrence for the purpose of determining the frequency of this work.
39. All HVAC ducts cleaned as needed, but no less than every five (5) years.

#### H. GENERAL

Landlord shall, upon request of Tenant, produce written service contracts as evidence of compliance with the terms of this Cleaning and Maintenance Schedule.



1. Subordination. The lien of the Deed of Trust and all amendments, modifications and extensions thereto shall be and remain at all times a lien on the Property prior and superior to the Lease, except that if Tenant is granted any option to extend the Term of the Lease, right of first offer to lease additional premises or option to purchase the Property or right of first offer to purchase the Property in the Lease, such provisions shall not be affected or diminished by any such subordination.

2. Definitions of "Transfer of the Property" and "Purchaser". As used herein, the term "Transfer of the Property" means any transfer of Borrower's interest in the Property by foreclosure, trustee's sale or other action or proceeding for the enforcement of the Deed of Trust or by deed in lieu thereof. The term "Purchaser", as used herein, means any transferee, including Lender, of the interest of Borrower as a result of any such Transfer of the Property and also includes any and all successors and assigns, including Lender, of such transferee.

3. Non-disturbance. The enforcement of the Deed of Trust shall not terminate the Lease or disturb Tenant in the possession and use of the leasehold estate created thereby.

4. Attornment. Subject to Section 3 above, if any Transfer of the Property should occur, Tenant shall and hereby does attorn to Purchaser, including Lender if it should be the Purchaser, as the landlord under the Lease, and Tenant shall be bound to Purchaser under all of the terms, covenants and conditions of the Lease for the balance of the Lease term and any extensions or renewals of it which may then or later be in effect under any validly exercised extension or renewal option contained in the Lease, all with the same force and effect as if Purchaser had been the original landlord under the Lease. This attornment shall be effective and self-operative without the execution of any further instruments upon Purchaser's succeeding to the interest of the landlord under the Lease.

5. Lender Not Obligated. Lender, if it becomes the Purchaser or if it takes possession under the Deed of Trust, and any other Purchaser shall not:

(a) be liable for any damages or other relief attributable to any act or omission of any prior Landlord under the Lease, including Borrower, unless such act or omission continues after the date that Lender or Purchaser succeeds to the interest of such prior landlord; or

(b) be subject to any offset or defense not specifically provided for in the Lease which Tenant may have against any prior landlord under the Lease, unless resulting from a default or breach by such prior landlord which continues after Lender or Purchaser succeeds to the interest of such prior landlord; and provided that any offsets deducted by Tenant prior to the date that Lender or Purchaser succeeds to the interest of such prior landlord shall not be subject to challenge; or

(c) be bound by any prepayment by Tenant of more than one (1) month's installment of rent, unless the Lease expressly requires such prepayment; or

(d) be obligated for any security deposit not actually delivered to Purchaser; or

(e) be bound by any modification or amendment of or to the Lease which materially increases Landlord's obligations under the Lease or materially decreases Tenant's obligation under the Lease, unless Lender has approved such modification or amendment in writing, which approval shall not be unreasonably withheld, conditioned or delayed.

6. Notices. All notices given under this Agreement shall be in writing and shall be given by personal delivery, overnight receipted courier or by registered or certified United States mail, postage prepaid, sent to the party at its address appearing below. Notices shall be effective upon receipt (or on the date when proper delivery is refused). Addresses for notices may be changed by any party by notice to all other parties in accordance with this Section.

To Lender: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

To Borrower: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

To Tenant: County of Los Angeles  
Chief Executive Office  
Real Estate Division  
320 W. Temple Street, 7th Floor  
Los Angeles, California 90012  
Attention: Director of Real Estate

7. Miscellaneous Provisions. This Agreement shall inure to the benefit of and be binding upon the parties and their respective successors and assigns. This Agreement is governed by the laws of the State of California without regard to the choice of law rules of that State.

TENANT: COUNTY OF LOS ANGELES,  
a body corporate and politic

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

BORROWER: [*Insert name of Landlord*]

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

LENDER: [*Insert name of Lender*],

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

STATE OF CALIFORNIA )  
 ) SS.  
COUNTY OF \_\_\_\_\_ )

On \_\_\_\_\_, before me, \_\_\_\_\_  
Date Name And Title Of Officer (e.g. "Jane Doe, Notary Public")

personally appeared \_\_\_\_\_,  
Name of Signer(s)

who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

\_\_\_\_\_  
Signature (Seal)

**EXHIBIT F**

**TENANT ESTOPPEL CERTIFICATE**

To: [Insert name of party to rely on document]

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Attn: \_\_\_\_\_

Re:   Date of Certificate:           \_\_\_\_\_

      Lease Dated:                    \_\_\_\_\_

      Current Landlord:            \_\_\_\_\_

      Located at:                    \_\_\_\_\_

      Premises:                      \_\_\_\_\_

      Commencement Date of Term: \_\_\_\_\_

      Expiration Date:              \_\_\_\_\_

      Current Rent:                 \_\_\_\_\_

County of Los Angeles ("Tenant") hereby certifies that, to its actual knowledge, as of the date hereof:

1.     Tenant is the present holder of the tenant's interest under the lease described above, as it may be amended to date (the "Lease"). The Lease covers the premises described above (the "Premises") in the building (the "Building") at the address set forth above.

2.     (a)    A true, correct and complete copy of the Lease (including all modifications, amendments, supplements, side letters, addenda and riders of and to it) is attached to this Certificate as Exhibit A.

      (b)    The current Base Rent is set forth above.

      (c)    The term of the Lease commenced on the Commencement Date set forth above and will expire on the Expiration Date set forth above, including any presently exercised option or renewal term. Tenant has no option or right to renew, extend or cancel the Lease, or to lease additional space in the Premises or Building, or to use any parking other than that specified in the Lease.

      (d)    Except as specified in the Lease, Tenant has no option or preferential right to purchase all or any part of the Premises (or the land of which the Premises are a part).

      (e)    Tenant has made no agreement with Landlord or any agent, representative or employee of Landlord concerning free rent, partial rent, rebate of rental payments or any other similar rent concession except as expressly set forth in the Lease.

3.     (a)    The Lease constitutes the entire agreement between Tenant and Landlord with respect to the Premises, has not been modified changed, altered or amended, except as set forth in Exhibit A, and is in full force and effect. There are no other agreements, written or oral, which affect Tenant's occupancy of the Premises.

[(b) To the knowledge of Tenant, Tenant has not given Landlord written notice of a material default under the Lease which has not been cured.]

(c) Tenant's interest in the Lease has not been assigned, subleased or encumbered.

(d) Tenant is not entitled to any credit against any rent or other charge or rent concession under the Lease, except as set forth in the Lease.

(e) No rental payments have been made more than one (1) month in advance.

4. All contributions required to be paid by Landlord to date for improvements to the Premises have been paid in full, and all of Landlord's obligations with respect to tenant improvements have been fully performed, except: \_\_\_\_\_.

IN WITNESS WHEREOF, the Tenant has executed this Tenant Estoppel Certificate as of the day set forth above.

COUNTY OF LOS ANGELES,  
a body corporate and politic

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_



**EXHIBIT G**

**COMMUNITY BUSINESS ENTERPRISE FORM**

INSTRUCTIONS: All Landlords shall submit this form on an annual basis on or before December 30th of each year of the term of this agreement as evidence of MBE/WBE participation. The information requested below is for statistical purposes only. The final analysis and consideration of the lease will be determined without regard to race, creed, color or gender. (Categories listed below are based on those described in 49 CFR Section 23.5)

<b>I. Minority/Women Participation in Firm</b> (Partners, Associate Partners, Managers, Staff, etc.)						
1. Firm Name: _____			3. Contact Person/Telephone Number: _____			
2. Address: _____			4. Total number of employees in the firm: _____			
5. Provide the number of all minority employees and women in each category.	Owners, Partners and Associate Partners		Managers		Staff	
	All O,P & AP	Women	All Managers	Women	All Staff	Women
Black/African American						
Hispanic/Latin American						
Asian American						
Portuguese American						
American Indian/Alaskan Native						
All Others						
<b>II. PERCENTAGE OF MINORITY/WOMEN OWNERSHIP IN FIRM</b>						
1. Type of Business Structure: (Corporation, Partnership, Sole Proprietorship, Etc.) _____						
2. Total Number of Ownership/Partners, Etc.: _____			<b>III. MINORITY/WOMEN-OWNED FIRM CERTIFICATION</b>			
3. Provide the percentage of ownership in each category.	All Employees	Women	Is your firm currently certified as a minority owned business firm by the:			
Black/African American			State of California? <input type="checkbox"/> Yes <input type="checkbox"/> No			
Hispanic/Latin American			City of Los Angeles? <input type="checkbox"/> Yes <input type="checkbox"/> No			
Asian American			Federal Government? <input type="checkbox"/> Yes <input type="checkbox"/> No			
Portuguese American			<b>Section D. OPTION TO PROVIDE REQUESTED INFORMATION</b>			
American Indian/Alaskan Native			<input type="checkbox"/> We do not wish to provide the information required in this form.			
All Others			Firm Name: _____			
			Signature/Title: _____			
			Date: _____			

**EXHIBIT H**

**MEMORANDUM OF LEASE**

**RECORDING REQUESTED BY AND  
WHEN RECORDED MAIL TO:**

County of Los Angeles  
Chief Executive Office  
Real Estate Division  
320 W. Temple Street, 7th Floor  
Los Angeles, California 90012  
Attention: Director of Real Estate

This document is recorded for the benefit of the County of Los Angeles and recording is exempt from recording fees pursuant to California Government Code Section 27383. This transaction is exempt from documentary transfer tax pursuant to California Revenue and Taxation Code Section 11922.

---

**MEMORANDUM OF LEASE**

This Memorandum of Lease ("Memorandum") is made and entered into by and between \_\_\_\_\_, a \_\_\_\_\_ (the "Landlord"), and the COUNTY OF LOS ANGELES, a public body corporate and politic, duly organized and existing under the laws of the State of California (the "Tenant"), who agree as follows:

Landlord and Tenant have entered into an unrecorded lease dated \_\_\_\_\_, 20\_\_ (the "Lease") of certain real property located in the County of Los Angeles, State of California, described in Exhibit A attached hereto and incorporated herein by reference, for a term commencing on \_\_\_\_\_, 20\_\_, and ending on a date \_\_\_\_\_ years after the commencement date, unless such term is extended or sooner terminated pursuant to the terms and conditions set forth in the Lease.

This Memorandum has been prepared for the purpose of giving notice of the Lease and of its terms, covenants, and conditions, and for no other purposes. The provisions of this Memorandum shall not in any way change or affect the provisions of the Lease, the terms of which remain in full force and effect.

Dated: \_\_\_\_\_, 20\_\_.

LANDLORD:

\_\_\_\_\_

By: \_\_\_\_\_

Its: \_\_\_\_\_

By: \_\_\_\_\_

Its: \_\_\_\_\_

TENANT:

COUNTY OF LOS ANGELES,  
a body corporate and politic

FESIA A. DAVENPORT  
Chief Executive Officer

By: \_\_\_\_\_

John T. Cooke  
Assistant Chief Executive Officer

ATTEST:

DEAN C. LOGAN  
Registrar-Recorder/County Clerk  
of the County of Los Angeles

By: \_\_\_\_\_  
Deputy

APPROVED AS TO FORM:

DAWYN R. HARRISON  
County Counsel

By: \_\_\_\_\_  
Senior Deputy

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

STATE OF CALIFORNIA )  
 ) SS.  
COUNTY OF \_\_\_\_\_ )

On \_\_\_\_\_, before me,  
\_\_\_\_\_  
Date Name And Title Of Officer (e.g. "Jane Doe, Notary Public")  
personally appeared \_\_\_\_\_,  
Name of Signer(s)

who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

\_\_\_\_\_  
Signature (Seal)

**EXHIBIT I**

**LANDLORD'S WORK LETTER**

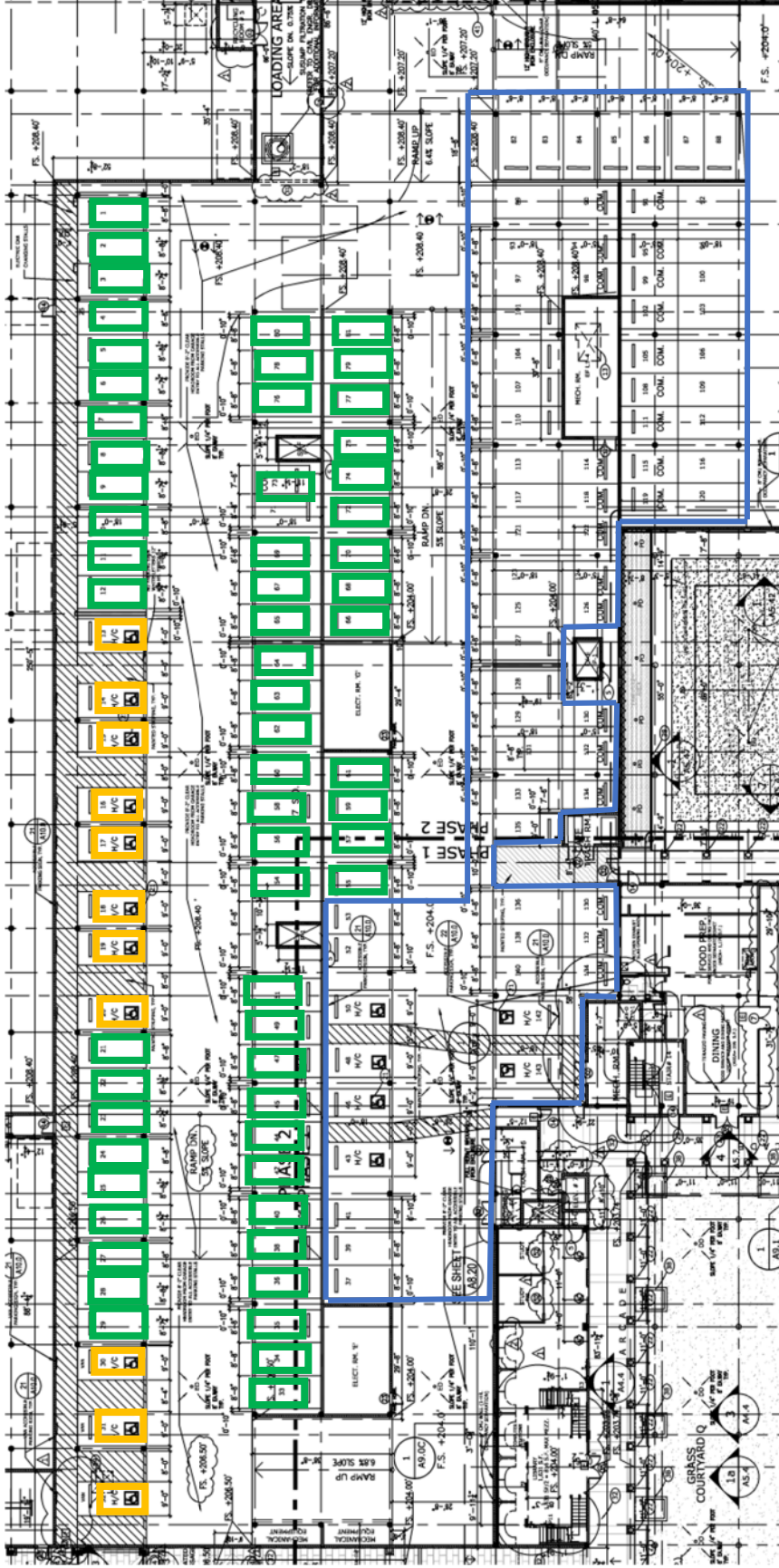
(Attached as a Separate Document)

## EXHIBIT J

### Amortization Table of Landlord's Unamortized TI Allowance See Lease Section 4.4 Early Termination

month	fee	month	fee
60	\$634,630.01	100	\$243,822.34
61	\$626,215.86	101	\$232,477.13
62	\$617,738.60	102	\$221,046.84
63	\$609,197.76	103	\$209,530.81
64	\$600,592.87	104	\$197,928.42
65	\$591,923.44	105	\$186,239.01
66	\$583,188.99	106	\$174,461.92
67	\$574,389.04	107	\$162,596.51
68	\$565,523.08	108	\$150,642.11
69	\$556,590.63	109	\$138,598.05
70	\$547,591.18	110	\$126,463.66
71	\$538,524.24	111	\$114,238.26
72	\$529,389.30	112	\$101,921.18
73	\$520,185.84	113	\$89,511.71
74	\$510,913.36	114	\$77,009.17
75	\$501,571.34	115	\$64,412.87
76	\$492,159.25	116	\$51,722.09
77	\$482,676.57	117	\$38,936.13
78	\$473,122.76	118	\$26,054.27
79	\$463,497.31	119	\$13,075.81
80	\$453,799.66	120	\$0.00
81	\$444,029.29		
82	\$434,185.63		
83	\$424,268.15		
84	\$414,276.28		
85	\$404,209.48		
86	\$394,067.18		
87	\$383,848.81		
88	\$373,553.80		
89	\$363,181.58		
90	\$352,731.56		
91	\$342,203.17		
92	\$331,595.82		
93	\$320,908.92		
94	\$310,141.86		
95	\$299,294.05		
96	\$288,364.88		
97	\$277,353.74		
98	\$266,260.02		
99	\$255,083.09		

Exhibit K  
Approved Parking Relocation Area  
(see attached)



Approved Parking Relocation Area

60 regular and compact spaces

11 disabled access spaces



**LANDLORD'S WORK LETTER**

**For**

**COUNTY OF LOS ANGELES  
CHIEF EXECUTIVE OFFICE  
LEASE AGREEMENT**

**COUNTY OF LOS ANGELES, as Tenant**

**and**

**PALMER/FLOWER STREET PROPERTIES, as Landlord**

**Property Address:**

**325 WEST ADAMS BOULEVARD**

**LOS ANGELES, CA 90007**

## LANDLORD'S WORK LETTER

This Work Letter supplements the Lease Agreement (the "Lease") dated \_\_\_\_\_, 20\_\_, executed concurrently herewith, by and between PALMER/FLOWER STREET PROPERTIES, a California limited partnership, as Landlord, and COUNTY OF LOS ANGELES, a body corporate and politic, as Tenant, covering certain Premises described in the Lease. Terms capitalized but not otherwise defined herein shall have the meanings ascribed to them in the Lease.

The parties hereby agree as follows:

**1. Basic Work Letter Information.** The following terms as used herein shall have the meanings provided in this Section unless otherwise specifically modified by provisions of this Work Letter.

- |   |   |
|---|---|
| (a) <u>Total TI Costs</u>   | \$2,036,604.00 (i.e., \$188.00 per rentable square foot of the Premises)  |
| (i) <u>Landlord's TI Allowance</u>  | \$996,636.00 (i.e., \$92.00 per rentable square foot of the Premises)   |
| (ii) <u>Tenant's TI Contribution</u>  | \$1,039,968.00 (i.e., \$96.00 per rentable square foot of the Premises)   |
| (b) <u>TI Amortization Rate and Change Authorization Amortization Rate:</u> | N/A (Tenant's TI Contribution to be repaid lump sum).   |
| (c) <u>Tenant's Work Letter Representative</u>                              | Tina Hovsepian or an assigned staff person of the Chief Executive Office-Real Estate Division   |
| (d) <u>Landlord's Work Letter Representative</u>                            | Drue Marshall or an assigned staff person of the Landlord   |
| (e) <u>Landlord's Address for Work Letter Notices</u>                       | PALMER/FLOWER STREET PROPERTIES<br>c/o G.H. Palmer Associates<br>270 N. Canon Dr., Penthouse<br>Beverly Hills, CA 90210<br>Attention: Drue Marshall<br>Email: drue@ghpalmer.com |
| (f) <u>Tenant's Address for Work Letter Notices</u>                         | County of Los Angeles<br>Chief Executive Office - Real Estate Division<br>320 West Temple Street, 7th Floor<br>Los Angeles, CA 90012<br>Attention: Director of Real Estate      |

(g) Addenda

Addendum A: Base Building Improvements  
Addendum B: Tenant Improvements  
Addendum C: Form of Preliminary and Final TI Cost Summary

## 2. Construction of the Building.

2.1 Base Building Improvements. Landlord has constructed or shall construct the base building improvements described on Addendum A hereto (the "Base Building Improvements") as a part of the Building. If the Base Building Improvements must be changed or added to in order to accommodate the special needs of Tenant in the Premises, such changes or additions shall not be considered Tenant Improvements (as defined below) unless such changes or additions are specifically described in Addendum B hereto.

### 2.2 Additional Costs Not Total TI Costs.

(a) If the Building as initially constructed does not comply with current life-fire safety codes, disabled access codes (including, without limitation, the Americans with Disabilities Act of 1990 (ADA), and/or earthquake safety codes, and Landlord incurs increased design or construction costs that it would not have incurred if the Building had been in compliance with such codes, then such costs shall not be included in the calculation of Total TI Costs (as defined below), and Tenant shall have no financial responsibility for such costs.

(b) Any work that Landlord must undertake to cause the Premises to comply with the access requirements of the ADA or to make existing building systems, including but not limited to electrical service and HVAC equipment, fully operational shall be at Landlord's sole cost and expense. Total TI Costs shall not include any costs associated with (i) asbestos abatement or compliance with the Hazardous Materials provision of the Lease, including all expenses associated with curing any "Sick Building Syndromes", (ii) fire sprinkler system installation or upgrade, (iii) conversion of air conditioning systems to eliminate use of CFC refrigerants that are harmful to the atmosphere, (iv) utility costs incurred during construction, (v) costs incurred in order to cause the Premises to comply with any mechanical or electrical requirements set forth in the Lease, nor (v) supervision or overhead costs of Landlord.

(c) Landlord shall be solely responsible for all costs and expenses necessary to increase and / or maintain permitted structural floor loading in order to accommodate Tenant's libraries, file rooms, unusual live loads and other such uses.

(d) Tenant shall have a one-time right within thirty (30) days of delivery of the Premises to field-measure and verify the exact footage of the Premises and/or the Building in accordance with Section 2.2 of the Lease. . Should this measurement be less than the square footage stated above, then Tenant shall have the right to adjust such square footage and reduce the Base Rent in Section 1.1 of the Lease accomplished by the mutual execution of an amendment to the Lease. Landlord acknowledges the space has been marketed at the Lease indicated rental amount and in the event of subsequent physical measurements, Landlord agrees there will be no increase made to the Base Rent if the measured square footage exceeds the amount represented by Landlord. All measurements shall be taken in accordance with the methods of measuring rentable area as described in the Standard Method for Measuring Floor Area in Office Buildings, ANSI/BOMA Z65.1-2010, as promulgated by the Building Owners and

Management Association ("BOMA") International, except that no penthouse mechanical room space shall be included in the measurement.

2.3 **Base Building Plans.** Landlord has delivered to Tenant complete and accurate "as built" plans and specifications for the Building in an AutoCAD 2015 (or later version) and Adobe PDF electronic format via USB flash drive and set-up of a web-based download link. If Tenant incurs additional costs because such plans and specifications are incomplete or inaccurate, then any delay caused thereby shall not be a Tenant Delay (as defined below), but shall be deemed to be a delay caused by Landlord, and Landlord shall pay for any increased costs caused by such delay.

2.4 **Survey.** Where 'as-built' plans are missing, Landlord must perform a survey of existing space, which shall include existing floor plans and mechanical, electrical, and plumbing systems. The survey shall be at Landlord's sole cost and expense. Landlord shall submit such survey to the Tenant such that the initial Space Plan (as defined in Section 5.1) can be modified to conform to the existing conditions.

3. **Selection of Architect.** Landlord shall not retain any architectural or engineering services for Premises improvements until final space plan is furnished to the Landlord. Once Landlord receives the final space plan, Landlord, in its sole discretion, shall promptly either:

(a) solicit at least three (3) proposals from qualified licensed architects familiar with all applicable laws and building requirements detailing a scope of work sufficient to complete the Working Drawings (as defined below). Landlord shall select an architect, subject to Tenant's acceptance, which shall not be unreasonably withheld, and which acceptance (or rejection for reasonable reasons) shall be granted within five (5) calendar days after Landlord has submitted the name of the selected architect to Tenant, together with detailed proposals outlining the cost for design/engineering services. This procedure shall be repeated until Tenant accepts an architect (the "Architect"), and Tenant's written acceptance has been delivered to and received by Landlord; or

(b) retain its preferred licensed architect, who shall be the "Architect" and its preferred licensed Engineer, who shall be the "Engineer", provided that Architect is familiar with all applicable laws and building requirements for detailing a scope of work sufficient to complete the Working Drawings (as defined below) outlining the cost for design/engineering services.

4. **Selection of Contractor.** The Final Plans (as defined below) and a proposed construction contract accepted by Tenant shall be submitted, in Landlord's sole discretion, to either:

(a) a sufficient number of qualified contractors, selected by Landlord, so that a minimum of three (3) bids are received. Each contractor shall be requested to submit a sealed fixed price contract bid price (on an American Institute of Architects (AIA) form) to construct the Tenant Improvements depicted on the Final Plans. Landlord shall select the most qualified bidder offering the lowest price after adjustments for inconsistent assumptions, and Landlord shall submit all bids, along with Landlord's recommendation, to Tenant for Tenant's review and acceptance. Following Tenant's acceptance, Landlord shall enter into a construction contract (the "Construction Contract") with the lowest qualified bidder (the "Contractor") to construct the Tenant Improvements, consistent with the terms of the accepted bid; or

(b) the General Contractor preferred and selected by Landlord. The Landlord in its sole discretion, may elect to use its preferred Licensed General Contractor, provided that (i) the Landlord enters into an "open book" contract, (ii) the Contractor competitively bids out the Premises Tenant Improvement build-out to three (3) subcontractors for every trade.

## **5. Preparation of Plans and Specifications and Construction Schedule.**

5.1 Preparation of Space Plan. Concurrently with the execution of this Lease, Tenant shall submit to Landlord specifications for the Premises, which shall include a space plan, and when available, low voltage and furniture plans and shall depict, without limitation, all demising walls, corridors, entrances, exits, doors, and interior partitions, and the locations of all offices, conference rooms, computer rooms, mini-service kitchens, and the reception area, library, and file room (collectively, the "Space Plan").

5.2 Preparation and Review of Working Drawings. Within thirty (30) days after the date the Space Plan is submitted to Landlord (the "Plan Submission Date"), Landlord shall instruct the Architect to commence preparation of working drawings (the "Working Drawings"), which shall (a) be consistent with the Space Plan and the Preliminary TI Cost Summary (as defined below), (b) be compatible with the design, construction and equipment of the Building, (c) comply with all applicable laws, (d) be capable of physical measurement and construction, (e) contain all information required for the construction of the Tenant Improvements and the preparation of the Engineering Drawings (as defined below), and (f) include all partition locations, plumbing locations, air conditioning system and duct work, special air conditioning requirements, reflected ceiling plans, office equipment locations, and special security systems. The Working Drawings may be submitted in one or more stages and at one or more times provided that a schedule to submit the Working Drawings is provided to, and reasonably approved by, the Tenant. Landlord shall provide Tenant the Working Drawings, or such portion thereof as has been submitted, for Tenant's review and acceptance. Landlord shall be solely responsible for ensuring that the Working Drawings fully comply with all applicable building codes and cover any expenses that result from the errors, omissions or inconsistencies in the Architect's Instruments of Service.

5.3 Preparation and Review of Engineering Drawings. Landlord shall cause the Architect to coordinate with the Engineer and to integrate all engineering drawings prepared by the Engineer, including but not limited to complete mechanical, electrical, and plumbing plans ("Engineering Drawings"), into the Working Drawings. The Engineering Drawings may be submitted in one or more stages and at one or more times for Tenant's review and acceptance.

5.4 Integration of Working Drawings and Engineering Drawings into Final Plans. After Tenant has accepted the Engineering Drawings, Landlord shall cause the Architect to integrate the accepted Working Drawings with the accepted Engineering Drawings (collectively "Final Plans") and deliver the Final Plans to Tenant for Tenant's review in an AutoCAD 2015 (or later version) and Adobe PDF electronic format via USB flash drive and set-up a web-based download link. The Final Plans shall be suitable for plan check review and permitting by local agencies having jurisdiction, for the layout, improvement and finish of the Premises consistent with the design and construction of the Base Building Improvements, including electrical and mechanical drawings, capacity reports, dimensioned partition plans, floor and wall finish plans, reflected ceiling plans, power, telephone communications and data plans, life safety devices, construction detail sheets including millwork detail plans showing the location of partitions, light fixtures, electrical outlets, telephone outlets, sprinklers, doors, equipment specifications (including weight specifications and cooling requirements), power requirements (including voltage, amps, phase, and special plugs and connections), wall finishes, floor coverings, millwork and other Tenant

Improvements. Landlord's review of the Space Plan, Working Drawings, Engineering Drawings, and Final Plans shall be at Landlord's sole cost and expense.

5.5 Tenant's Plan Review and Acceptance. Tenant shall accept or reject the Working Drawings, the Engineering Drawings and the Final Plans within twenty-one (21) calendar days after Tenant receives the applicable plans and drawings from Landlord. If Tenant rejects any such plans or drawings, then Tenant shall notify Landlord thereof, specifying in detail the reason for such rejection, in which case Landlord shall revise the applicable plans or drawings and deliver revised plans or drawings to Tenant within fourteen (14) calendar days after receipt of Tenant's rejection notice. This procedure shall be repeated until the applicable plans are accepted by Tenant. If, after such procedure, the parties cannot agree on the Working Drawings, the Engineering Drawings or the Final Plans, then Tenant may elect to terminate the Lease and this Work Letter by delivering a written termination notice to Landlord, whereupon all monies previously paid to Landlord shall be promptly refunded to Tenant, and the parties shall have no further obligations under the Lease and the Work Letter. Tenant's acceptance of the Working Drawings, Engineering Drawings and/or the Final Plans shall not be deemed to be a representation by Tenant as to the adequacy or correctness of the design of the Tenant Improvements, which shall be Landlord's sole responsibility.

5.6 Schedule. Within twenty-one (21) calendar days of the Plan Submission Date, Landlord shall submit to Tenant a detailed baseline construction schedule, subject to acceptance by Tenant, which shall not be unreasonably withheld, setting forth the completion dates of certain project milestones, including but not limited to completion of Working Drawings, completion of Engineering Drawings, submission of plans to local jurisdiction for review, issuance of building permit, submission of plans to contractors for bidding, award of the Construction Contract, construction commencement date, interim schedule milestone dates, and the date of Substantial Completion. The schedule shall be apportioned by construction activity and include time required for the completion of each portion of the work. As the construction continues, Landlord shall amend the construction schedule at least once each month to reflect any changes to the projected dates, and Landlord shall promptly submit the revised construction schedules to Tenant. If the amended construction schedule identifies delays to the project's critical path, the Landlord shall provide a recovery schedule and/or request for a contract time extension.

5.7 Submittals. The Landlord shall submit to Tenant any Shop Drawings, Product Data Sheets / Samples or similar submittals required by the Final Plans in coordination with the construction schedule and with reasonable promptness, so as not to cause any delay in the construction of the Tenant Improvements. The purpose of Shop Drawings, Product Data, Samples and similar submittals is to demonstrate the way by which the Contractor proposes to construct a design concept expressed in the Final Plans. "Shop Drawings" include drawings, diagrams, schedules and other data specially prepared by the Contractor or a subcontractor, manufacturer, supplier or distributor to illustrate some portion of the Tenant Improvements. "Product Data Sheets / Samples" include illustrations, summary performance charts, instructions, brochures, diagrams, manufacturer specifications and other information furnished by the Landlord to illustrate materials or equipment for some portion of the Tenant Improvements. "Samples" are physical examples that illustrate materials, equipment or workmanship for some portion of the Tenant Improvements. The Contractor shall construct no portion of the Tenant Improvements for which the Final Plans require submittal and review of Shop Drawings, Product Data, Samples or similar submittals until the respective submittal has been reviewed and accepted by the Tenant.

## **6. Landlord's TI Cost Summary and Payment of Total TI Costs.**

6.1 Cost Summary. Within twenty-one (21) calendar days after the Plan Submission Date, Landlord shall submit to Tenant a preliminary cost summary for the Tenant Improvements in a format similar to Addendum C attached hereto (the "Preliminary TI Cost Summary"), which must not exceed the sum of Landlord's TI Allowance and Tenant's TI Contribution. The Preliminary TI Cost Summary shall be revised into final form within ten (10) days after the date that the Contractor is selected and will be referred to herein as the "Final TI Cost Summary". Tenant shall have fourteen (14) calendar days after the date of receipt of the Final TI Cost Summary to accept or reject the Final TI Cost Summary, including but not limited to any Contractor overhead, profit and/or general conditions costs included therein; provided, however, that any proposed increase to Tenant's TI Contribution shown on the Final TI Cost Summary shall not be effective unless approved in a separate written agreement executed by Landlord and Tenant. Tenant's failure to accept or reject the Final TI Cost Summary in writing within such period shall be deemed to be rejected. Construction of the Tenant Improvements shall not begin until Tenant accepts the Final TI Cost Summary in writing. If Tenant rejects the Final TI Cost Summary due to matters related to cost and the Final TI Cost Summary is ten percent (10%) or more higher in cost than projected in the Preliminary TI Cost Summary, then, at Tenant's request, Landlord shall cause the Architect and the Engineer to redesign the Tenant Improvements, at Landlord's sole expense, to comply with the Preliminary TI Cost Summary, and any delay caused by the necessity to rebid or redesign the Tenant Improvements shall not be considered a Tenant Delay. If Tenant rejects the Preliminary TI Cost Summary or the Final TI Cost Summary, the parties shall promptly confer to resolve all issues relating thereto. If after such consultation, the parties cannot agree on the Preliminary TI Cost Summary or the Final TI Cost Summary, then Tenant may elect to terminate the Lease and this Work Letter by delivering written termination notice to Landlord, whereupon all monies previously paid to Landlord shall be promptly refunded to Tenant, and the parties shall have no further obligations under the Lease or this Work Letter.

6.2 Landlord's TI Allowance and Tenant's TI Contribution. All improvements required by the Final Plans, as further described in Addendum B hereto, and any and all modular furniture described in the Modular Specifications (as defined below) shall be referred to herein, collectively, as "Tenant Improvements" or "TI." Costs of Tenant Improvements shall include costs for furniture, , soft costs, and any other costs approved in writing by Tenant (collectively "Total TI Costs"), all of which must not exceed the sum of Landlord's TI Allowance, Tenant's TI Contribution, and the cost of any Change Authorizations (as defined below) that are approved in writing by both parties. Landlord shall be solely responsible for any delay or increased cost in completing the Tenant Improvements. Except as otherwise provided herein, all Total TI Costs shall be paid by Landlord and deducted from Landlord's TI Allowance. If the Total TI Costs exceed Landlord's TI Allowance, then Tenant may authorize Landlord to pay the overage in an amount not exceeding Tenant's TI Contribution. Thereafter, Tenant shall pay such overage to Landlord as provided in Section 6.3 below.

6.3 Method of Payment. Tenant shall be obligated to pay Landlord that portion of Tenant's TI Contribution used to pay for any Total TI Costs in excess of Landlord's TI Allowance' sixty (60) calendar days after all of the following conditions have been met: (i) Tenant Improvements are Substantially Complete (as defined in the Lease); (ii) Landlord has provided Tenant with all documentation substantiating all Tenant Improvements' expenses, including without limitation, receipts, invoices, proof of payment, unconditional lien releases and approved changed orders; and (iii) Tenant has reconciled all Tenant Improvements' costs to determine and confirm the total Tenant Improvements amount spent and the amount of Tenant's TI Contribution

owed to Landlord. As agreed upon by the parties, such payment shall be paid in a single lump sum payment.

6.4 Base Rent Credit for Unused Portions of Landlord's TI Allowance. If the Total TI Costs are less than the Landlord's TI Allowance, then the amount of any unused portion of the Landlord's TI Allowance shall be applied as a credit against the next installment(s) of Base Rent due under the Lease.

## **7. Construction of Tenant Improvements.**

7.1 Tenant Improvements. Tenant Improvements to be constructed by Landlord are described more particularly on Addendum B hereto. If any work required by the Final Plans is not described on Addendum B hereto, such work shall be considered a Base Building Improvement and shall be performed by Landlord at its own cost and expense and not included in the cost of Tenant Improvements.

7.2 Bids. Unless waived by Tenant in writing, any major contractors and subcontractors for the Tenant Improvements shall be selected only after a minimum of three (3) bids have been solicited from responsible and qualified persons. The bids shall include an itemized list of all materials and labor and shall include all additional costs, including architects and engineering fees, permits, reasonable contractor's profit and overhead, and project management fees. Landlord shall also obtain a minimum of three (3) bids from responsible and qualified bidders for the purchase and installation of Tenant's office furniture system, if applicable, in accordance with Section 9.1 below.

7.3 Permits. Landlord shall use diligent efforts obtain the approval of all applicable governmental authorities and all permits required for the Tenant Improvements, promptly after Tenant's acceptance of the Final Plans. After first round of plan check comments and all applicable government clearances are addressed by the Architect, Landlord shall solicit bids from contractors or select general contractor, as described in Section 4 hereof.

7.4 Commencement of Construction. Landlord shall commence construction of the Tenant Improvements within twenty-one (21) calendar days after receipt of all applicable governmental authorities and all permits required for the Tenant Improvements. Contractor shall obtain the building permit for the Tenant Improvements prior to the commencement of construction. Thereafter, Landlord shall diligently proceed to construct and complete all Tenant Improvements in a good and workmanlike manner, subject only to any cessation that may be caused by Force Majeure Delays (as defined below).

7.5 Construction. Construction of the Tenant Improvements will be subject to the following terms and conditions:

(a) Notice of Nonresponsibility. Landlord and the Contractor shall cooperate with Tenant in posting a notice or notices of nonresponsibility by Tenant in compliance with California Civil Code Section 8444.

(b) Decorating Decisions. All design and programming, space planning and interior decorating services, such as selection of wall paint colors and/or wall coverings, furniture, fixtures, flooring and base, and any other decor selection efforts required by Tenant, shall be provided by Landlord, the cost of which shall be included in the Total TI Costs, in accordance with



Tenant's Space Plan. Landlord shall consult with Tenant with respect to all such decorating services and decisions.

(c) Warranties. Landlord warrants that the Tenant Improvements shall be free from any defects in workmanship and materials for a period of not less than two (2) years from the date of Substantial Completion (as defined in the Lease). Landlord shall require each contractor and subcontractor to provide warranties of like duration in all construction contracts relating to the Tenant Improvements and, upon Tenant's request, Landlord shall assign to Tenant any such warranties relating to the Tenant Improvements. Patent defects in the Tenant Improvements shall be brought to Landlord's attention promptly. Latent or hidden defects in the Tenant Improvements shall be brought to Landlord's attention promptly upon Tenant's becoming aware of such defects. Landlord, at Landlord's sole cost and expense, shall promptly cause such defects to be repaired following receipt of notice thereof, and Tenant shall have the same rights with respect thereto as set forth herein for all other punch-list items.

(d) Clean-Up and Substandard Work. Landlord will be responsible for all clean-up with respect to the Tenant Improvements, whether in the Premises or in other areas utilized by Landlord or its contractors, and Landlord agrees to reimburse Tenant for any and all expenses incurred by Tenant by reason of substandard work performed by Landlord's contractor or contractors (as reasonably determined by Tenant according to the usual standards of work in the Building) or as a result of inadequate clean-up to the extent the same is not corrected by Landlord within ten (10) days of receipt of written notice from Tenant to Landlord (unless such correction cannot reasonably be completed within ten (10) days and Landlord shall have commenced such correction within said ten (10) days and continues diligently to pursue the completion of the same).

(e) Compliance with Laws. The Premises shall comply with all applicable city, county, state and federal building codes, regulations and ordinances required for beneficial occupancy, including but not limited to all provisions of the California Labor Code. **Without limiting the generality of the foregoing, construction of the Tenant Improvements shall comply with all applicable laws and regulations, including but not limited to the provisions of the California Labor Code relating to the payment of prevailing wages on public works projects, unless the work is otherwise exempt therefrom pursuant to the California Labor Code. Under the provisions of the Labor Code, the State Department of Industrial Relations will ascertain the prevailing hourly wage rate and details pertinent thereto for each craft, classification, or type of workman or mechanic needed for the construction of the Tenant Improvements. Particulars of the current prevailing wage scale, as approved by the Board of Supervisors, which are applicable to the work, are filed with the Clerk of the Board of Supervisors and must be posted at the site. Notwithstanding the foregoing or any language to the contrary contained herein, the payment of prevailing wages according to the current prevailing wage scale and compliance with applicable prevailing wage statutes shall be required where there is a Tenant's TI Contribution made towards the Total TI Costs of the Tenant Improvements to be performed.**

(f) Access During Construction. Upon reasonable prior notice, Tenant shall have the right to conduct site visits to observe progress of the Tenant Improvements during the course of construction. Additionally, pursuant to Section 4.3 of the Lease, Tenant shall be entitled to enter the Premises at least thirty (30) calendar days prior to the Commencement Date for the purpose of installing Tenant's furniture, fixtures and equipment in the Premises. Landlord and Tenant shall use reasonable good faith efforts to coordinate the work of their respective

contractors to achieve timely completion of the Tenant Improvements and Tenant's installation work.

7.6 Completion/Close Out. The Premises shall not be considered Substantially Complete until the Tenant Improvements have been completed in accordance with the Final Plans and Section 4.1 of the Lease, subject only to the completion of minor punch-list items that will not materially and adversely interfere with Tenant's use and occupancy of the Premises for Tenant's permitted and intended use under the Lease. Upon Substantial Completion of the Tenant Improvements, Landlord shall notify Tenant in writing and, within seven (7) calendar days of Tenant's receipt of such notice, Landlord and Tenant shall conduct a "walk-through" inspection of the Premises and prepare a punch-list of known or apparent deficiencies or incomplete work required to be corrected or completed by Landlord. Landlord, shall cause all punch-list items to be repaired or completed as soon as possible, but in no event later than thirty (30) days following the walk-through inspection. If Landlord fails to complete any of the punch-list items within such 30-day period, then Tenant, in addition to its other rights and remedies under the Lease, after giving ten (10) days written notice to Landlord, shall have the right, but not the obligation, to cause such punch-list items to be completed, with the cost thereof plus ten percent (10%) for Tenant's overhead and supervision to be deducted from the next installment(s) of rent or other amounts payable by Tenant under the Lease.

7.7 Conformed Plans. Within sixty (60) days after Substantial Completion of the Tenant Improvements and Landlord's receipt from the Contractor of all field changes, Landlord shall submit to Tenant a set of conformed plans ("as-builts") incorporating, in accordance with standard industry custom and practice, field changes made and changes and/or revisions that have been made subsequent to the submission of the Final Plans. Such "as-built" or "record documents" shall be submitted in an AutoCAD 2015 (or later version) format, along with one complete set of plans and specifications Adobe PDF electronic format via USB flash drive and set up of a web-based download link.

8. Requests for Change. Tenant and Landlord may request changes, additions, deletions or substitutions in the Final Plans (each, a "Request for Change"), provided that the requesting party must submit a written request to the other party and that Requests for Change will not be effective unless approved in writing by both Tenant and Landlord (a "Change Authorization"). Only the County's Chief Executive Officer or his/her designee is authorized to execute Change Authorizations on behalf of Tenant. If Tenant requests any changes or substitutions to the Tenant Improvements after the Final Plans and the Final TI Cost Summary have been accepted ("Tenant-Requested Changes"), then any additional costs related thereto in excess of Landlord's TI Allowance shall be paid by Tenant, provided that Tenant executes a written Change Authorization prior to the performance of the applicable work. Tenant shall be obligated to pay Landlord for the Tenant Request for Change as part of Tenant's portion of Tenant's TI Contribution used to pay for any Total TI Costs in excess of Landlord's TI Allowance as defined in Section 6.3. Landlord shall be solely responsible for the cost of any Change Authorizations or other Requests for Change that are not Tenant-Requested Changes or approved by the Chief Executive Officer or his/her designee, Landlord shall submit to the Chief Executive Officer or his/her designee with each Request for Change: (i) the specific cost of the requested change, (ii) the cumulative net total cost of all Change Authorizations previously executed, and (iii) an estimate of the number of days by which the construction time will be increased or shortened if the Request for Change is approved. Each Change Authorization must be signed and dated by tenant department, Landlord and the Chief Executive Officer or his/her designee in order to be effective.

9. Furniture System.

9.1 Tenant shall deliver to Landlord within fourteen (14) calendar days after the date of full execution of this Work Letter, modular furniture plans and specifications (the "Modular Specifications"). Based on the Modular Specifications, Landlord and /or Landlord's architect shall prepare a modular furniture specifications bid package for submission to no less than three (3) furniture vendors. The bid package shall be broken down into separate line items for material, delivery, and sales tax, and each furniture item shall be broken down by unit price, quantities, description and specification. Prior to submission for bids, Landlord shall review the bid package with Tenant, and Tenant shall have the right to accept or reject the bid package. Landlord shall order the modular furniture set forth in the Modular Specifications and install the same within the Premises, all of which shall be a Total TI Cost, payable by Landlord and/or Tenant as provided in Section 6.2 and Section 6.3 hereof. Tenant's acceptance of any bid package shall not be deemed to be a representation by Tenant as to the adequacy or correctness of any specifications contained therein.

9.2 Alternatively, Tenant may elect to finance the cost of modular furniture through lease-purchase financing with a third-party lender ("Creditor"). If Tenant elects to enter into a lease-purchase financing of any furniture or telecommunications equipment (individually or collectively, "Personal Property") through a Creditor, Landlord expressly agrees as follows:

(a) The Personal Property shall not become part of the real property, but shall remain personal property removable by the Creditor and its assigns, provided that any damage to the Building or the Premises caused by such removal shall be repaired by Creditor.

(b) Landlord must receive written notice from Creditor of any plan by Creditor to remove the Personal Property from the Building.

(c) This Section 9.2 shall be binding on the representatives, successors and assigns of all parties hereto and shall inure to the benefit of the successors-in-interest to all parties hereto.

(d) Landlord hereby waives any right to gain possession of any of Personal Property during the term of the Lease.

**10. Total TI Costs Adjustment and Right to Audit.** Within seven (7) calendar days of the issuance of a Certificate of Occupancy for the Premises or a final sign-off by the County of Los Angeles, whichever occurs first, Landlord shall provide to Tenant a statement showing (a) all Total TI Costs in reasonable detail and sorted into the same line items as the Final TI Cost Summary, and (b) the amount of Total TI Costs that is in excess of Landlord's TI Allowance and payable hereunder by Tenant to Landlord. Upon approval of such statement by Tenant, payments by either party pursuant to the Lease and this Work Letter shall be adjusted as appropriate based upon such statement. Tenant shall have the right to audit the Total TI Costs at any time after the date of Tenant's Acceptance of the Premises. If the audit shows that Tenant is entitled to a reduction in payments made by Tenant to the Landlord pursuant to this Work Letter, then Tenant shall provide Landlord with a copy of the audit summary, and inform Landlord if Tenant wants Landlord to pay Tenant the amount of any over-payment made by Tenant within thirty (30) calendar days or if Tenant will apply such amount as a credit against the next installment(s) of Base Rent due under the Lease, and any future payments owed by Tenant shall be adjusted as appropriate based upon the audit results. Landlord shall require the Contractor to include audit provisions in all subcontracts which allow Tenant to audit the subcontractors' books and records with respect to the Tenant Improvements.

**11. Telephone/Computer Room and Equipment.** Landlord shall complete the telephone equipment room(s), including permanent power and HVAC, in compliance with the Space Plan, Low-Voltage Plan and specifications provided by Tenant, at least thirty (30) calendar days prior to the Estimated Commencement Date. During this thirty (30) day period, the Landlord shall be responsible for the security and protection of any telephone/data equipment delivered to the site prior to the Estimated Commencement Date.

**12. Delay.**

12.1 Tenant Delays and Force Majeure Delays. Except as set forth in this Section 12, Tenant shall not be charged as a result of any delay in the construction of Tenant Improvements. Subject to the provisions of Section 12.2, the Estimated Commencement Date set forth in the Lease shall be extended one (1) day for each day that: (a) Tenant fails or refuses to give authorizations or approvals within the time periods required herein, but only to the extent such delays delay the commencement or completion of construction of the Tenant Improvements (referred to herein as "Tenant Delay(s)"); or (b) Substantial Completion of the Tenant Improvements is delayed by lightning, earthquake, fire, storm, tornado, flood, washout, explosion, strike, lockout, labor disturbance, civil disturbance, riot, war, act of a public enemy, sabotage or other similar causes beyond the reasonable control of Landlord (referred to herein as "Force Majeure Delay(s)").

12.2 Limitations.

(a) Notice. No Tenant Delay or Force Majeure Delay shall be deemed to have occurred unless, within forty-eight (48) hours of the event giving rise to such claim, Landlord provides Tenant with written notice in compliance with the Lease specifying that a delay is claimed to have occurred because of actions, inaction or circumstances specified in the notice in reasonable detail. If such actions, inaction, or circumstances qualify as a Tenant Delay or Force Majeure Delay, then a Tenant Delay or Force Majeure Delay, as applicable, shall be deemed to have occurred, commencing as of the date Tenant received such notice from Landlord.

(b) Mitigation. Tenant Delays and Force Majeure Delays shall delay the Estimated Commencement Date only if Substantial Completion of the Tenant Improvements is delayed, despite Landlord's reasonable efforts to adapt and compensate for such delays, efforts which Landlord shall be obligated to make (provided that the additional cost incurred by Landlord due to such efforts does not exceed \$1,000 on a cumulative basis, unless Tenant agrees to pay to the excess).

(c) Concurrent Delays. Tenant Delays and Force Majeure Delays shall be recognized hereunder only if they are not concurrent with any other Tenant Delay or Force Majeure Delay that is effective hereunder. For example, if fourteen (14) calendar days of Tenant Delays and six (6) calendar days of Force Majeure Delays occur during the same fourteen (14) calendar day period, then the Estimated Commencement Date would be extended by only fourteen (14) calendar days; on the other hand, if such Tenant Delays and Force Majeure Delays did not occur during the same period, then the Estimated Commencement Date would be extended by twenty (20) calendar days.

(d) Change Authorizations. Landlord may not claim that a Tenant-Requested Change was the cause of a delay in the construction of the Tenant Improvements unless the anticipated delay is specified in writing in the executed Change Authorization and affects the Critical Path of the Construction Schedule.

(e) Work Scope Precedence. In case of conflicts or discrepancies between or among this Landlord Work Letter, plans, and specifications, plans shall supersede specifications for quantity, specifications shall supersede plans for quality, and this Landlord Work Letter shall supersede both plans and specifications.

**13. Tenant Remedies.** If Landlord fails to obtain the building permit to construct the Tenant Improvements within a reasonable time, taking all factors into consideration, including any delays in obtaining such permit that are outside of Landlord's reasonable control, or if the Tenant Improvements have not been completed within sixty (60) calendar days after the Estimated Commencement Date, then Tenant may, at its option:

13.1 Cancel the Lease upon thirty (30) calendar days' written notice to Landlord; or

13.2 Upon thirty (30) calendar days' written notice to Landlord, assume the responsibility for constructing and/or completing the Tenant Improvements itself. If Tenant elects to construct or complete the Tenant Improvements itself, then:

(a) Tenant, its officers, employees, agents, contractors and assignees, shall have free access to the Premises and the Building at all reasonable times for the purpose of constructing the Tenant Improvements and for any other purposes reasonably related thereto; and

(b) Base Rent shall be reduced by Tenant's total expense in constructing the Tenant Improvements, including any financing charges for capital and a reasonable amount for Tenant's administrative costs, and including interest at the rate of six percent (6%) per annum ("Tenant's Total Expense"). The rent reduction schedule shall be as mutually agreed to between the parties or, if no such agreement is made, Tenant's Total Expense shall be fully amortized in equal monthly amounts over five (5) years and deducted from the Base Rent payable under the Lease.

Any default by Landlord under the terms of this Work Letter shall constitute a Landlord Default under the Lease and shall entitle Tenant to exercise all remedies set forth in the Lease.

**14. Representatives.**

14.1 Tenant Representative. Tenant has designated Tenant's Work Letter Representative as its sole representative with respect to the matters set forth in this Work Letter who, until further notice to Landlord, shall have the full authority and responsibility to act on behalf of Tenant as required in this Work Letter and whose address, for purposes of any notices to be given regarding matters pertaining to this Work Letter only, is Tenant's Address for Work Letter Notice as set forth in Section 1.2 of the Lease.

14.2 Landlord Representative. Landlord has designated Landlord's Work Letter Representative as its sole representative with respect to the matters set forth in this Work Letter who, until further notice to Tenant, shall have the full authority and responsibility to act on behalf of Landlord as required in this Work Letter and whose address, for purposes of any notices to be given regarding matters pertaining to this Work Letter only, is Landlord's Address for Work Letter Notice as set forth in Section 1.2 of the Lease.

**15. Elevator Usage During Move-In.** In the event that the use of the freight elevators and/or hoists is not sufficient to meet Tenant's requirements during the early entry period set forth in

Section 4.3 of the Lease, (a) Landlord shall cause to be made operational a temporary construction elevator and hoist, or (b) Tenant shall have priority usage of two (2) passenger elevators in the elevator bank that services the Premises in order to assist Tenant in the installation of Tenant's fixtures, furniture and equipment. Any elevator usage provided under this Section 15 shall be at no cost to Tenant.

**16. Construction Meetings.** During the course of construction, meetings shall be held between the Contractor, Landlord and Tenant at least once per week, unless Tenant directs otherwise, at a time and place that is mutually convenient. An initial construction meeting shall be held within seven (7) calendar days after the date the Contractor is selected. Contractor shall provide minutes of each construction meeting to Tenant within a reasonable time thereafter, but not later than three (3) calendar days after the date of the construction meeting.

**17. Delivery.** Delivery of all plans and drawings referred to in this Work Letter shall be either by commercial messenger service, personal hand delivery or Landlord can set up a web-based download, unless otherwise agreed by Landlord and Tenant.

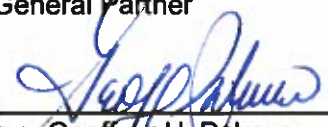
**18. Miscellaneous.** This Landlord Work Letter sets forth the entire understanding and agreement between the Parties with respect to the subject matter of this Landlord Work Letter. This Landlord Work Letter may be amended only in a writing signed by both Parties. Any notice to a party for a breach of this Landlord Work Letter must be delivered in writing per the terms as set forth in Section 30.6 of the Lease. This Landlord Work Letter shall be construed as if jointly drafted by the parties. This Landlord Work Letter will not be effective unless and until signed by both Parties. Neither party may assign this Landlord Work Letter or its rights or obligations hereunder without the other party's prior written consent. This Landlord Work Letter will be binding upon, enforceable by and inure to the benefit of the Parties and each of their successors and permitted assigns. Provisions contained in this Landlord Work Letter shall prevail in case of conflict over the terms of the Lease. This Landlord Work Letter is hereby incorporated into and made part of the Lease. All the terms and conditions of the Lease remain in full force and effect, except as expressly indicated otherwise in this Landlord Work Letter. This Landlord Work Letter will become effective as of the Effective Date and shall continue in effect, except to the extent it is amended or terminated in accordance with terms of the Lease.

IN WITNESS WHEREOF, Landlord and Tenant have executed this Work Letter as of the dates set forth below.

LANDLORD:

PALMER/FLOWER STREET PROPERTIES,  
a California limited partnership

By: Palmer/Flower Street Properties, LLC,  
a California limited liability company,  
its General Partner

By:   
Name: Geoffrey H. Palmer  
Title: Sole Member  
Date Signed: March 15, 2024

TENANT:

COUNTY OF LOS ANGELES,  
a body corporate and politic

FESIA A. DAVENPORT  
CHIEF EXECUTIVE OFFICER

By: \_\_\_\_\_  
John T. Cooke  
Assistant Chief Executive Officer

## **ADDENDUM A To Landlord's Work Letter**

### **BASE BUILDING IMPROVEMENTS**

Landlord has constructed (or will construct) the Building to include the following:

(a) the Building shell and exterior, including perimeter window systems and mullions in good condition. If building has not been constructed or is still under construction, no tenant improvements work shall commence until building has been signed off by the City having jurisdiction and Certificate of Occupancy has been received.

(b) Must also include including mechanical, electrical, sprinkler, plumbing, Fire life safety, heating, air conditioning, ventilation and structural systems within the Building core, stubbed out to the face of the core wall at locations determined by Landlord;

(c) toilet rooms per code, including necessary plumbing fixtures, ceramic tile floors, accessories, ceilings and lighting, with running hot and cold water;

(d) Drywall or lath and plaster covering the exposed side of all exposed core walls, core and perimeter columns and the interior exposed side of all exterior building wall areas except at and under windows. Also included:

(e) public stairways;

(f) passenger and freight elevators;

(g) parking facilities;

(h) ground floor lobby;

(i) finished elevator lobbies (with carpet, lights, finished walls and ceiling);

(j) exterior plazas and landscaping;

(k) loading dock and/or area;

(l) water bottle filling stations/drinking fountains at the core;

(m) electrical/telephone closet with not less than seven (7) watts per square foot of rentable area of normal power in the floor electrical closet;

(n) conduit access sufficient for Tenant's electrical wiring (no additional improvement to increase conduit access will be furnished by Landlord unless there is not sufficient riser space as required for a 1.5" diameter signal cable from the Building main telecommunication vault to the telephone closets on floors [REDACTED], in which case Landlord, at no cost to Tenant and without deduction from Landlord's TI Allowance, shall cause such riser space to be made available to Tenant, and provided further that Tenant shall be responsible for the cost for removing the riser floor seal at each floor and the patching of each seal after installation of Tenant's cable); landlord to provide a 2" conduit from the building IDF for data circuit required by the Tenant in the Main communication room. Note: The landlord has a separate data circuit lease with their internet service provider who services the entire building.



- (o) two (2) 208/120 and one (1) 480/277 Volt (VAC) panels connected to the Building power system;
- (p) mechanical equipment room with ducted mechanical exhaust system;
- (q) concrete floors with troweled finish ready for tenants floor finish, level to specified tolerances and designed to support a minimum live load of fifty (50) pounds per square foot and a partition load of twenty (20) pounds per square foot;
- (r) standard window coverings;
- (s) primary HVAC duct for cooling and primary HVAC duct for heating (heating is for perimeter zone only) to loop from the mechanical equipment room around the building core;
- (t) hot and cold air loops located within the Premises;
- (u) primary fire sprinkler distribution, including secondary piping and sprinkler heads as required for the unoccupied Premises;
- (v) primary fire-life safety enunciation system "backbone" and panels suitable for Tenant's secondary distribution;
- (w) access at panels in the service core for distribution of Building requirements electrical power (initially 120/208 V for power and 277V for fluorescent lighting) up to the limits permitted under applicable law at the time the Building receives the initial temporary certificate of occupancy for the Building; and
- (x) Drywall on the service core walls, columns and sills in the Premises.
- (y) Demolition and removal of any existing improvements or equipment situated within the Premises, unless the Final Plans show that such improvements and/or equipment will remain in the Premises.
- (z) Two Door cut outs for exits from premises to the parking garage area.

## **ADDENDUM B To Landlord's Work Letter**

### **TENANT IMPROVEMENTS**

Tenant improvements shall include:

- (a) Tenant ceilings and lighting;
- (b) Floor finish in the Premises (except elevator lobbies and public corridors on multi-tenant floors and toilet rooms);
- (c) Interior finishes of any kind within the Premises (except elevator lobbies and public corridors on multi-tenant floors and core area toilet rooms);
- (d) Interior partitions, doors and hardware within the Premises;
- (e) Terminal boxes and reheat coils or other HVAC or air distribution devices to or within the Premises;
- (f) Tenant's furniture, fixtures and equipment, including telephones, computers and cabling therefor;
- (g) Distribution of electrical services, plumbing services and sprinklers from the core to the Premises, and domestic hot water heater and associated hot water piping;
- (h) Any and all signs for Tenant and the power therefor;
- (i) Security, fire and life-safety systems throughout the Premises, including exit signs, intercoms and extinguishers;
- (j) Additional and/or above standard electrical capacity; and
- (k) Fiber optic access.

**ADDENDUM C To Landlord's Work Letter**

**PRELIMINARY AND FINAL TI COST SUMMARY**

\_\_\_ Preliminary TI Cost Summary  
\_\_\_ Final TI Cost Summary

Lease No. \_\_\_\_\_  
Address \_\_\_\_\_

Cost Category	
Architecture and Engineering Contract	\$
Plan Check Fees & Permits	\$
General Contractor	\$
(Profit)	\$
(Overhead)	\$
Furniture	\$
Other (Specify)	\$
Total TI Costs	\$



## Chief Executive Office.

### COUNTY OF LOS ANGELES

Kenneth Hahn Hall of Administration  
500 West Temple Street, Room 713, Los Angeles, CA 90012  
(213) 974-1101 ceo.lacounty.gov

#### CHIEF EXECUTIVE OFFICER

Fesia A. Davenport

March 22, 2024

To: Supervisor Lindsey P. Horvath, Chair  
Supervisor Hilda L. Solis  
Supervisor Holly J. Mitchell  
Supervisor Janice Hahn  
Supervisor Kathryn Barger

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

### **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](mailto:cmiller@ceo.lacounty.gov).

FAD:JMN:CDM:kdm

Attachment

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

# 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



HR&A

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## 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<sup>1</sup>. 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<sup>2</sup>. 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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<sup>1</sup> 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.

<sup>2</sup> 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%	<ul style="list-style-type: none"> <li>• Already a compromise between the needs of tenants and property owners</li> <li>• <b>Has not yet been tested</b> in the market due to rent freezes and temporary reduced caps</li> <li>• Relatively high cap poses a risk to tenants if CPI remains high</li> </ul>
Option 2: Streamline the formula and reduce the cap	100% of CPI	2% to 3%	4% to 6%	<ul style="list-style-type: none"> <li>• Resembles current formula, but more intuitive and predictable</li> <li>• Provides greater protections to both property owners (through a fixed guaranteed minimum) and tenants (through a reduced cap)</li> </ul>
Option 3: Use a percentage of consumer price index (CPI)	60-80% of CPI	2% to 3%	4% to 8%	<ul style="list-style-type: none"> <li>• Corrects for linkages between market rents and CPI. Using a guaranteed minimum and cap produces low to moderate rent increases in most years.</li> <li>• 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.</li> </ul>
Option 4: Use 60% of CPI with a 3% cap	60% of CPI	None	3%	<ul style="list-style-type: none"> <li>• 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.</li> <li>• Provides relatively few protections for property owners when CPI is particularly low, CPI is particularly high, or cost growth is high.</li> <li>• 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.</li> </ul>
Option 5: Use a fixed percentage	Fixed percentage 3 to 5%	N/A	N/A	<ul style="list-style-type: none"> <li>• Provides maximum predictability for both tenants and property owners.</li> <li>• Requires the County to reconsider its process for applications for additional rent increases.</li> <li>• Changes in rent are unlikely to be aligned with actual changes in cost of living or costs for property owners.</li> </ul>
Option 6: Use a cost study	100% of increase in operating expenses based on third-party cost study	None	4% to 6%	<ul style="list-style-type: none"> <li>• Provides the most accurate representation of changes in operating costs to ensure rent increases allow property owners to earn a fair return.</li> <li>• Without a floor, rent increases could be low in years operating costs increase very little without impacting property owners' returns.</li> <li>• 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.</li> </ul>

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## 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;

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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

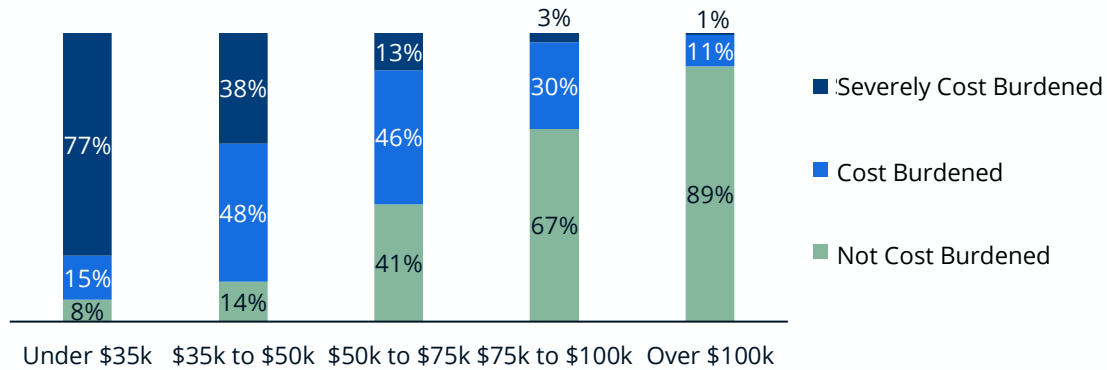
HR&A analyzed demographic, housing, and economic data for renters in unincorporated Los Angeles County. The objective of this analysis was to inform policy recommendations by understanding the specific needs and challenges of different tenant groups. This analysis requires aligning data sources reported 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.<sup>3</sup> 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.

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<sup>3</sup> 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 RSTPO. 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

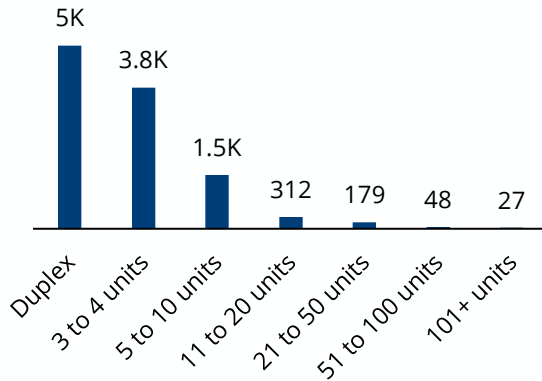
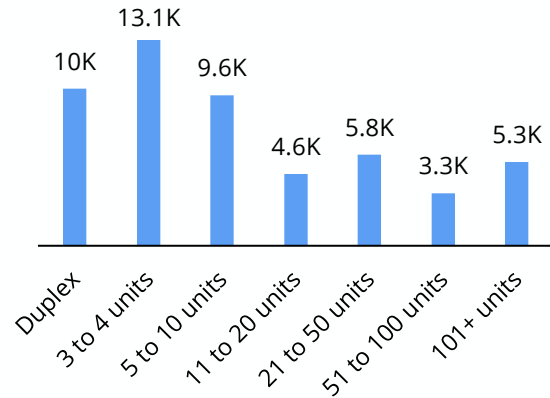


Figure 4. Fully Regulated Units by Property Size



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<sup>4</sup>), 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

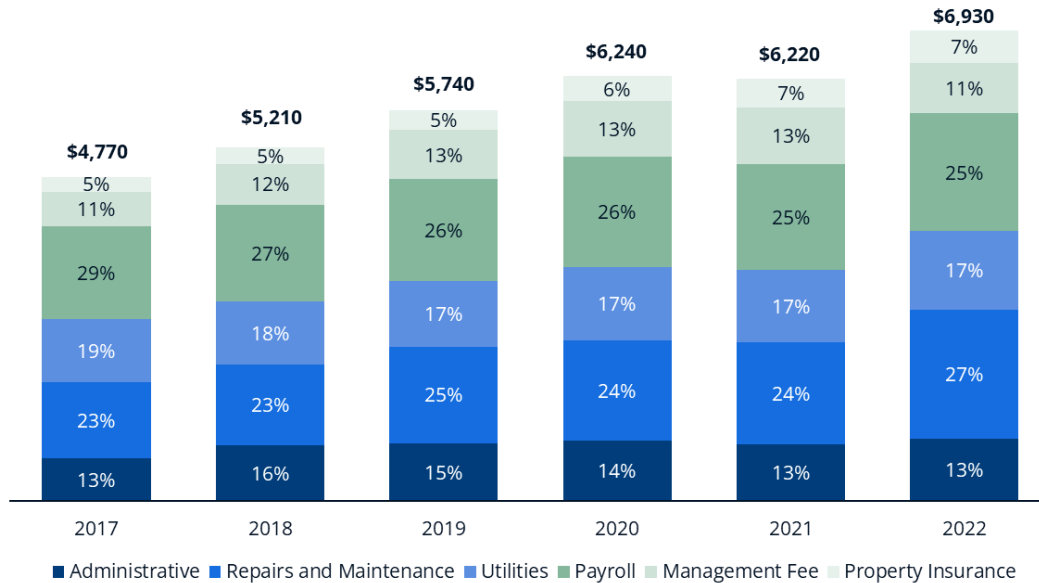
A balanced rent stabilization ordinance should create stability for tenants without over burdening property owners or discouraging investment in housing. Placing limits on allowable rent increases can constrain property owners’ ability to earn a fair return if costs rise faster than rents. To understand 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

<sup>4</sup> 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
<b>Option 1: Keep the current formula</b>	100% of CPI	Staggered 0% to 3%	8%
<b>Option 2: Streamline the formula and reduce the cap</b>	100% of CPI	2% to 3%	4% to 6%
<b>Option 3: Use a percentage of consumer price index</b>	60 to 80% of CPI	2% to 3%	4% to 8%
<b>Option 4: Use 60% of CPI with a 3% cap</b>	60% of CPI	None	3%
<b>Option 5: Use a fixed percentage</b>	Fixed percentage 3% to 5%	N/A	N/A
<b>Option 6: Use a cost study</b>	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)

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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**

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# **Appendix A.**

Summary of Current  
Regulatory  
Environment



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# 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



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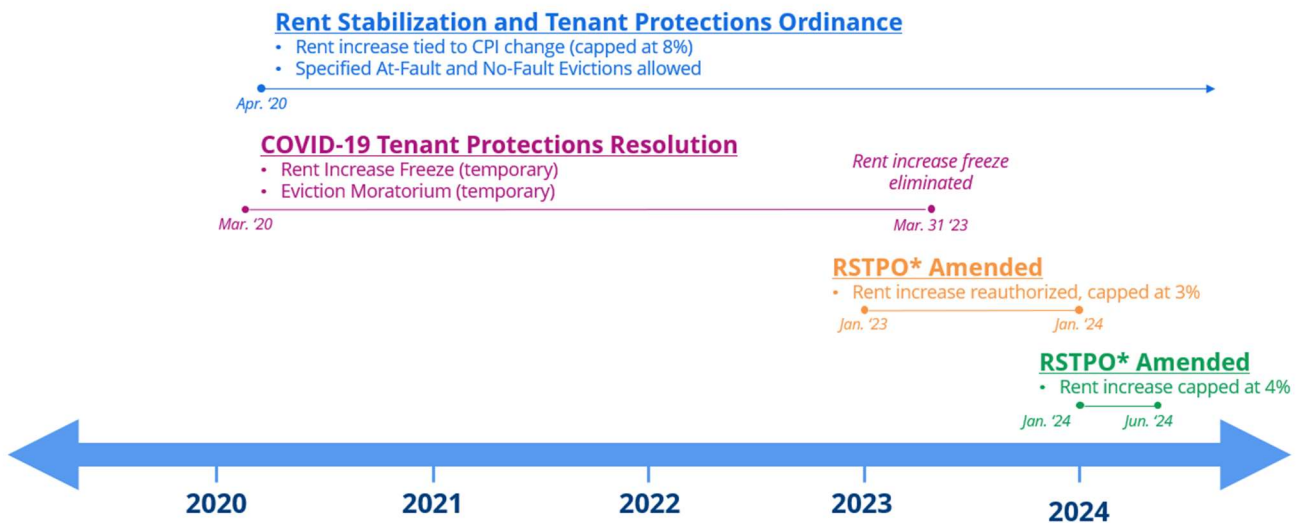
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## Introduction

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<sup>1</sup> 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**



\*Rent Stabilization and Tenant Protections Ordinance ("RSTPO")

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

<sup>1</sup> 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 <sup>2</sup>
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

<sup>2</sup> 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 MRS MOPO 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<sup>3</sup> 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,<sup>4</sup> 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 <sup>5</sup>
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

<sup>3</sup> 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\\_CH8.52RE\\_STTEPR](https://library.municode.com/ca/los_angeles_county/codes/code_of_ordinances?nodeId=TIT8COPRBUWARE_DIV3HO_CH8.52RE_STTEPR)

<sup>4</sup> 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.

<sup>5</sup> 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 MRS MOPO, 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.<sup>6</sup> 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<sup>7</sup> 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;

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<sup>6</sup> 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.

<sup>7</sup> 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.<sup>8</sup>

### 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.<sup>9</sup>

**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.<sup>10</sup> 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.

<sup>8</sup> Capital Improvements Pass-Throughs, as well as applications for rent increase, are also allowed under MRSMOPO.

<sup>9</sup> 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.

<sup>10</sup> 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.



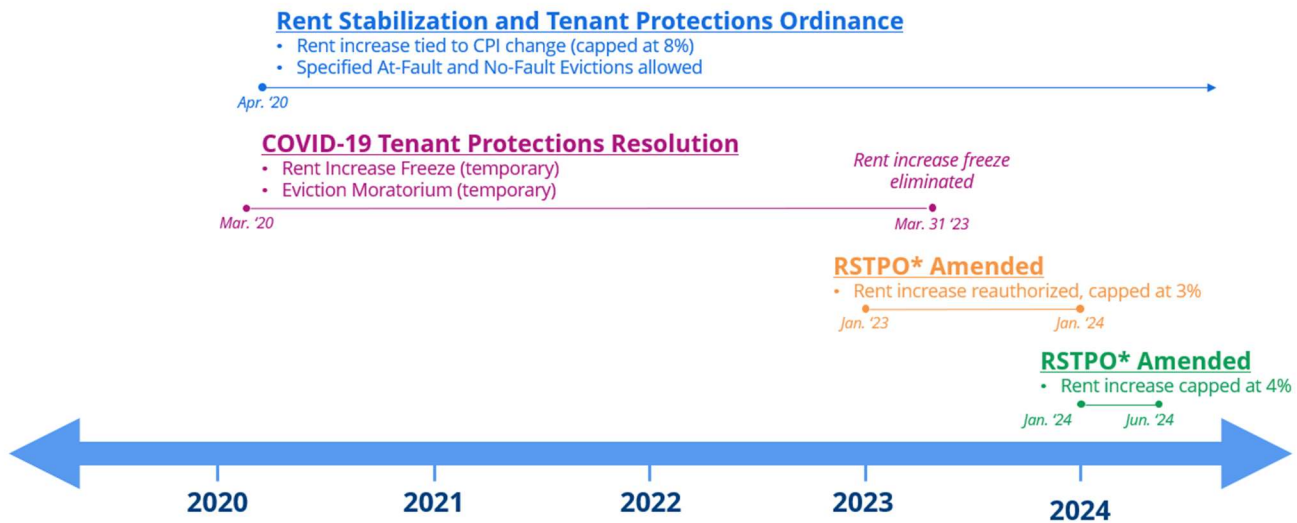
## Responses to COVID-19

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



\*Rent Stabilization and Tenant Protections Ordinance (“RSTPO”)

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.<sup>11</sup> 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
<ol style="list-style-type: none"><li>1. <b>Rent Nonpayment.</b> Tenants must resume normal payments for rent due on or after April 1, 2023.</li><li>2. <b>At-Fault Evictions.</b> 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.</li><li>3. <b>Rent Increases.</b> Rental property owners may increase rent by up to 3% (or 5% for Luxury Units).</li></ol>	<ol style="list-style-type: none"><li>1. <b>No-Fault Evictions.</b> 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.</li><li>2. <b>Anti-Harassment and Retaliation Protections.</b></li></ol>

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.

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<sup>11</sup> 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”<sup>12</sup> 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<sup>13</sup> 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<sup>14</sup> 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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<sup>12</sup> 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.

<sup>13</sup> 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.

<sup>14</sup> 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
<i>Permanent</i>			
<b>Rent Stabilization and Tenant Protections Ordinance</b>	County	<ul style="list-style-type: none"> <li>Limits annual rent increases based on CPI changes (up to 8%).</li> <li>Allows certain types of evictions.</li> </ul>	<ul style="list-style-type: none"> <li>Permits certain “pass-through” costs.</li> <li>Allows higher rent increases on a case-by-case basis.</li> </ul>
<b>Costa-Hawkins Rental Act</b>	State	N/A	<ul style="list-style-type: none"> <li>Imposes “vacancy decontrol” on covered units.</li> <li>Exempts certain units from rent stabilization ordinances.</li> </ul>
<b>Tenant Protection Act</b>	State	<ul style="list-style-type: none"> <li>Limits annual rent increases to the larger of <b>a)</b> 5% + CPI, or <b>b)</b> 10%.</li> <li>Requires rental property owners to show “just cause” for eviction.</li> </ul>	N/A
<i>Temporary (COVID-19 Related)</i>			
<b>COVID-19 Tenant Protections Resolution*</b>	County	<ul style="list-style-type: none"> <li>Freezes rent increases.</li> <li>Establishes a moratorium on evictions.</li> </ul>	N/A
<b>BOS Resolution (November '22)*</b>	County	<ul style="list-style-type: none"> <li>Re-authorizes rent increases, up to a cap of 3% annually.</li> </ul>	N/A
<b>BOS Resolution (November '23)</b>	County	<ul style="list-style-type: none"> <li>Adjusts rent increase cap to 4% annually.</li> </ul>	N/A
<b>Rent Relief Program</b>	County	N/A	<ul style="list-style-type: none"> <li>Provides financial assistance to small rental property owners to cover unpaid rent.</li> </ul>
<b>Mortgage Relief Program</b>	County	N/A	<ul style="list-style-type: none"> <li>Provides financial assistance to small rental property owners to cover mortgage or utility debt.</li> </ul>
<b>COVID-19 Tenant Relief Act (CTRA)*</b>	State	<ul style="list-style-type: none"> <li>Prohibited rental property owners from evicting tenants unable to pay rent due to financial hardship</li> </ul>	<ul style="list-style-type: none"> <li>Extended the Homeowners’ Bill of Rights’ anti-foreclosure protections to certain small rental property owners.</li> </ul>
<b>COVID-19 Rent Relief Program*</b>	State	<ul style="list-style-type: none"> <li>Covered up to 100% of past rental debt for up to 18 months</li> </ul>	<ul style="list-style-type: none"> <li>Covered up to 100% of rental debt for up to 18 months</li> </ul>

*\*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.<sup>15</sup> 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

<sup>15</sup> 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.<sup>16</sup>); 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 <sup>17</sup>	Maximum Allowable Increase
<i>Pre-COVID RSO Formulas as of 2019</i>			
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

<sup>16</sup> 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>

<sup>17</sup> 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 <sup>17</sup>	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	-	-†
<i>RSOs Implemented Post-COVID</i>			
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.”<sup>18</sup> 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.<sup>19</sup> 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

<sup>18</sup> 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.

<sup>19</sup> 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.<sup>20</sup> **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*		✓			

<sup>20</sup> 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.<sup>21,22</sup> 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.<sup>23,24</sup> In some instances, associations of rental property owners published their opposition to these policies, citing reduced returns and negative impacts on housing quality.<sup>25</sup> 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.

<sup>21</sup> 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>

<sup>22</sup> 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>

<sup>23</sup> 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/>

<sup>24</sup> 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/>

<sup>25</sup> 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.<sup>26</sup> 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.<sup>27</sup>

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.

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<sup>26</sup> 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/>

<sup>27</sup> 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 <sup>28</sup>	Maximum Allowable Increase
<i>Newly Adopted RSOs</i>				
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%
<i>Modifications to Existing RSOs</i>				
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.

<sup>28</sup> 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
<b>Standard</b>	\$7,654	\$8,662	\$10,797	\$13,115	\$14,759
<b>Qualified Tenant</b>	\$9,272	\$10,675	\$13,359	\$160,43	\$17,995
<b>Lower-Income Tenant</b>	\$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
<b>Rent Relief Program</b>	Provides financial assistance to qualifying small rental property owners affected by COVID-19 due to unpaid rents from their tenants.  (Launched December 2023)	<ul style="list-style-type: none"> <li>Property must be located within Los Angeles County, but not in the City of Los Angeles.</li> <li>Units must still be occupied by impacted tenants.</li> <li>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.</li> </ul>	Up to \$30,000
<b>Mortgage Relief Program</b>	Provides financial assistance to qualifying small rental property owners to eliminate outstanding mortgage or utility debt cause by the pandemic.  (Launched June 2023)	<ul style="list-style-type: none"> <li>Property must be located within Los Angeles County, but not in the City of Los Angeles.</li> <li>Property must be in the moderate, high, or highest needs census tracts.</li> <li>Rental property owner earns no more than 120% of AMI and experienced financial distress due to COVID-19.</li> </ul>	Up to \$30,000

Source: Los Angeles County Department of Consumer & Business Affairs

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# **Appendix B.**

Los Angeles County  
Rent Stabilization  
Study

# Los Angeles County Rent Stabilization Study

**Prepared for Los Angeles County**

March 2024

# Contents

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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%.<sup>1</sup> 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.<sup>2</sup> Housing stability is also closely related to homelessness.<sup>3</sup> 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.**



## 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,

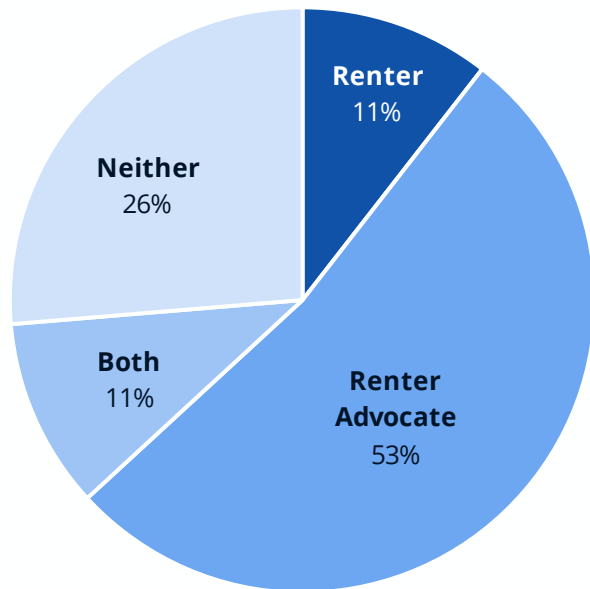
including the characteristics of properties fully regulated under the RSTPO and the MRSMOPO. HR&A made efforts to reconcile any conflicts between the registry and property inventory data and the Assessor's data. The County's Rent Registry is relatively new and the data is still incomplete. Data on ownership 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.

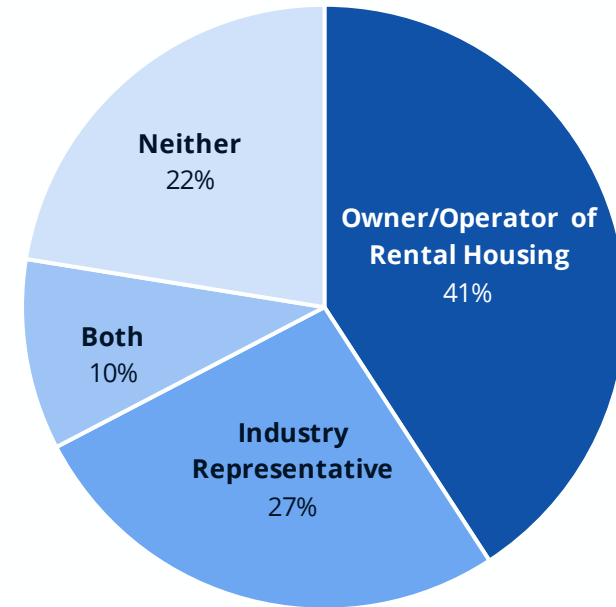
## INTRODUCTION

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.



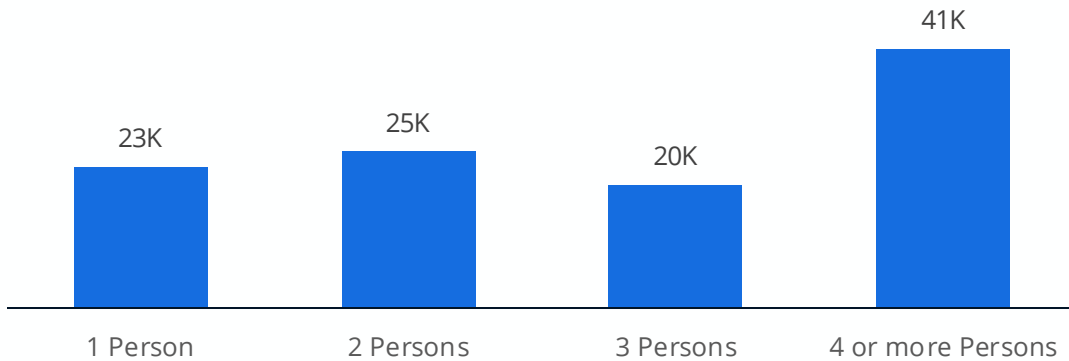
### PANDEMIC AND RELATED IMPACTS

- 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.

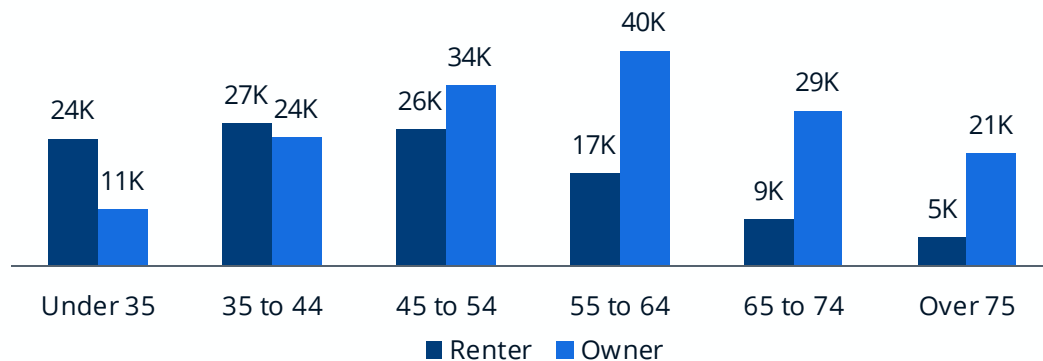
## TENANT PROFILE

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)



# 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<sup>1</sup>

- 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.

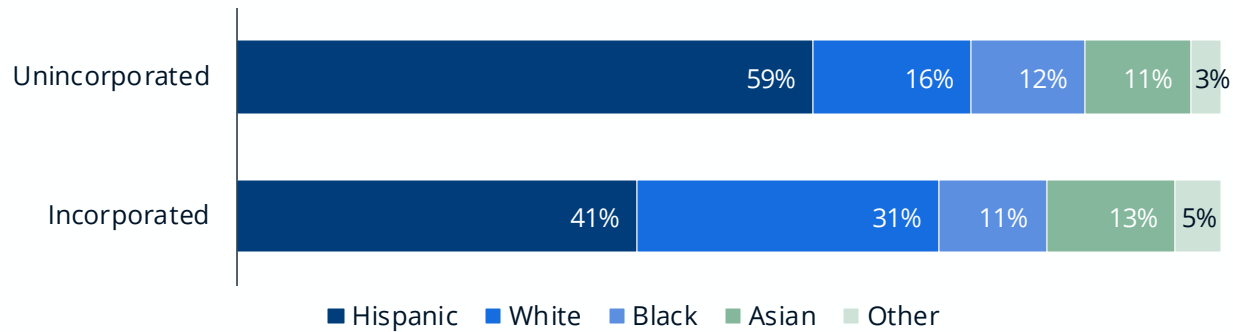
*1. In this section, "renters" and "renter households" do not include those who reside in mobilehome parks, or those who are coach owners and pad renters.*



## TENANT PROFILE

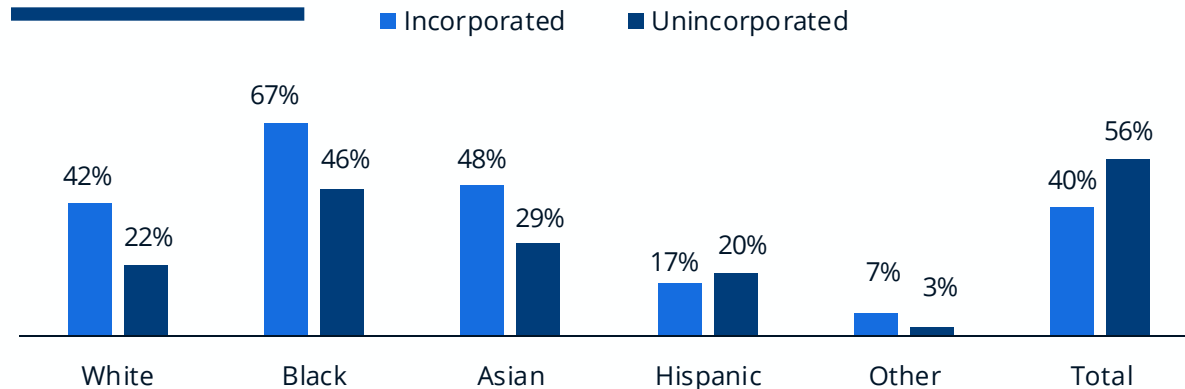
Most renters in unincorporated LA County are Hispanic or Latino. Black residents are much more likely to rent their homes than any other racial or ethnic group.

### 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



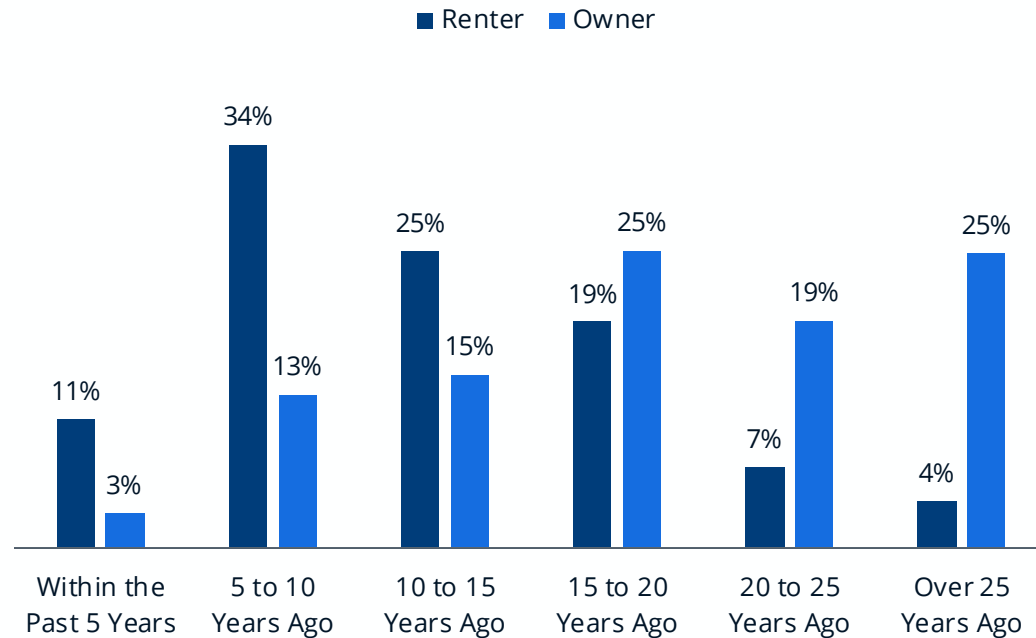
### CHARACTERISTICS OF RENTER HOUSEHOLDS

- 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.

## TENANT PROFILE

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

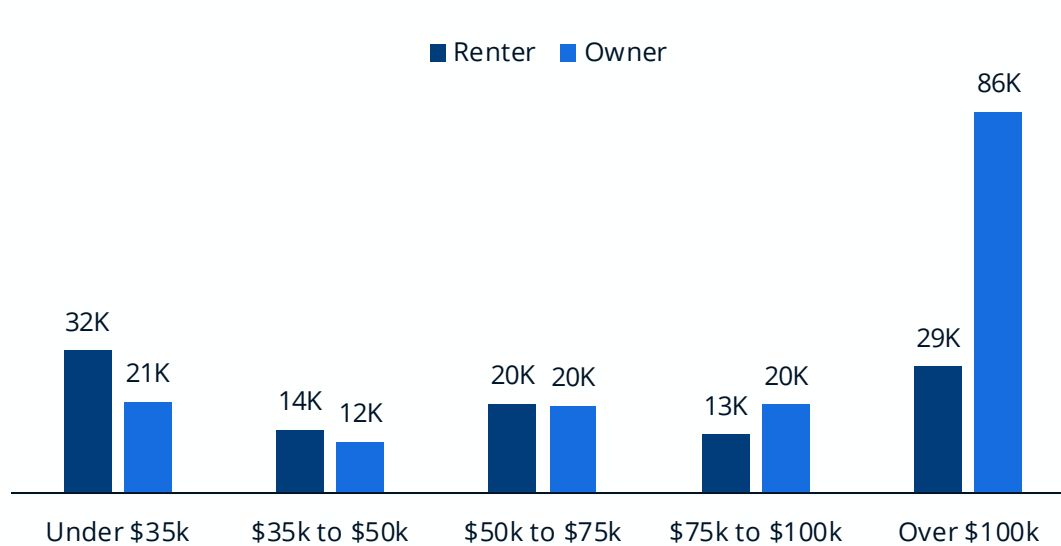
### YEAR MOVED INTO UNIT (UNINCORPORATED LA COUNTY)



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.

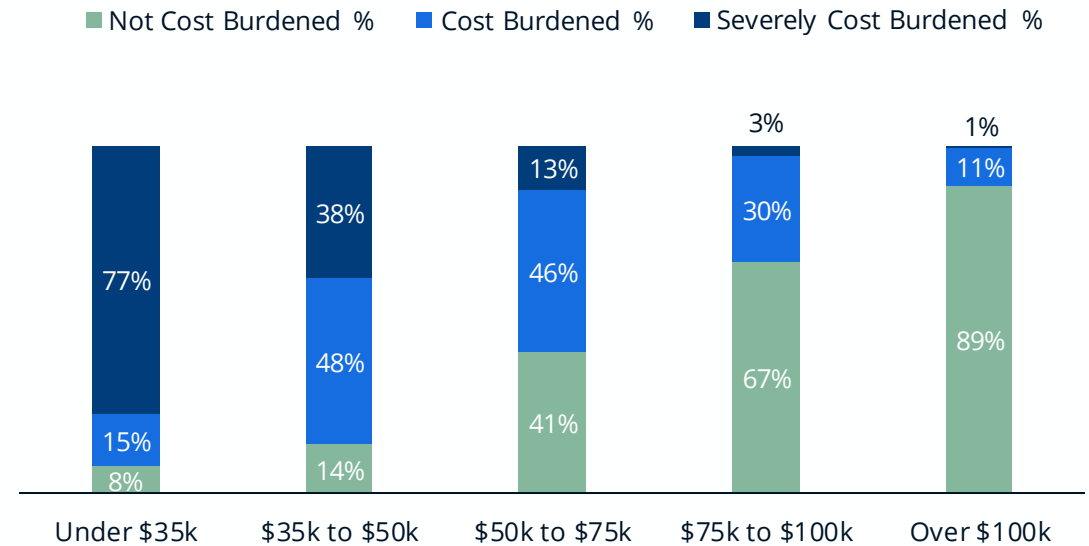
## TENANT PROFILE

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.



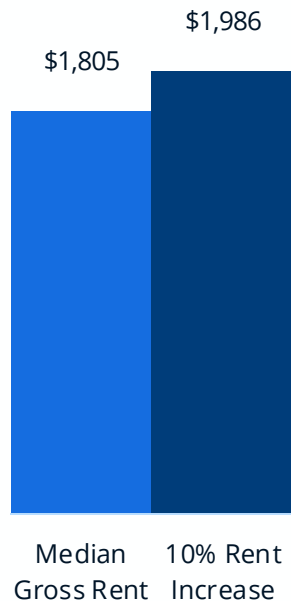
### RENTAL COST BURDEN BY INCOME (UNINCORPORATED LA COUNTY)

**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.

## 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 30<sup>th</sup> 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.

## 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.<sup>1</sup> Low-income residents and people of color had disparate health outcomes from COVID-19 infections, including higher rates of hospitalization and death.<sup>2</sup>

**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.<sup>3</sup> **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.<sup>4,5</sup> Through November 2023, there were about 43,000 eviction filings, more than any year since 2016.<sup>6</sup>

**\$3,000**

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

**17%**

*Increase in eviction filings in 2023 above 2019 baseline*

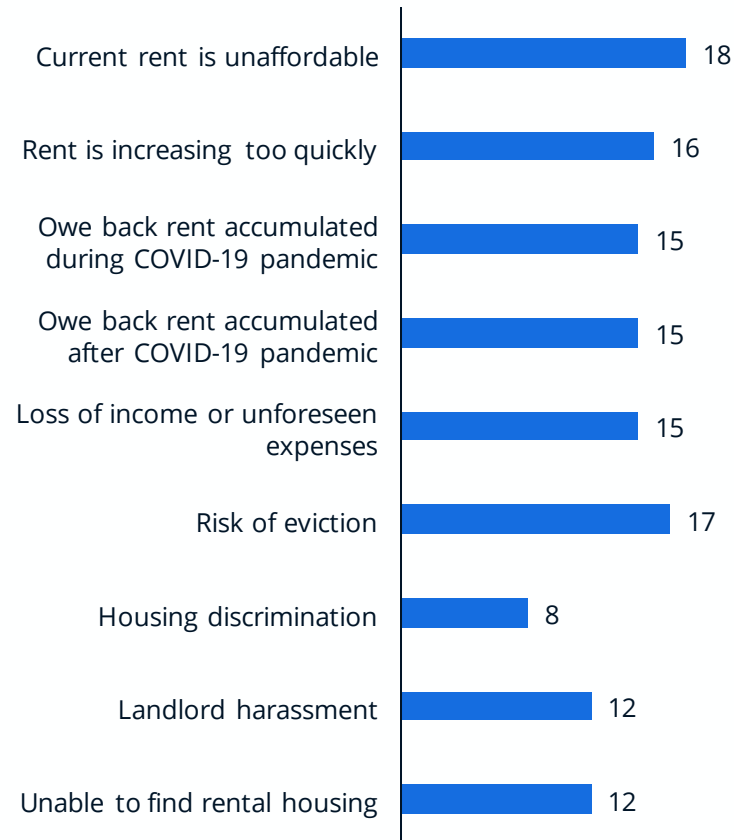
#### Sources:

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.*

An aerial photograph of a city, likely Los Angeles, showing a dense residential area with many palm trees and buildings. In the background, there are mountains under a clear sky. The image is overlaid with a dark blue semi-transparent rectangle containing text.

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

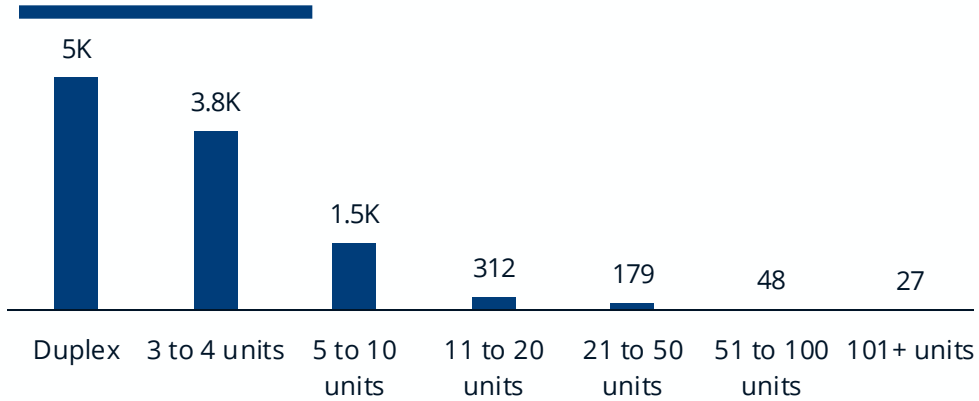
- In addition to rising costs and recent rent freezes, property owners in LA County face challenges including unpaid back rent that accumulated during the pandemic.
- Smaller property owners in particular noted a lack of resources to pursue unpaid rent and access other support.



## 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\*



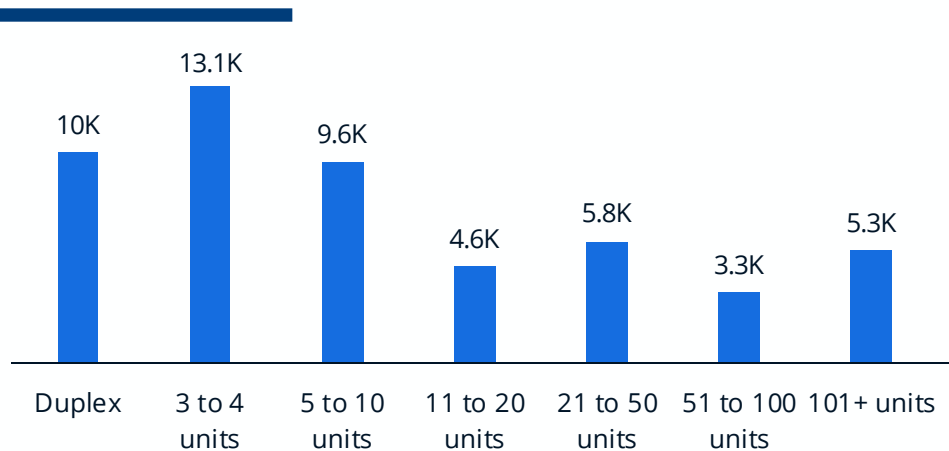
**~10,900**

Fully regulated properties\* subject to the RSTPO

**~51,700**

Fully regulated units\* subject to the RSTPO

### UNITS IN FULLY REGULATED PROPERTIES\*



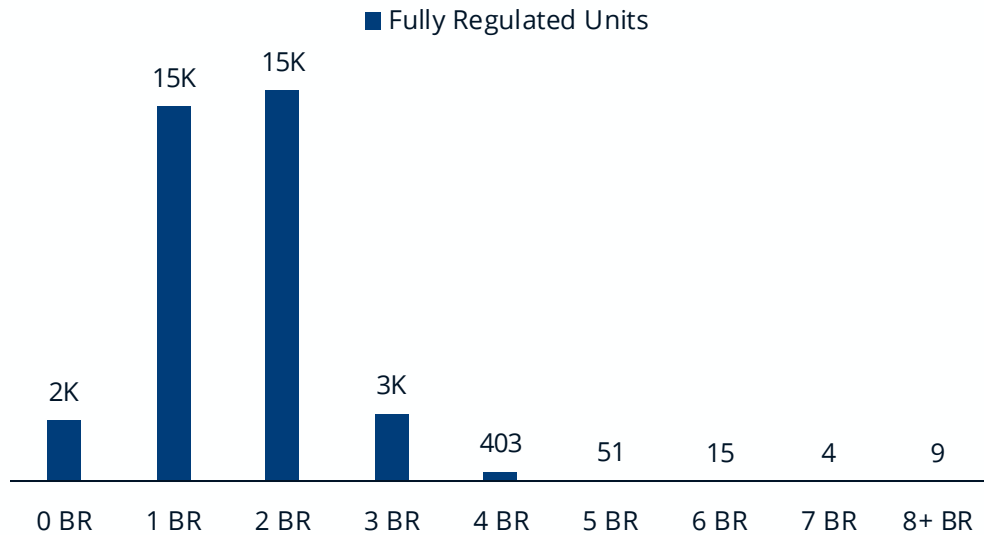
### CHARACTERISTICS OF FULLY REGULATED PROPERTIES\*

- 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.*

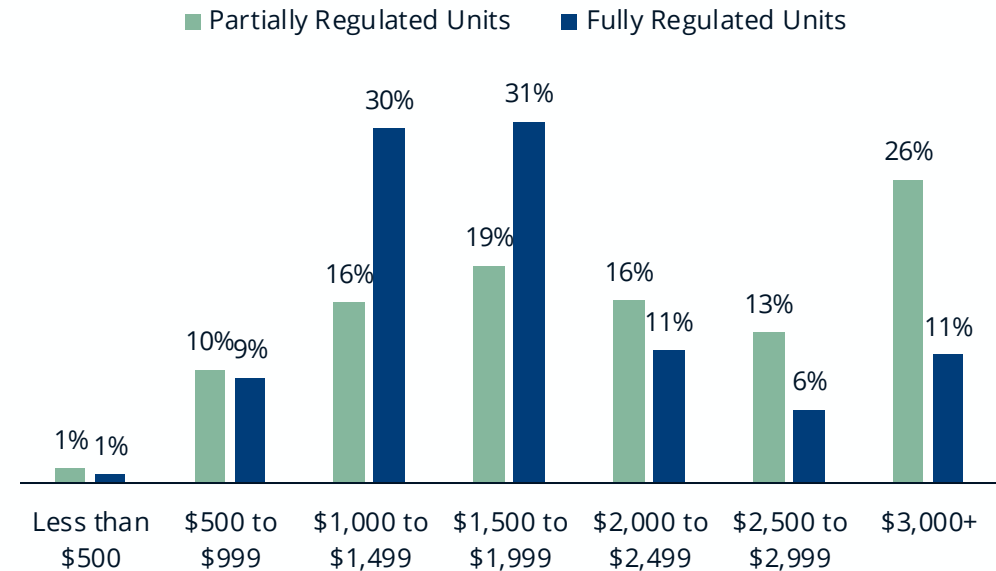
## HOUSING SUPPLY AND SUPPLIER PROFILE

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.**



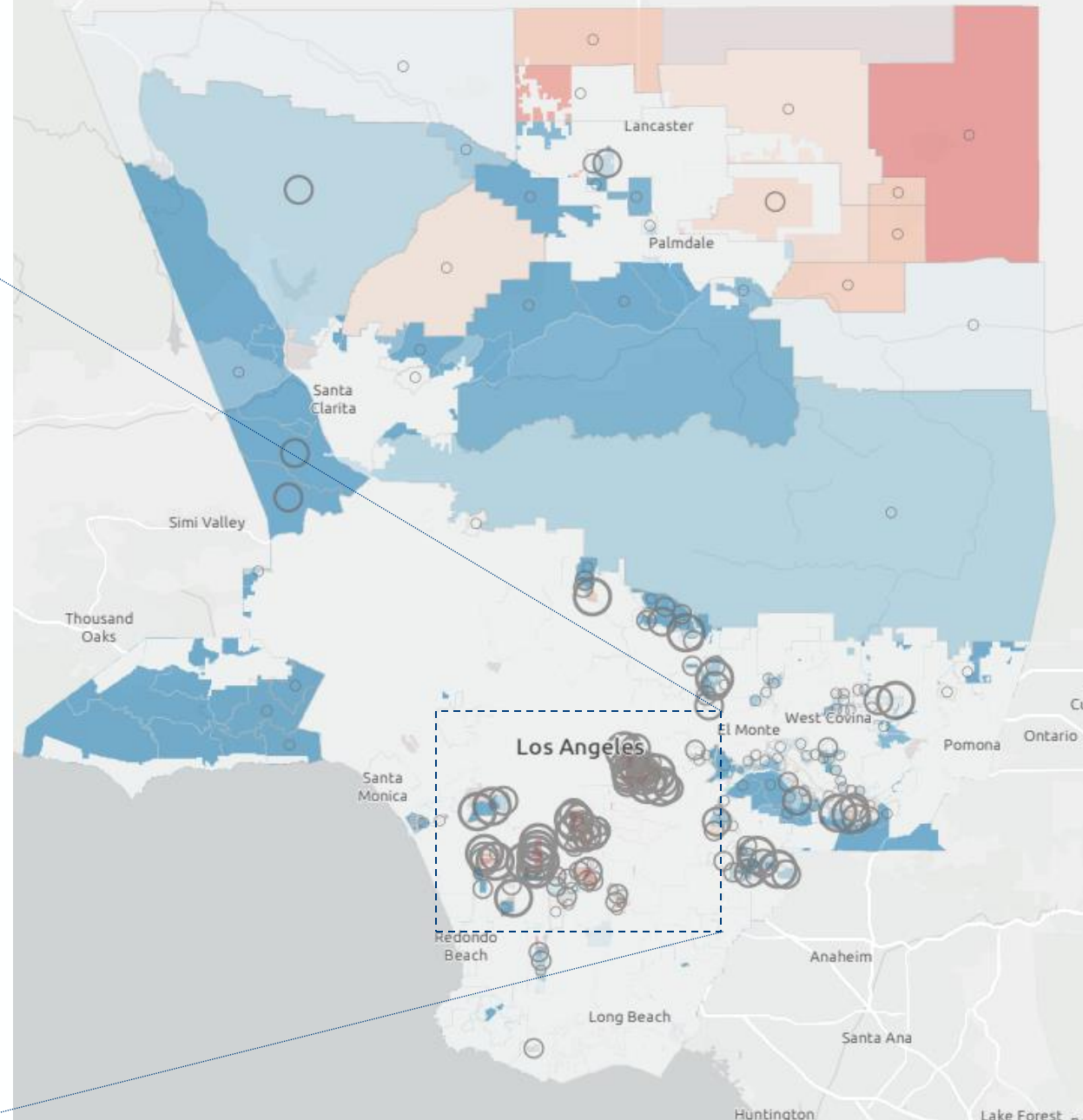
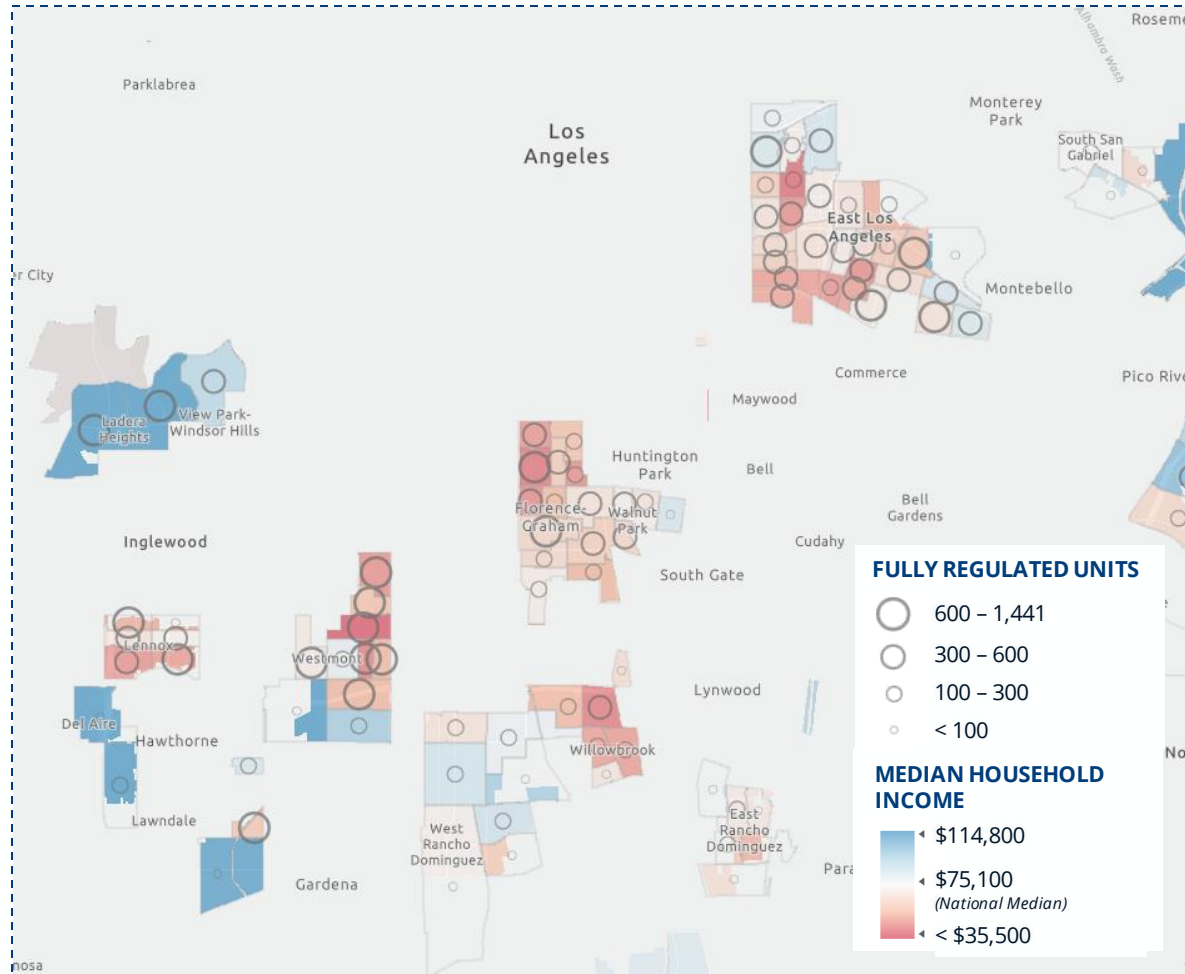
### DISTRIBUTION OF RENTS FOR REGULATED UNITS

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.

## FULLY REGULATED UNITS AND INCOME IN LA COUNTY

### 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.

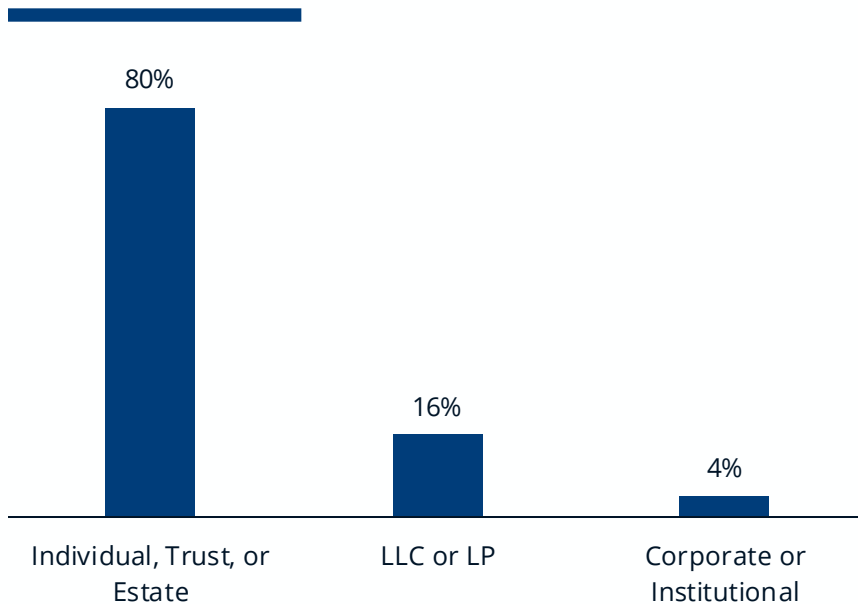


Source : ACS 2022 5 Year Estimates; LA County Rent Registry Data (2021 - 2023)

## RENTAL PROPERTIES OPERATIONS OVERVIEW

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*

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.<sup>1</sup> Smaller property owners, who are most likely to provide affordable units, also had a higher exposure to nonpayment prior to the pandemic.<sup>2</sup>

### 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*

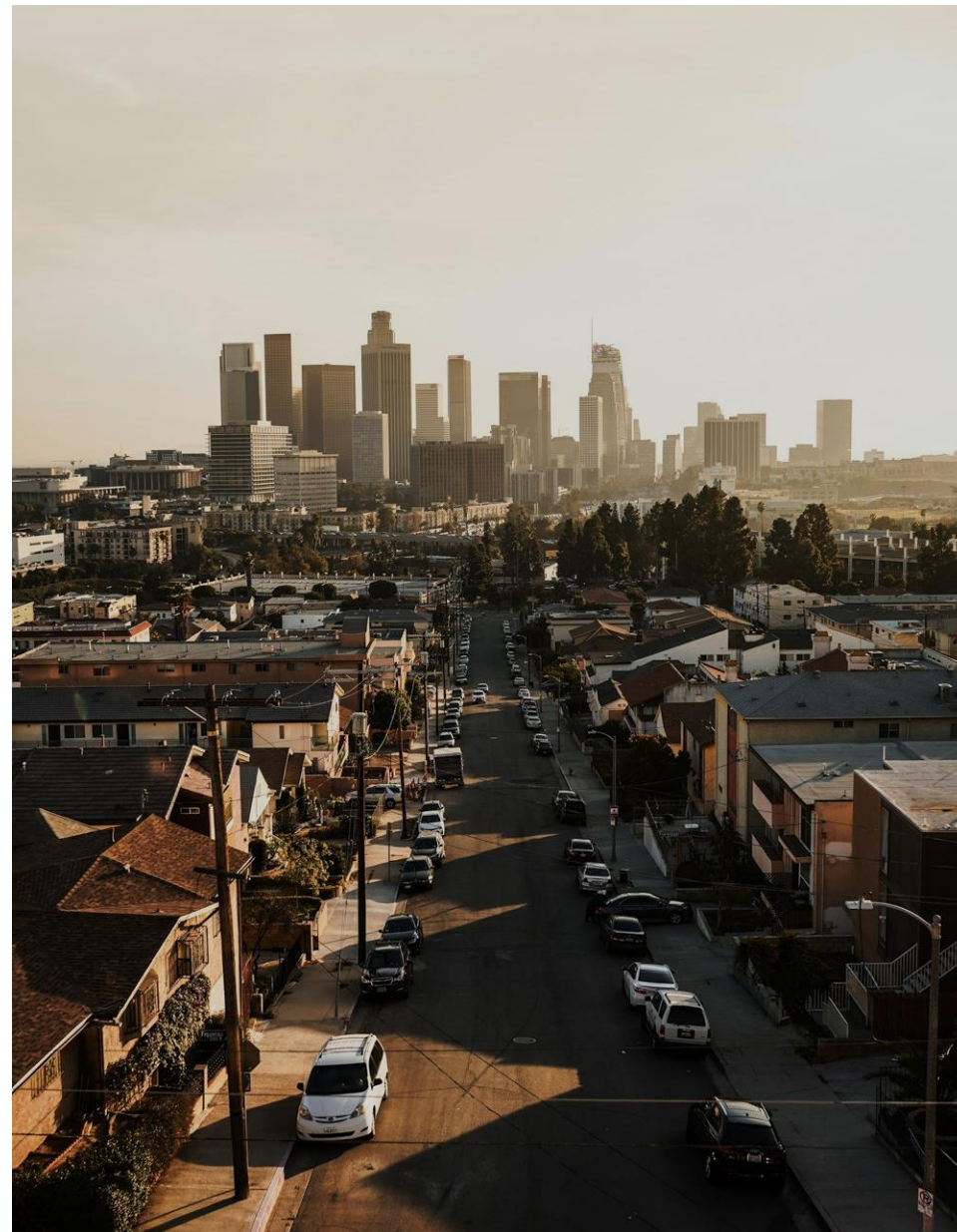


Photo of by Alexis Balinoff/Unsplash

## RENTAL PROPERTIES OPERATIONS OVERVIEW

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.**<sup>3</sup> 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.<sup>4</sup> In the near-term, this reduces housing quality for tenants and can increase the cost and complexity of repairs.<sup>5,6</sup> In the long-term, property owners may choose to increase rents to pay for eventual repairs, making units less affordable.<sup>7</sup> Deferring repairs may also decrease the expected life of a given property, putting additional strain on housing supply.<sup>8</sup>

**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*

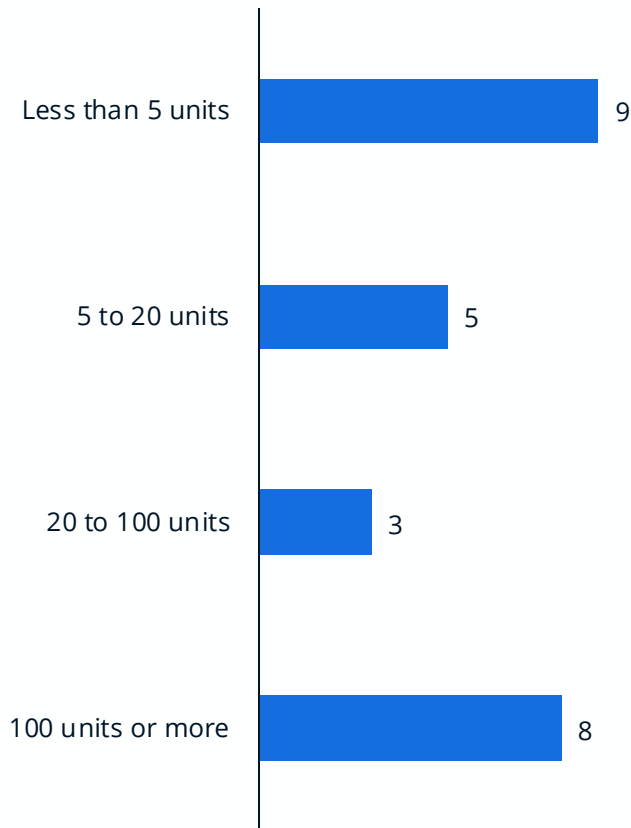
*Sources:*

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

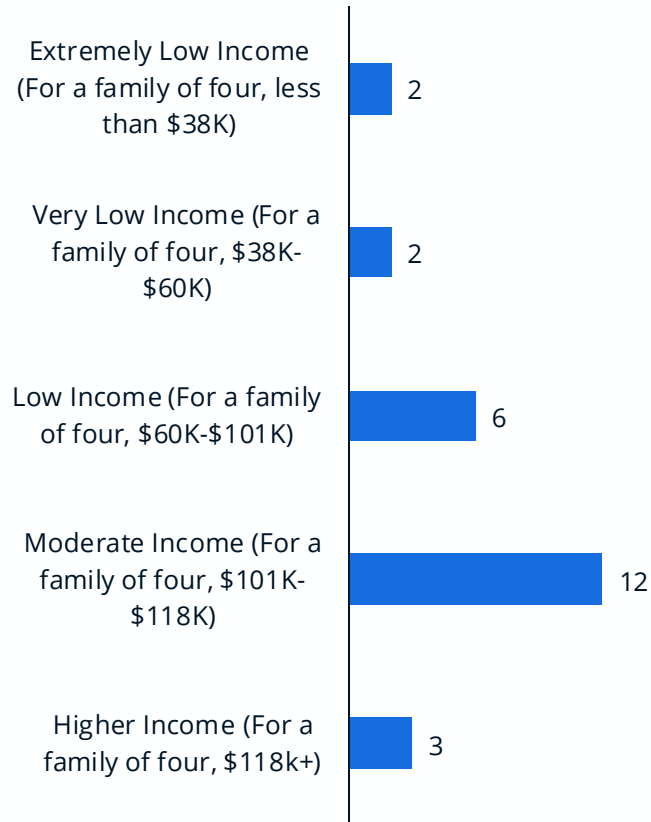
Property owners are concerned that most of the rent they are owed from non-payment during COVID-19 will be unrecoverable “bad debt”, and they stressed the need for more protection against tenants who choose not to pay rent or pursue resources that could help them pay rent. Some property owners expressed 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.

## RENTAL PROPERTIES OPERATIONS OVERVIEW

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.



An aerial photograph of a city, likely Los Angeles, showing a dense residential area with many palm trees and buildings. In the background, there are mountains under a clear sky. The image is overlaid with a semi-transparent dark blue rectangle containing text.

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.

## RENTAL PROPERTIES OPERATIONS OVERVIEW

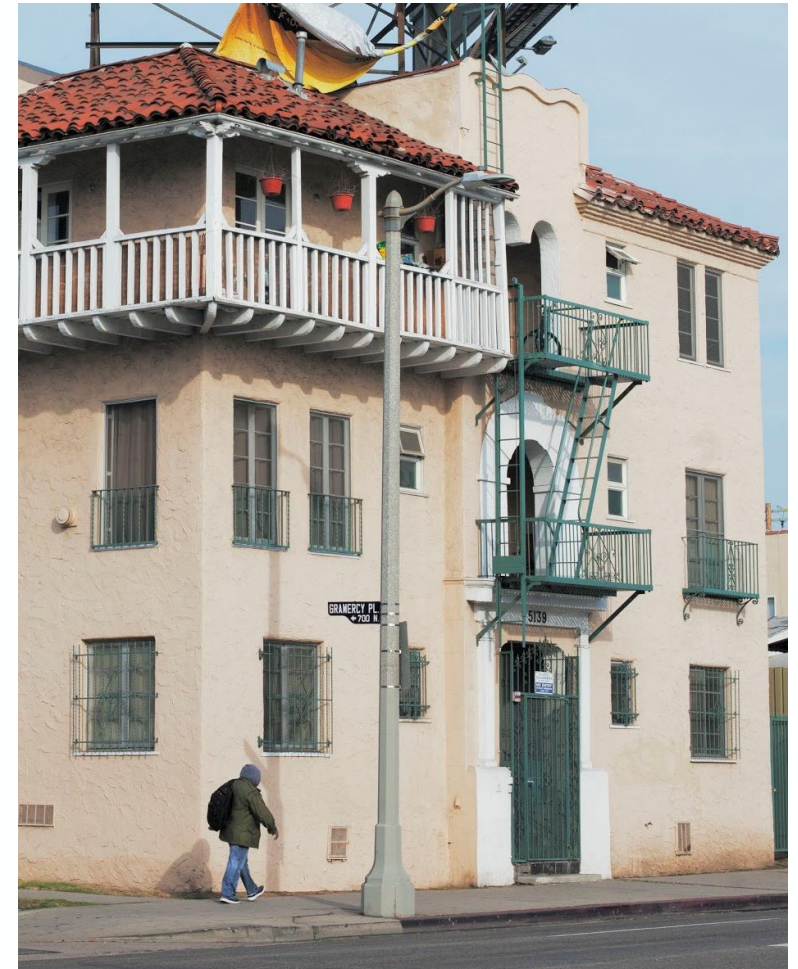
A balanced rent stabilization ordinance should create stability for tenants without placing undue strain on property owners or discouraging investment in housing.

### 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.<sup>1</sup> These strains can lead to property owners deferring non-essential maintenance or selling rental properties because they cannot recoup investments by raising rent.<sup>2</sup> 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.



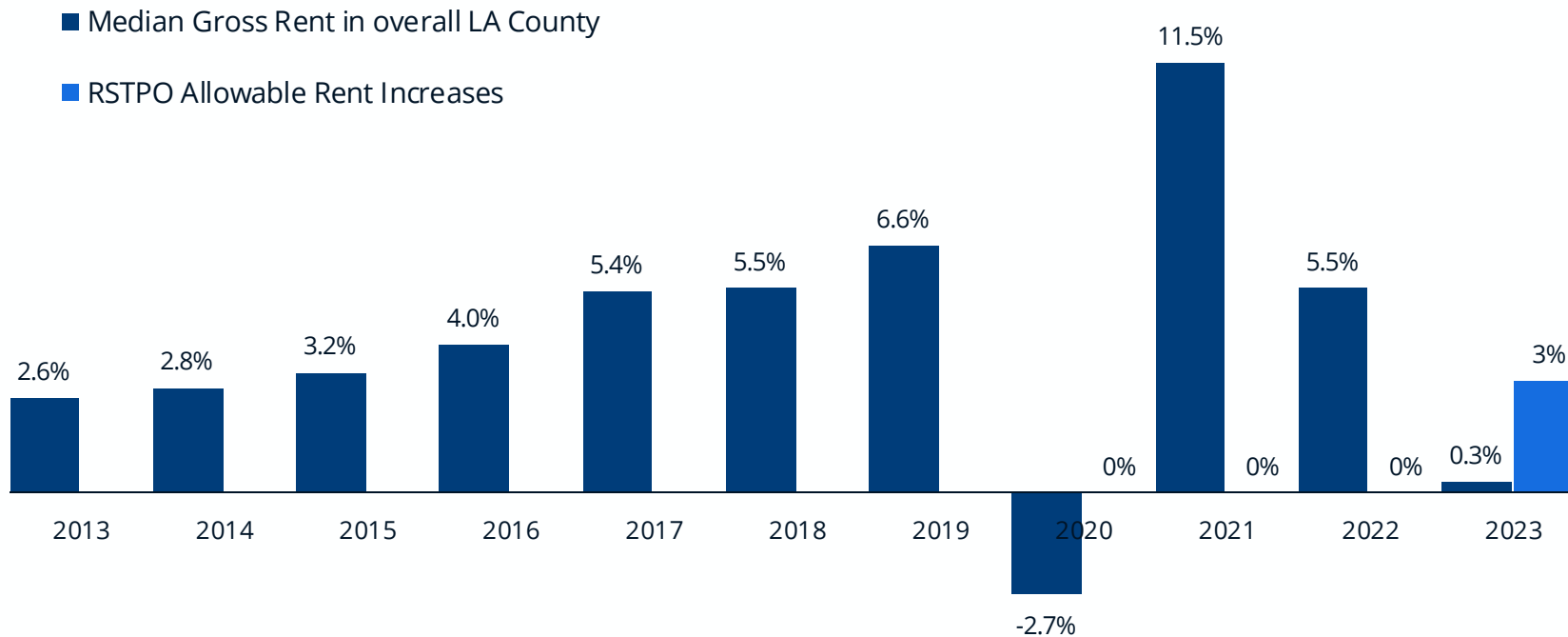
#### Sources:

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.

## RENTAL PROPERTIES OPERATIONS OVERVIEW

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
<i>Revenues</i>			
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%
<b>Total Revenue</b>	<b>\$29,200</b>	<b>\$32.81</b>	<b>96%</b>
<i>Operating Expenses</i>			
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%
<b>Total Operating Expenses</b>	<b>(\$11,112)</b>	<b>(\$12.48)</b>	<b>37%</b>
<b>Net Operating Income</b>	<b>\$18,088</b>	<b>\$20.32</b>	<b>60%</b>

# 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.

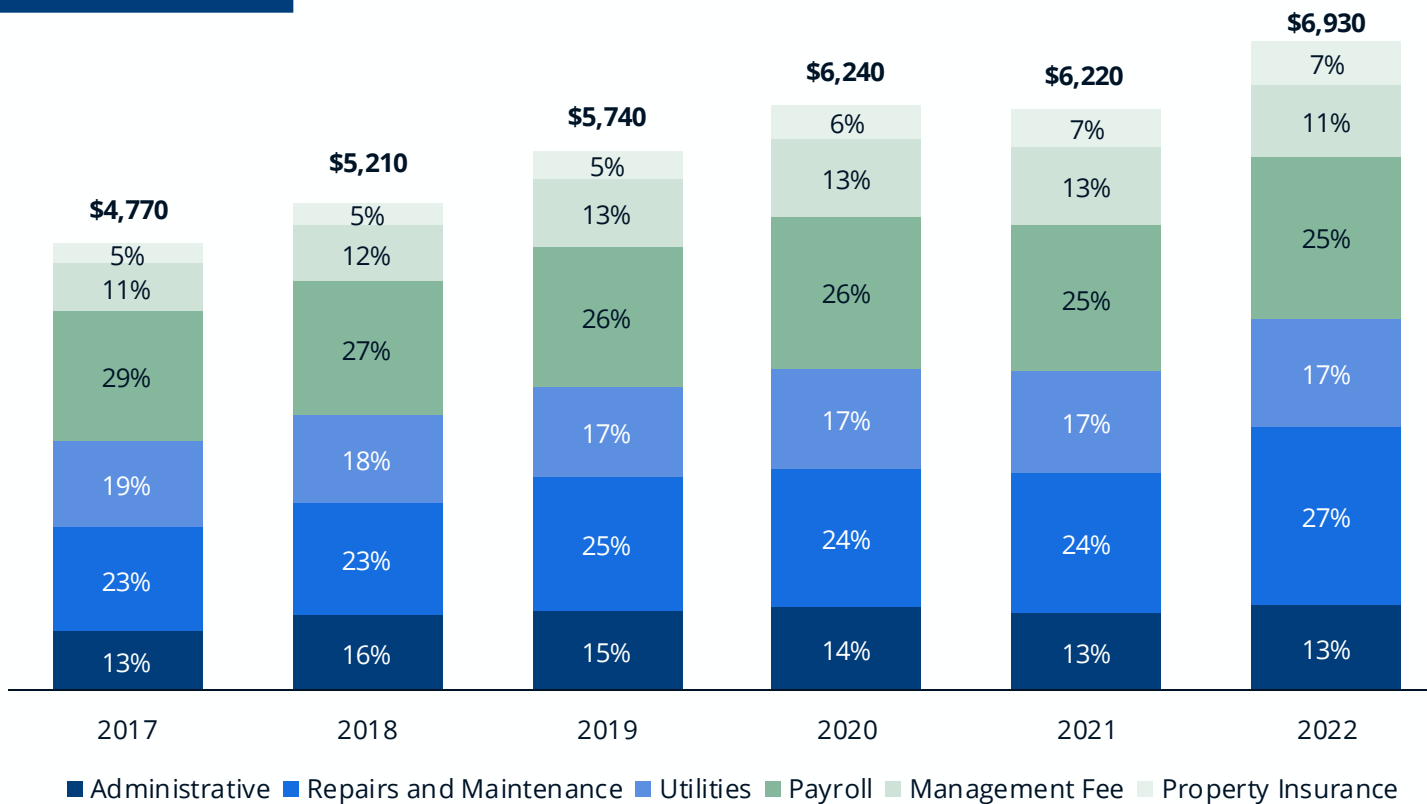
Source: IREM Income/Expense Report (2022), NAA (2021)

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.

## RENTAL PROPERTIES OPERATIONS OVERVIEW

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)

## RENTAL PROPERTIES OPERATIONS OVERVIEW

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 Turner 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.

## 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 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.



An aerial photograph of a city, likely Los Angeles, showing a dense residential area with various buildings and palm trees. In the background, there are mountains under a clear sky. The image is overlaid with a dark blue semi-transparent rectangle containing text.

05

# Approaches to Rent Stabilization

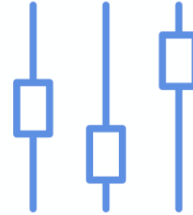
## APPROACHES TO RENT STABILIZATION

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.

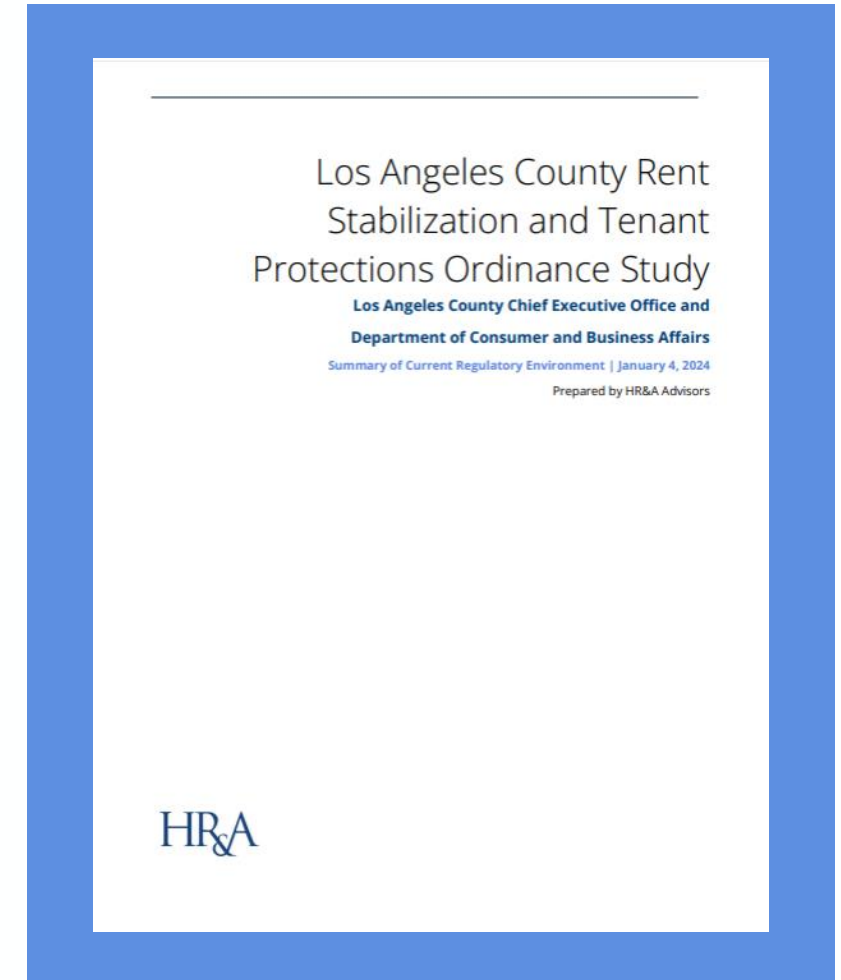
## APPROACHES TO RENT STABILIZATION

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.



## APPROACHES TO RENT STABILIZATION | THE CURRENT FORMULA

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).

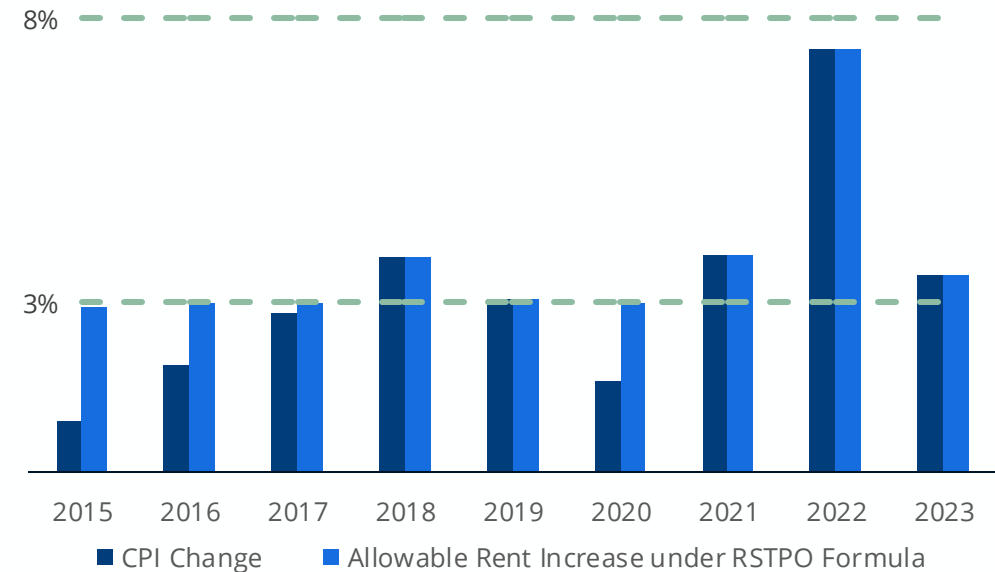
Because of pandemic-era rent freezes and temporary caps, the formula has not yet been used to regulate rent increases.

### 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%.*

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

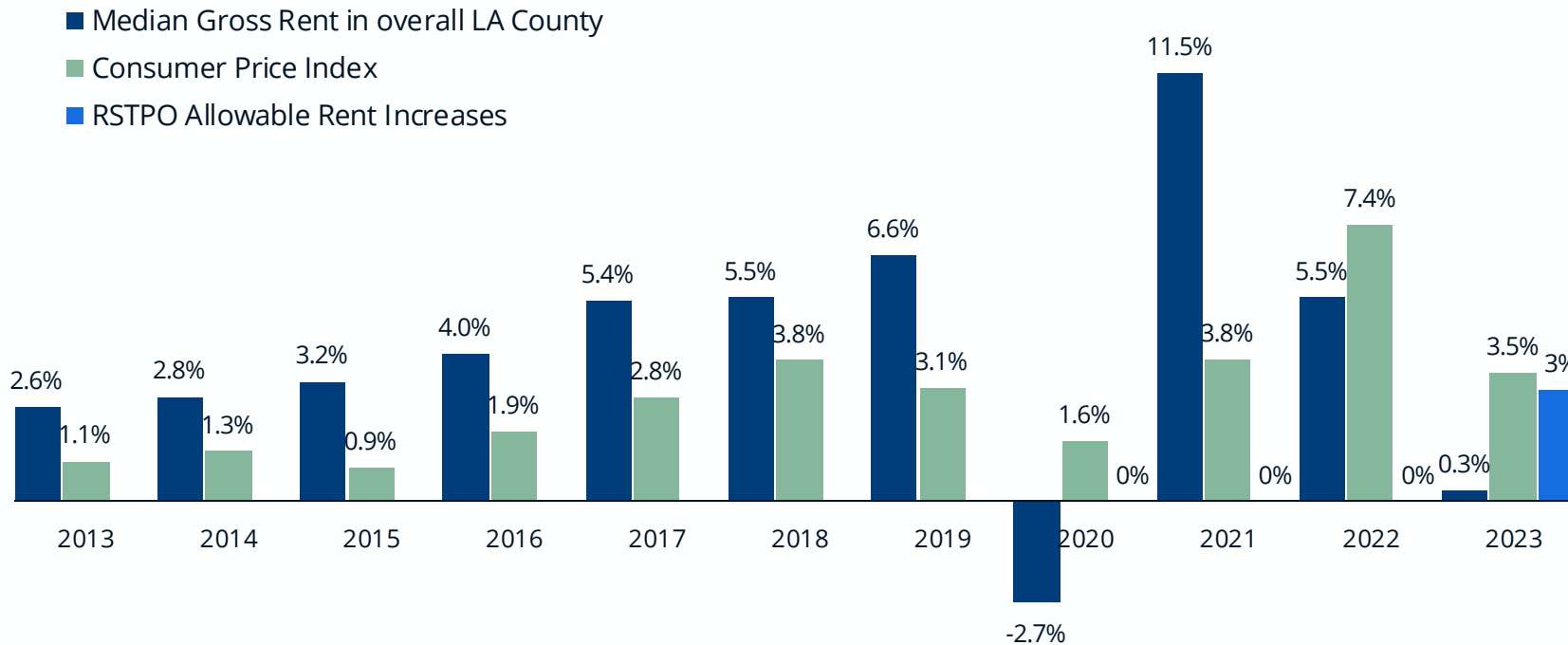


*\*Note: The RSTPO was not in effect prior to its passage in 2019, and the County enacted temporary rent freezes from 2020 through 2023. The values shown illustrate the rent increase that would have been allowed under the RSTPO formula had it been in effect.*

## APPROACHES TO RENT STABILIZATION | THE CURRENT FORMULA

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)



# 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)

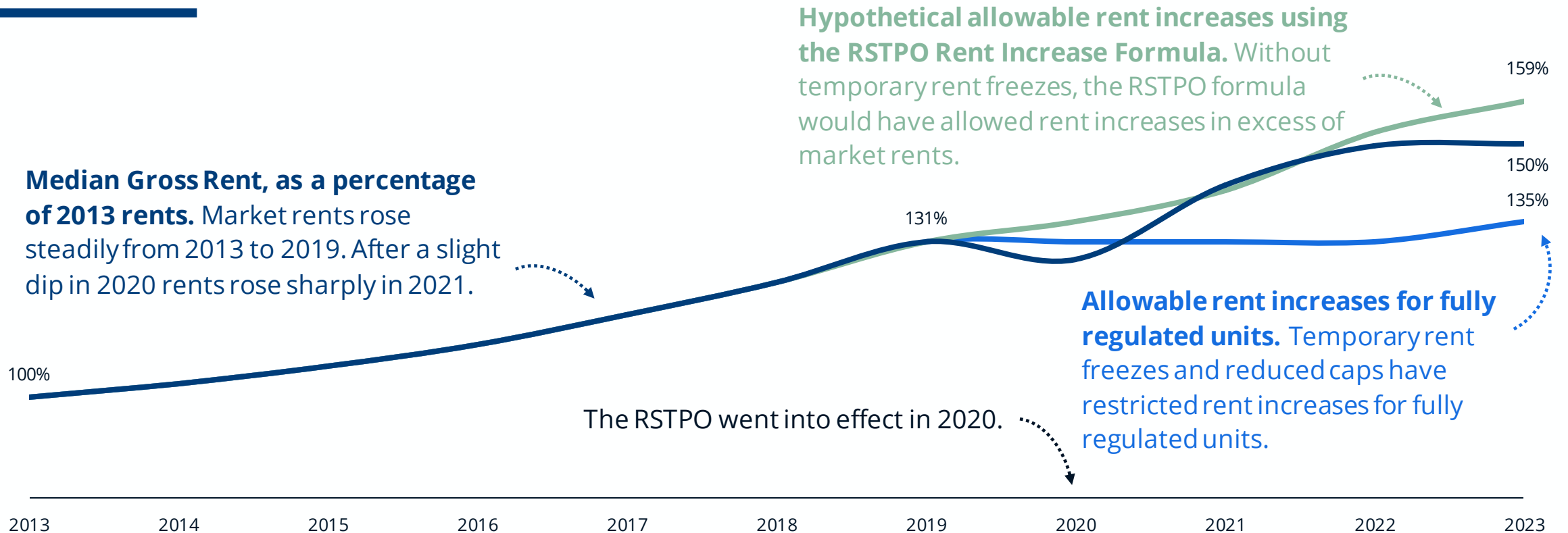
At a stakeholder roundtable, property owners and industry representatives noted that recent rent freezes significantly impacted their ability to keep pace with rising costs.

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.

## APPROACHES TO RENT STABILIZATION | THE CURRENT FORMULA

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

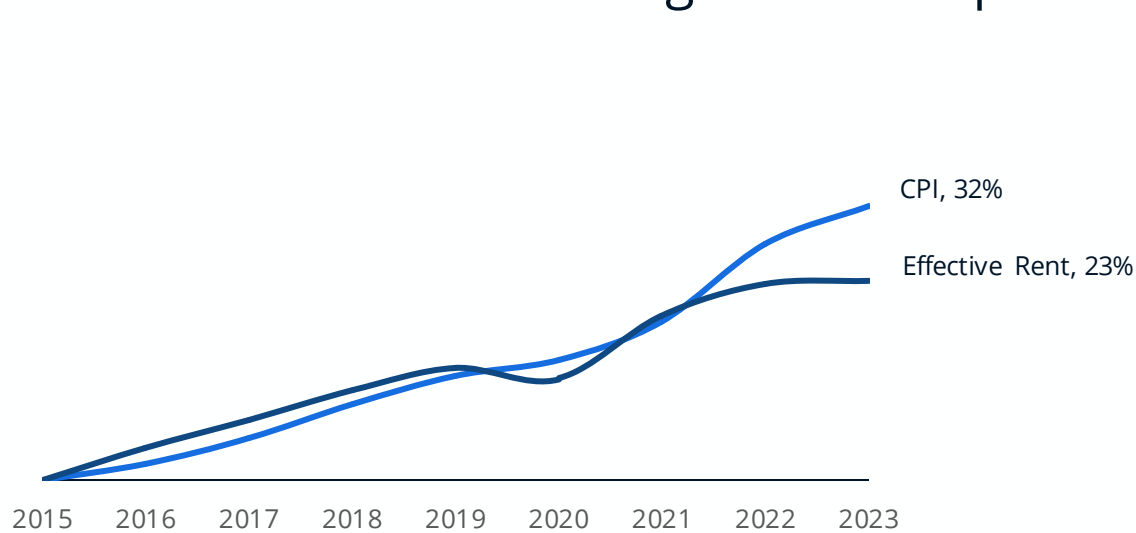


Source: ACS 1-Year Estimates, U.S. Bureau of Labor Statistics

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.

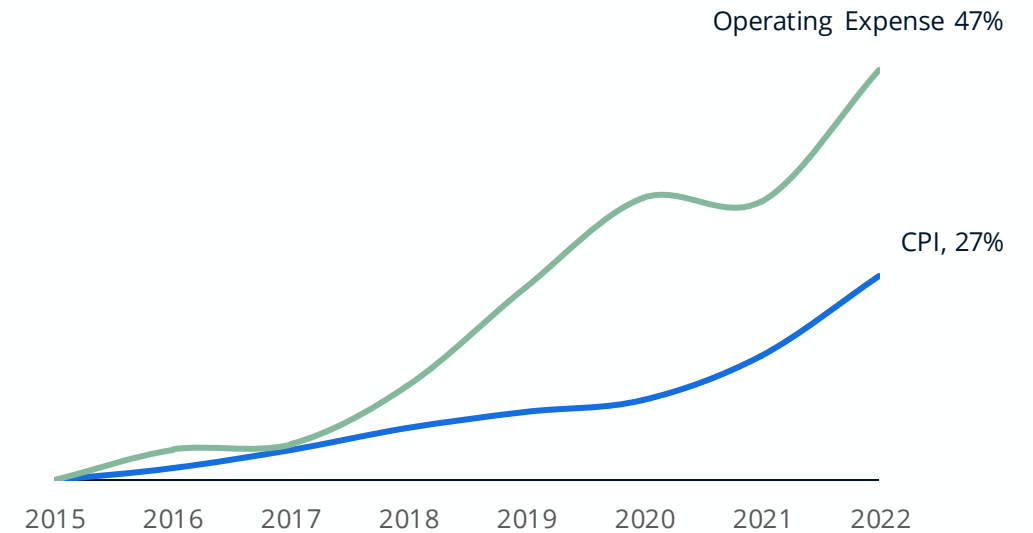
## APPROACHES TO RENT STABILIZATION | THE CURRENT FORMULA

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.

## APPROACHES TO RENT STABILIZATION | THE CURRENT FORMULA

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.



## APPROACHES TO RENT STABILIZATION | AVAILABLE POLICY LEVERS

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.

## APPROACHES TO RENT STABILIZATION | AVAILABLE POLICY LEVERS

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.

## APPROACHES TO RENT STABILIZATION | AVAILABLE POLICY LEVERS

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.<sup>1</sup> 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.<sup>2</sup>

*Sources:*

- 1. San Jose ARO Study*
- 2. Santa Monica Rent Control Charter Amendment & Regulations*

## APPROACHES TO RENT STABILIZATION | AVAILABLE POLICY LEVERS

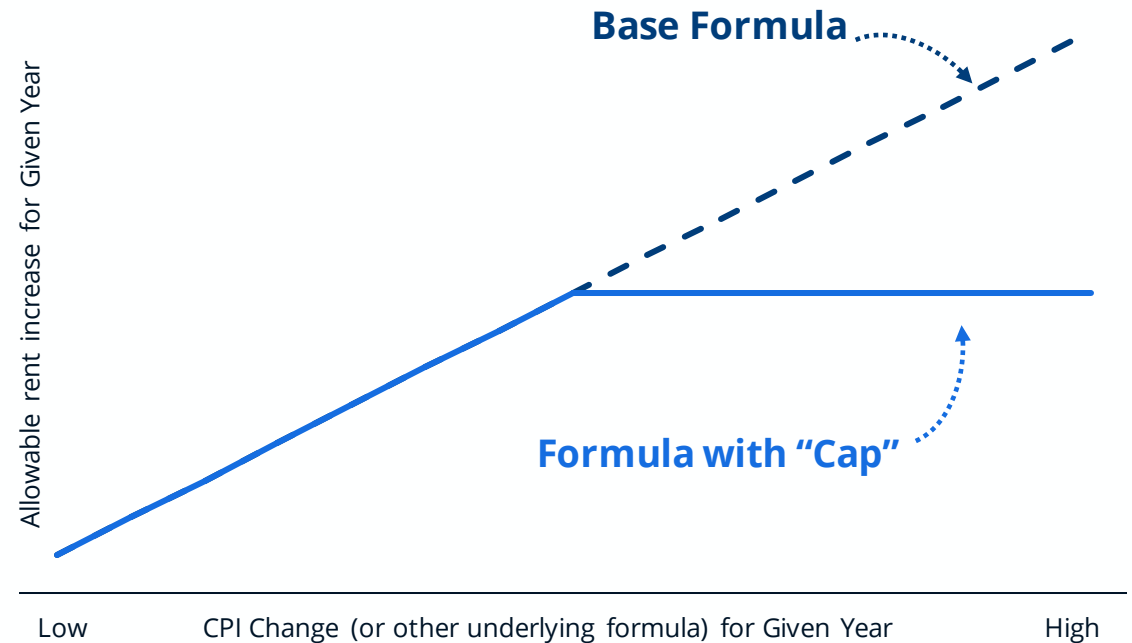
Rent stabilization formulas can protect tenants from large rent increases by setting set a “cap” or maximum allowable rent increase.

### 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)



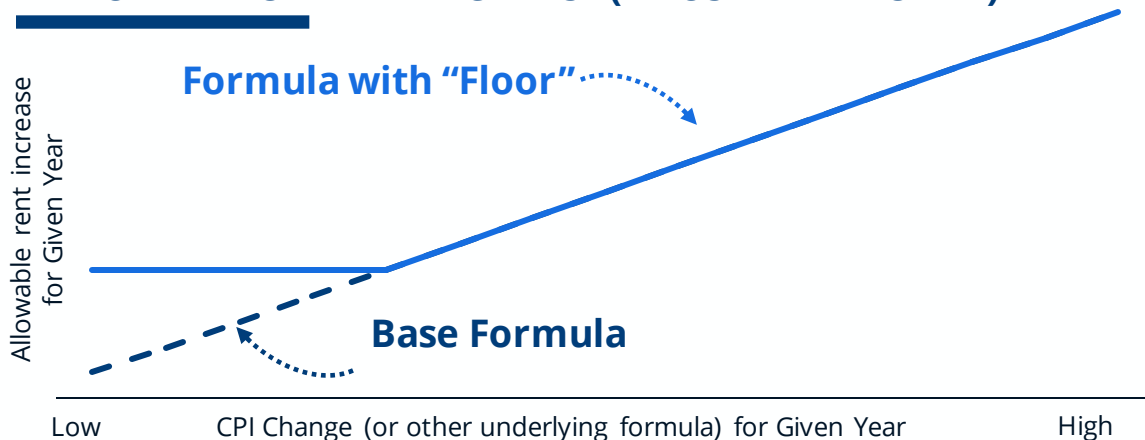
## APPROACHES TO RENT STABILIZATION | AVAILABLE POLICY LEVERS

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.

## APPROACHES TO RENT STABILIZATION | AVAILABLE POLICY LEVERS

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.**

## APPROACHES TO RENT STABILIZATION | AVAILABLE POLICY LEVERS

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.

## APPROACHES TO RENT STABILIZATION | AVAILABLE POLICY LEVERS

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.



## APPROACHES TO RENT STABILIZATION | AVAILABLE POLICY LEVERS

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.

## APPROACHES TO RENT STABILIZATION | POTENTIAL IMPACTS TO TENANTS AND OWNERS

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.**

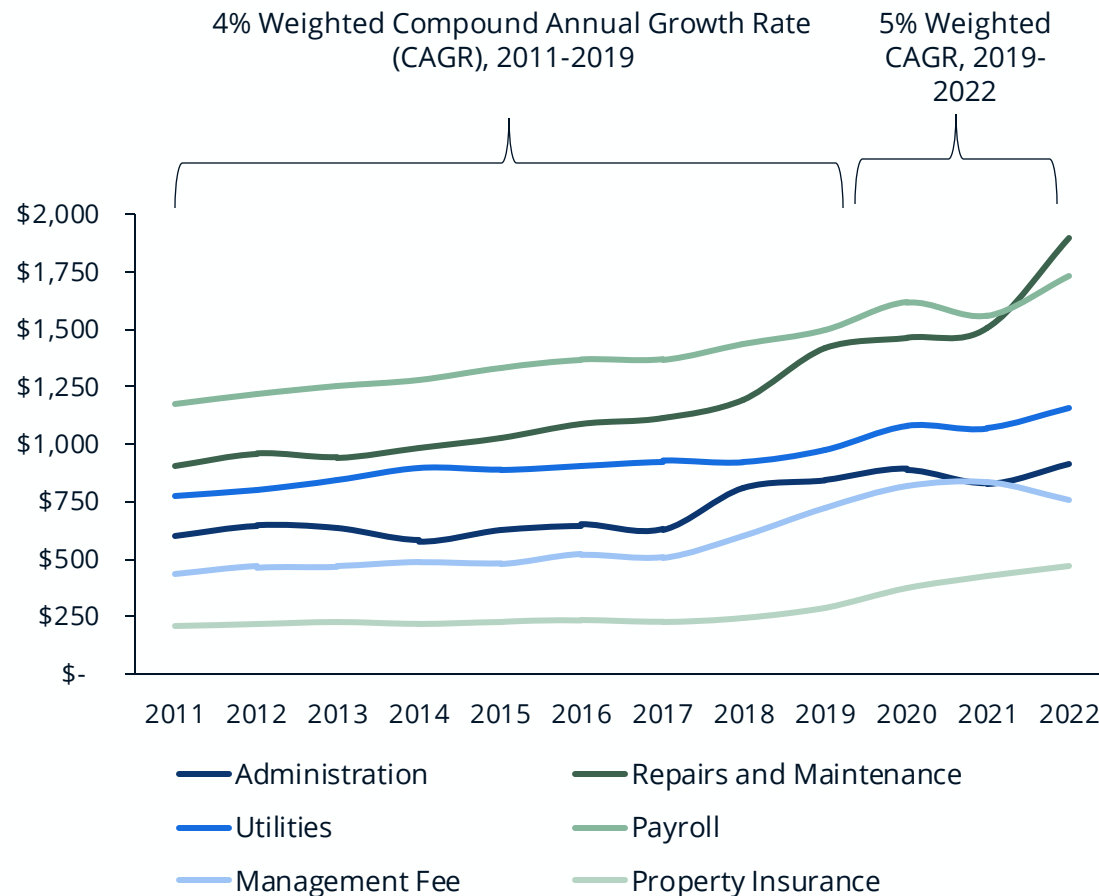
\*Note: This estimate is based on available wage and income data at the state and national level, and may not capture local labor trends or wage growth for lower-income workers

+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"

## APPROACHES TO RENT STABILIZATION | POTENTIAL IMPACTS TO TENANTS AND OWNERS

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.

## APPROACHES TO RENT STABILIZATION | POTENTIAL IMPACTS TO TENANTS AND OWNERS

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.

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

# 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.

An aerial photograph of a city, likely Los Angeles, showing a dense residential area with many palm trees and multi-story buildings. In the background, there are mountains under a clear sky. The image is overlaid with a semi-transparent dark blue rectangle containing text.

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.

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

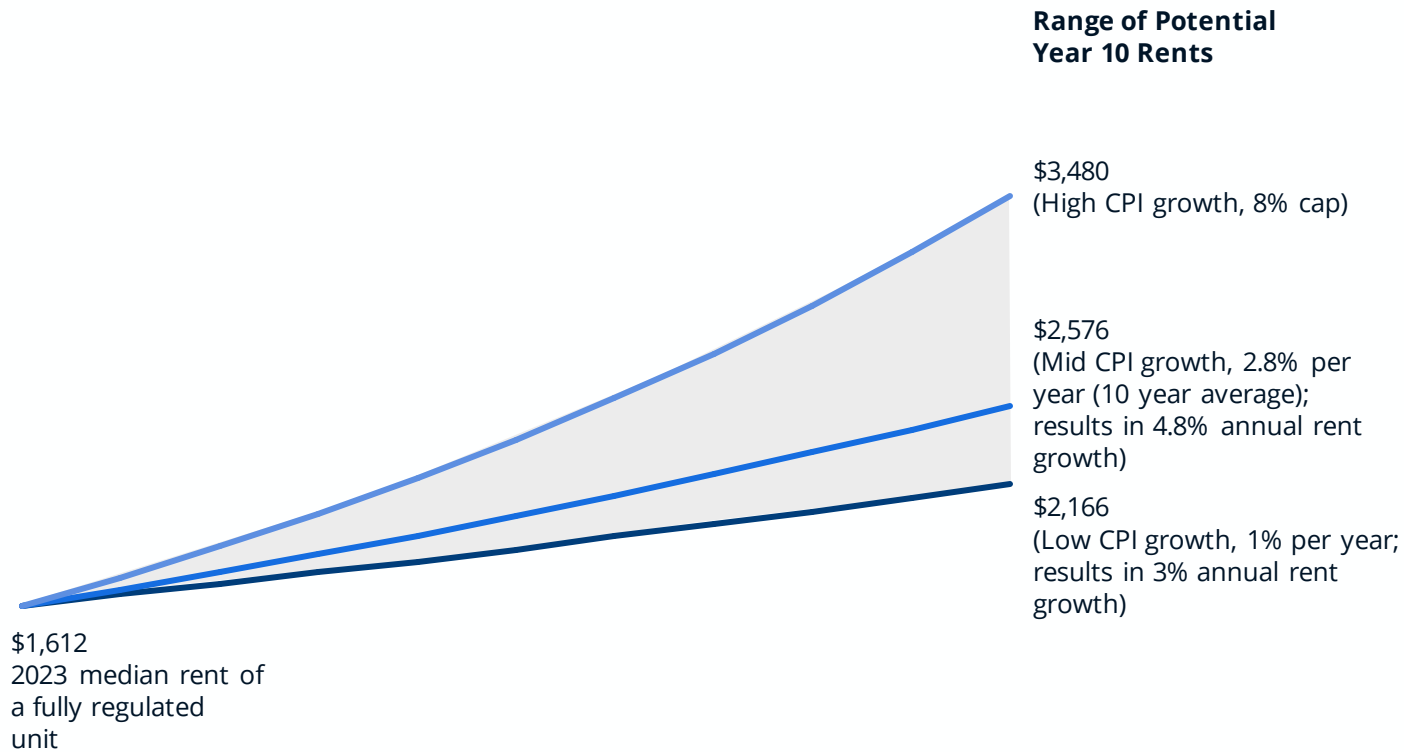
Oversight of this policy would not change the County's administrative requirements.

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.*

Year 0 Year 1 Year 2 Year 3 Year 4 Year 5 Year 6 Year 7 Year 8 Year 9 Year 10

## 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.

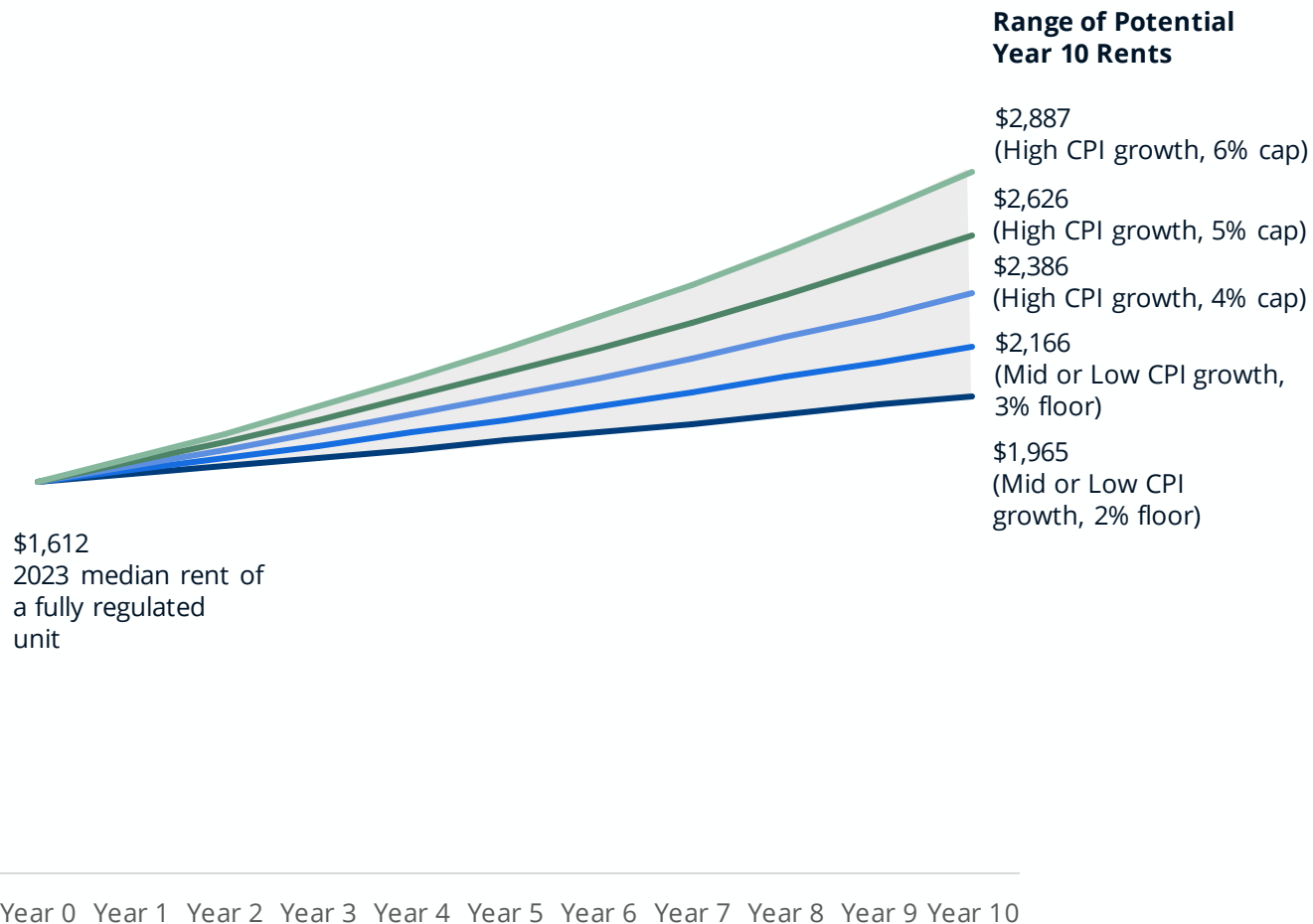
### IMPLICATIONS FOR ADMINISTRATORS

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.

### 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.

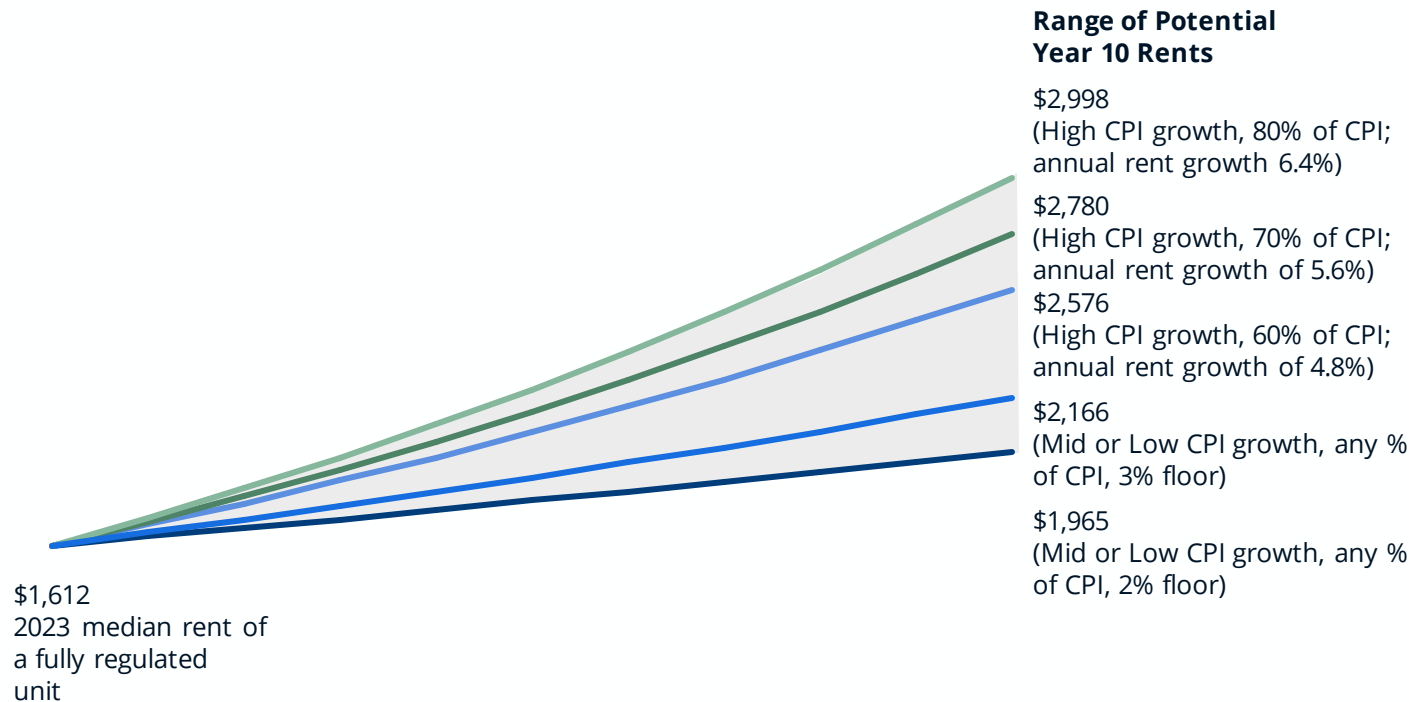
### OTHER CONSIDERATIONS

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.

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

## 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.



### 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 option 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, 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.

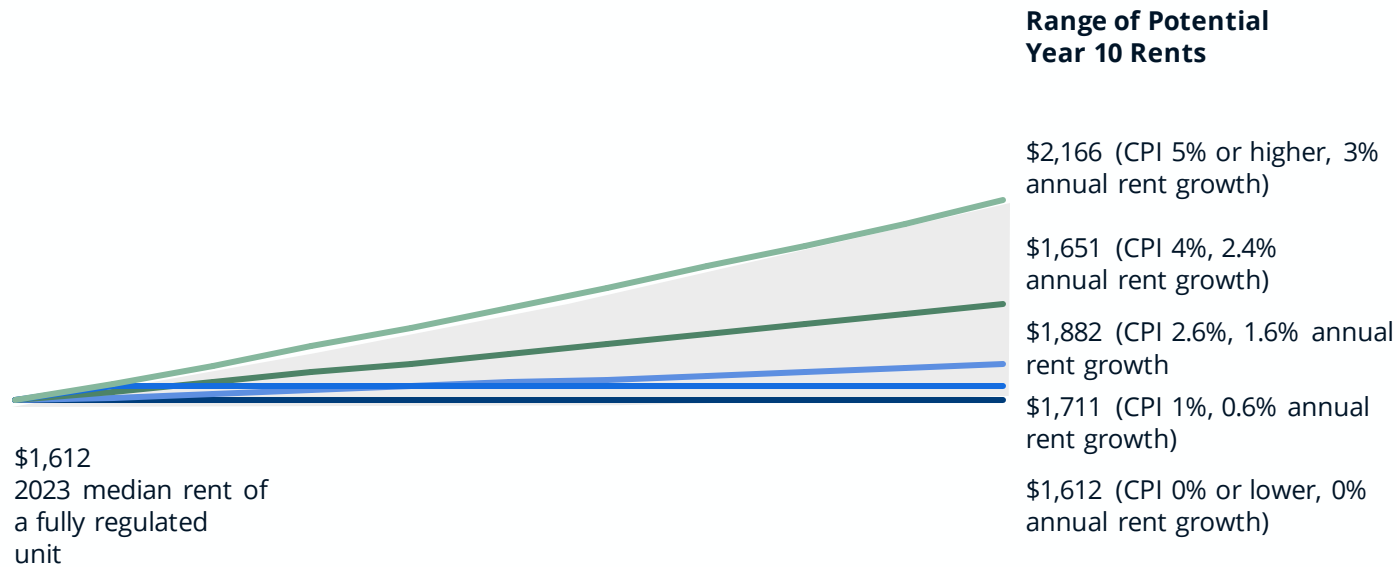
### OTHER CONSIDERATIONS

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.

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

## 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.



### 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

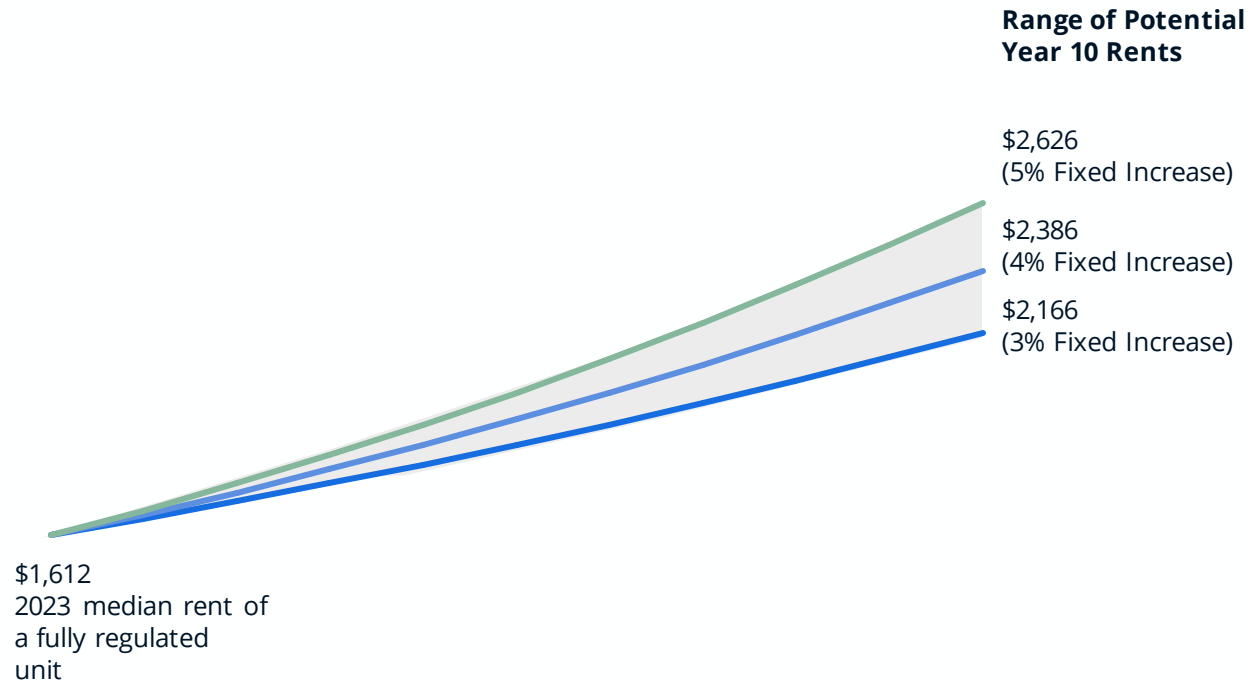
The current formula allows property owners to apply for additional rent increases up to the overall cap of 8% per year. If the County moves to a fixed percentage formula, it will need to set an alternate cap and a standard for allowable additional increases. Some fixed-percentage jurisdictions build 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.*

Year 0 Year 1 Year 2 Year 3 Year 4 Year 5 Year 6 Year 7 Year 8 Year 9 Year 10

## 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.

### 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.

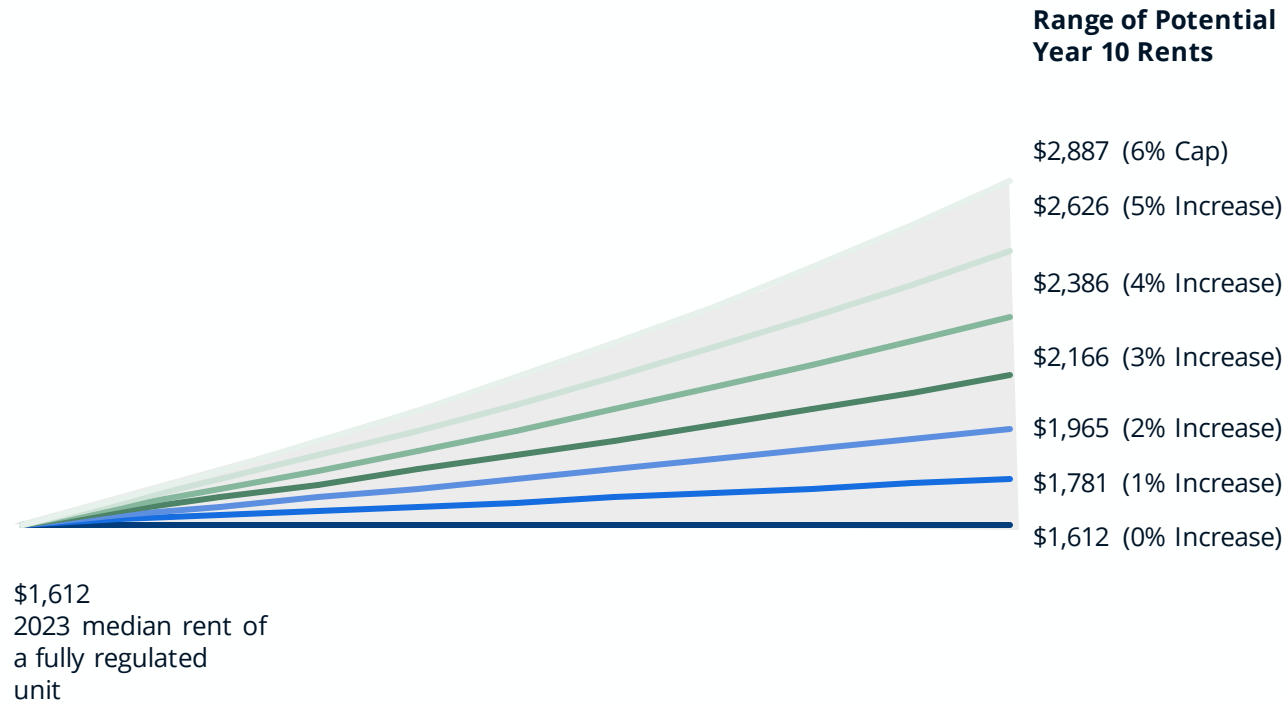
### OTHER CONSIDERATIONS

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.

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

## 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.*

Year 0 Year 1 Year 2 Year 3 Year 4 Year 5 Year 6 Year 7 Year 8 Year 9 Year 10










06

# Appendix

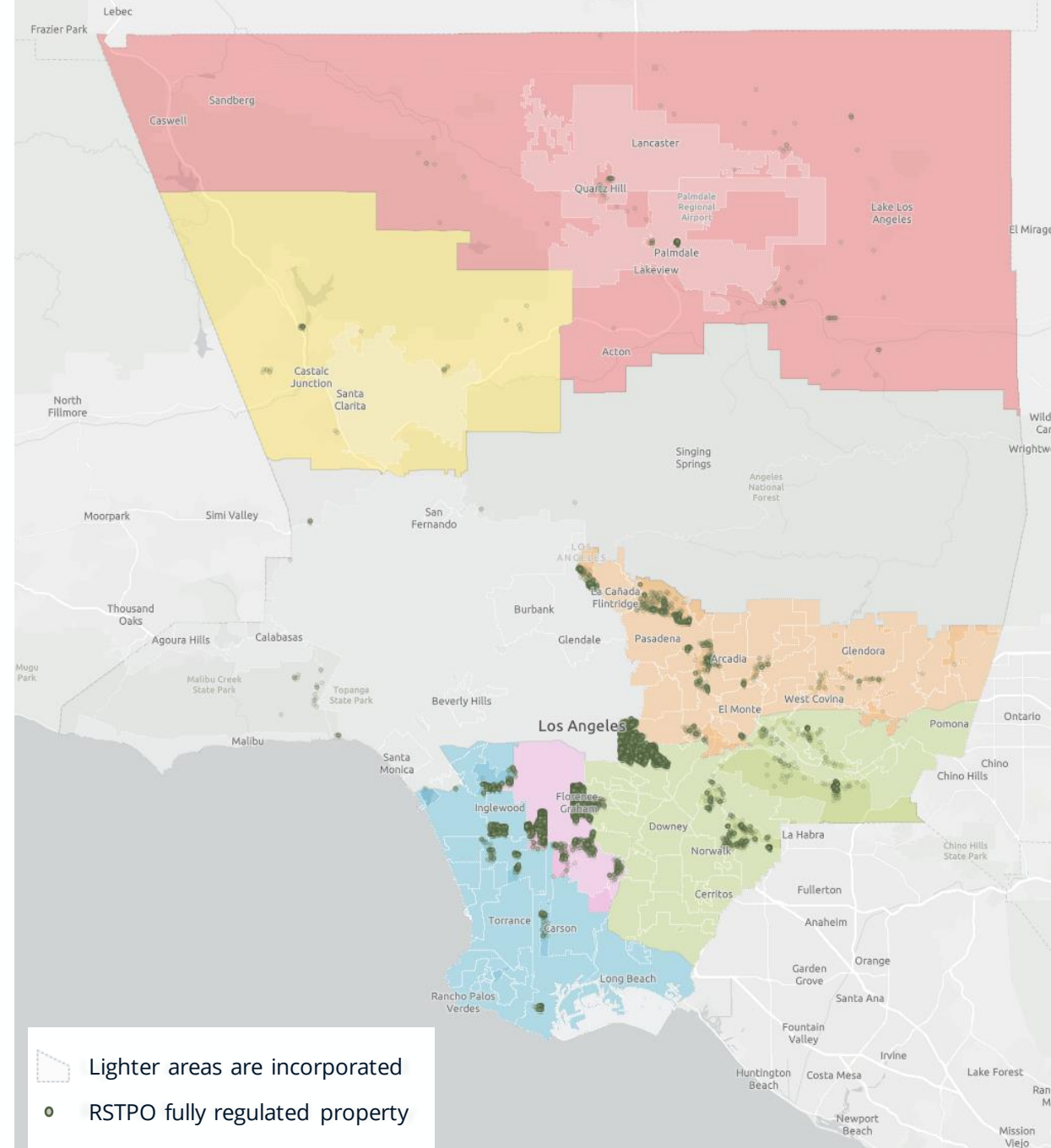
## APPENDIX

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

### PROPERTIES AND UNITS SUBJECT TO RENT STABILIZATION

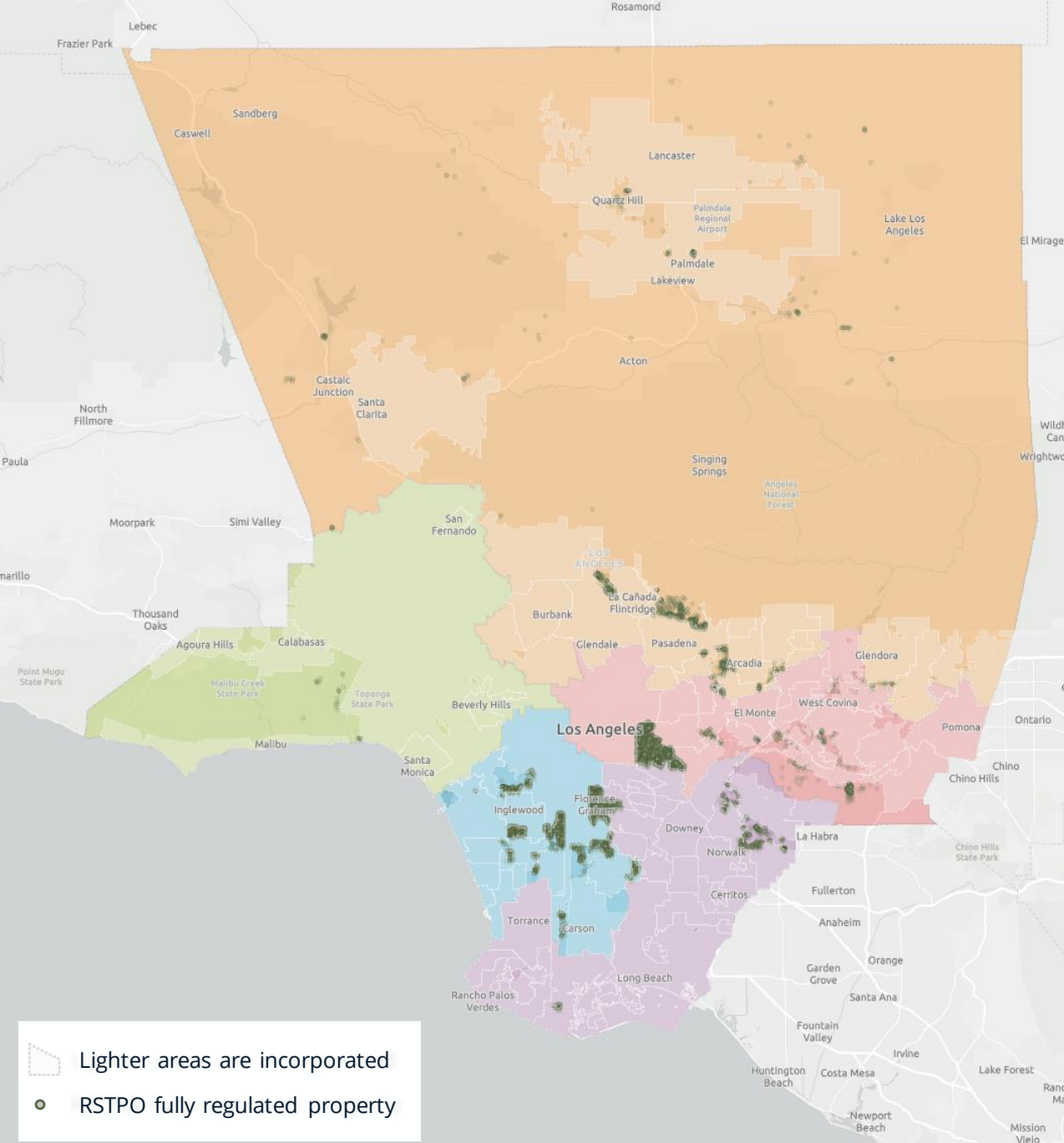
Submarket	Key	Properties	Units
Antelope Valley		229	948
Coastal South LA		1,330	6,400
East LA		4,308	20,662
San Gabriel Valley		1,163	7,823
Santa Clarita Valley		39	874
South LA		3,772	14,391
Not a Part of a Submarket		39	444

### FULLY REGULATED PROPERTIES IN LA COUNTY



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 Supervisory Districts 1 and 2.

### PROPERTIES AND UNITS SUBJECT TO RENT STABILIZATION

Supervisory District	Key	Properties	Units
Supervisory District 1	<span style="color: red;">■</span>	4,023	17,117
Supervisory District 2	<span style="color: blue;">■</span>	4,810	19,788
Supervisory District 3	<span style="color: green;">■</span>	28	112
Supervisory District 4	<span style="color: purple;">■</span>	718	5,580
Supervisory District 5	<span style="color: orange;">■</span>	1,301	8,947

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

## APPENDIX | TENANT ADVOCATE ROUNDTABLE

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.

## APPENDIX | PROPERTY OWNER ROUNDTABLE

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.



## APPENDIX | PROPERTY OWNER ROUNDTABLE (CONTINUED)

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

### **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.

HR&A +



# Los Angeles County Rent Stabilization Study

**Prepared for Los Angeles County**

March 2024