



Los Angeles Housing Department

RENT STABILIZATION DIVISION

**LAHD**

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The Honorable Antonio R. Villaraigosa  
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Attn: Pamela Findley, Legislative Coordinator

**COUNCIL TRANSMITTAL: REPORT ON ECONOMIC STUDY OF THE RENT STABILIZATION (RSO) ORDINANCE AND THE LOCAL HOUSING MARKET**

**SUMMARY**

This transmittal outlines the major findings and recommendations of the 2009 Economic Study of the Rent Stabilization Ordinance and the Local Housing Market (Study). On April 25, 2007, the City Council authorized the Los Angeles Housing Department (LAHD) to execute a contract with the Economic Roundtable for a study on the Rent Stabilization Ordinance (RSO). The Study was conducted between June 2007 and June 2009 and provides 28 recommendations related to the administration of the RSO and related programs.

**RECOMMENDATIONS**

The General Manager, LAHD, respectfully recommends:

- 1) That your office schedule this transmittal at the next available meeting of the appropriate City Council committee(s) for consideration and forward it to the City Council for review and approval thereafter.
- 2) That the City Council approve the following recommendations:
  - a. DIRECT the LAHD to report back on its landlord/tenant outreach plan to expand communication and education for both landlords and tenants and to provide the specific information described in recommendations 1 through 5; publicize the availability of the Just and Reasonable provisions of the RSO; encourage all landlords to use written leases; provide technical assistance workshops targeting owners of properties of 4 or less units;

- b. RETAIN the current scope of coverage of the RSO and the Consumer Price Index (CPI) as the basis for setting the annual allowable rent increase under the RSO;
- c. DIRECT the LAHD to report back on the restructuring of the RSO capital improvement, primary renovation and tenant habitability plan provisions of the RSO;
- d. DIRECT the LAHD to report back on a recommended methodology and cost of replacing the current passthrough provision for the gas and electricity utility allowance;
- e. INSTRUCT the LAHD to conduct an evaluation of the delivery of services and adequacy of the number of hours under the contract scope of work for the tenant relocation assistance contract;
- f. DIRECT the LAHD to continue housing inspector training in standardized procedures to ensure consistency in the inspection process; and
- g. DIRECT the LAHD to report back on the need to increase the annual rental unit registration fee to implement these recommendations.

3) That the Mayor concur with the actions of the City Council.

## **BACKGROUND**

In September 2006, the City Council approved the release of the LAHD's Request for Proposals (RFP) for an Economic Study of the Rent Stabilization Ordinance (RSO) and the Local Housing Market (Study) (CF# 04-0777). The City Council authorized up to \$957,000 in CDBG and Rent Stabilization Trust Funds to complete the Study. On June 13, 2007, the LAHD executed a contract with the Economic Roundtable, a non-profit, public benefit corporation, selected through a competitive RFP process. The Study was completed in June 2009 (Attachment 1).

In December 2007, the City Council authorized the Chair of the Housing, Community and Economic Development Committee to convene a Rent Stabilization Ordinance Study Oversight Committee (Oversight Committee). Committee members were selected from rental housing advocacy groups representing landlord and tenant rights organizations and were tasked with the following:

- a. Attend quarterly meetings to receive updates on the Study's progress.
- b. Monitor the consultant's progress and compliance with the Scope of Work/Contract.
- c. Assist in recruiting and recommending participants for the 28 focus groups to ensure that all points of view are considered by the consultant.
- d. Assist with the planning and outreach of community meetings.
- e. Provide feedback on the contractor's performance at project completion.

Since the inception of the RSO in 1979, the City has undertaken three prior reviews/studies (1984, 1988, and 1994) to assess the impact of the Ordinance. The most recent study was published in December 1995.

### ***The RSO***

The RSO was adopted in May 1979 and covers four broad categories:

1. Registration of rental units (LAMC 151.05);
2. Allowable rent increases (LAMC 151.06);
3. Legal reasons for eviction (LAMC 151.09);
4. Relocation assistance payable to the tenants for certain types of evictions (LAMC 151.09 G).

The RSO covers 66 percent of the City's rental housing inventory. This represents 638,051 housing units in 118,254 rental properties. The RSO inventory of units can be divided into thirds according to property size: a third are on properties with 4 or less units, a third are on properties with 5 to 19 units, and a third are on properties with 20 or more units. Most small properties (1 to 4 units) were built before 1940.

**Percent of Renter Occupied RSO units by Area Planning Commission (APC)**  
 (City of Los Angeles, 2006)

| APC                 | All Renter-Occupied Housing Units | Renter Occupied Housing Units Built Before 1980 | Percent under RSO (built before 1980) |
|---------------------|-----------------------------------|---|---------------------------------------|
| Central Los Angeles | 221,012                           | 167,452   | 76%                                   |
| South Valley        | 145,974                           | 98,008  | 67%                                   |
| West Los Angeles    | 84,401                            | 55,514  | 66%                                   |
| Harbor Area         | 31,889                            | 20,770  | 65%                                   |
| South Los Angeles   | 132,878                           | 81,284  | 61%                                   |
| East Los Angeles    | 75,421                            | 43,532  | 58%                                   |
| North Valley        | 72,622                            | 36,235  | 50%                                   |

The LAHD is responsible for administering the RSO, which is funded entirely by the Rent Trust Fund through the collection of the annual rental registration fee of \$18.71 per unit. As funding is fee-based, administration of the RSO does not impact the General Fund.

**THE STUDY**

***Economic Roundtable's Report and Data Sources***

The Study, completed in June 2009, includes: a profile of the rental market; surveys of Los Angeles renters and property owners; impact of the RSO on apartment investments; comparative analysis of rent increase standards in California rent-stabilized jurisdictions; a rental market analysis based on housing market dynamics, development financing, and growth trends. The report also provides Policy Recommendations and an Executive Summary.

The Economic Roundtable utilized a variety of data sources including: renter and owner surveys conducted between 2007 and 2008, real estate industry data through 2007, 2006 Census data, proprietary City data for 2007 and 2008 and focus group data from 2007 and 2008. The consultants surveyed 2,948 renters living in RSO units and 1,257 in market-rate units. The renter survey was conducted in Spanish, English and Korean. The distribution of survey participants was comparable to the proportion of rental units in the City's 35 Community Plan Areas. In addition, a total of 2,036 owners of rent-stabilized properties were surveyed. Focus groups with both owners and renters were conducted at the start and completion of the Study.

**SUMMARY OF MAJOR FINDINGS**

- 1) **Performance of RSO Investments:** On average, investments in RSO apartments have performed *superior* to the average performance of investments in apartment buildings in the United States and *comparable* to non-RSO apartments in the Los Angeles region.
- 2) **Net Operating Income:** Since 1999, the Net Operating Income (NOI) for RSO property owners has exceeded the CPI increases.

- 3) **Apartment Values:** The RSO has not had a significant impact on the average rate of appreciation of apartment buildings.
- 4) **Apartment Investments and the Housing Slump:** The rate of return on apartment investments today depends largely on the purchase date.
- 5) **RSO vs. Non-RSO Rental Rates:** Rent differentials between RSO and non-RSO units ranged from a high of \$500 to virtually no difference.
- 6) **Rent Increases:** The current method of determining the RSO's annual allowable rent increase utilizing the CPI is *the best available economic benchmark* for setting rent increases, as well as the best available measure of an allowance for increases in rental property operating costs.
- 7) **Rent Burden:** 27 percent of Los Angeles households report being rent burdened, and 31 percent were severely rent burdened. Low-income households, seniors and disabled persons are the most vulnerable, with over 60 percent of seniors severely rent burdened (as of 2006).
- 8) **Operating Costs:** Apartment operating costs range from 25 to 35 percent of rental income.
- 9) **Cost Increases for Utilities:** The RSO's allowable one percent pass-through for gas and electricity is disproportionate to the actual cost increases for these services.
- 10) **Overcrowding:** Between 2000 and 2006, rates of severe overcrowding fell 65 percent.
- 11) **Turnover and Tenure:** On average, RSO properties have an annual turnover rate of 23 percent.
- 12) **Evictions:** Fifty-four percent of no-fault evictions recorded by the LAHD between 1998-2007 were related to condo-conversions. Landlord Declarations of Intent to Evict peaked in 2005, with over 5,000 cases filed.
- 13) **Systematic Code Enforcement Program (SCEP):** Property owners' opinions on the Systematic Code Enforcement Program (SCEP) differ by property size.
- 14) **RSO Knowledge:** Both tenants and landlords are not well informed on the RSO.

## **MAJOR FINDINGS**

### **1. Performance of RSO Investments**

On average, investments in RSO apartments have performed *superior* to the average performance of apartment buildings in the United States and *comparable* to non-RSO apartments in the Los Angeles region.

### **2. Net Operating Income**

The reasonableness of rent restrictions may be measured by comparing the rate of increase in net operating income (NOI) of RSO apartments with the CPI's rate of increase. Since 1999, the NOI for Los Angeles apartment owners has exceeded the rate of increase in the CPI. Between 1999 and 2006, the CPI increased by 26.6 percent while the NOI for Los Angeles apartments ranged from as high as 111 percent to as low as 33 percent, all above the CPI.

### **3. Apartment Values**

The RSO has not had a significant impact on the average rate of appreciation of apartment buildings. The rates of appreciation and increases in value between RSO buildings and non-RSO buildings are similar. On average, between 2001 and 2006, the value of all apartments in the City increased by 99 percent, with the average value of RSO apartments increasing by 134 percent.

Among 40 metropolitan regions, Los Angeles' RSO properties have the second highest rate of appreciation. The sales price of RSO apartment buildings with five or more units tripled from 1999 to 2006, from an average of \$40,701 to \$127,484. In the East, South and Harbor Area APCs, RSO apartment values increased from an average of \$34,347 per unit in 1999 to \$90,411 in 2006. In the Central APC, the average RSO apartment value increased from \$36,779 to \$123,120. Although there are differences in price, the rates of appreciation in apartment values from 1999 to 2006 were similar among properties throughout the City, regardless of age.

#### **4. Apartment Investments and the Housing Slump**

Despite the current foreclosure crisis, apartments have retained their value, mainly because demand for apartments has increased.

With the recent boom and subsequent collapse of the housing market, the rate of return on apartment investments today depends largely on the purchase date. Owners who purchased apartments prior to 2003 paid lower prices relative to prices in 2008. In addition, some owners refinanced their mortgages at more favorable interest rates and have substantial cash flows.

The housing slump has had a markedly negative impact on apartment buildings with 5 or more units that were purchased in 2005 or later (approximately 25 percent of the rental housing stock). Owners who purchased in 2005 or later may have large mortgage obligations that leave them vulnerable to changes in expenses and rental income.

#### **5. RSO and Non-RSO Rental Rates**

Rent differentials between RSO and non-RSO units ranged from a high of \$500 to virtually no difference. The median monthly rent for an RSO unit was \$113 less (\$1,356 less/year) than the median rent for a non-RSO unit, and the average monthly rent for an RSO unit was \$142 less (\$1,704 less/year). Based on a 96 percent occupancy rate of RSO units, the average monthly differential of \$142 in 2006 represents an annual savings for all RSO renters of \$1.04 billion.

Because the RSO has always permitted vacancy decontrol, its impact is tempered by tenant turnover. Approximately 50 percent of tenants move within a five-year period, so the average RSO owner may obtain unlimited rent increases for half the units in a building within a 5-year period.

The greatest disparity between the rental rate of an RSO unit and a market-rate apartment occurred in 1989 if a long-term tenant occupied the unit since 1979 (the year the RSO became effective). The RSO rent rate for these tenants in 1989 was 65 percent of the market level rent. Any gaps in rent rates greater than 35 percent are likely the result of other factors, such as years when owners did not increase rents for RSO units located in neighborhoods where rents increased less rapidly than the average market-rate rent.

#### **6. Rent Increases**

The Study found that the current method of determining the annual allowable rent increase utilizing the Consumer Price Index (CPI) is *the best available economic benchmark* for setting rent increases. The RSO permits an annual rent increase of 3 percent (minimum) to 8 percent (maximum) based on the CPI.

When compared to trends in the United States, RSO rent increases have been generous. In 23 of the past 29 years, the RSO annual allowable rent increase exceeded or roughly equaled the percentage increase in national rents. Over the past eight years, RSO annual rent increases exceeded market rent increases in 15 of 23 metropolitan areas in the U.S.

In Los Angeles, throughout all of the 1980's and from 1999 to 2007, rent increases for RSO units were lower than increases for market-rate apartments. From 2000 to 2007, the cumulative rent increases for market-rate apartments was 49.1 percent, compared to 26.7 percent for RSO units. However, between 1990 and 2000, the rent increases for RSO units were greater than the average rent increases for market-rate apartments. During those years, allowable rent increases totaled 39.7 percent for RSO units, compared to an average of 18.2 percent in market-rate units.

Census data demonstrates that RSO tenants with extended tenancies generally receive smaller discounts on rents than non-RSO tenants. Owners of RSO properties are less likely to defer allowable rent increases because the annual rent adjustment is forfeited. In the non-RSO rental stock, owners report more flexibility with rent increases because these rents are already at or near market rates. A majority of RSO tenants (63 percent) report that their rent increased every year, while only 54 percent of non-RSO tenants report yearly rent increases.

A little over 25 percent of RSO tenants may have received excessive or unauthorized rent increases. These tenants are likely to be low-income renters, earning less than \$25,000 per year, and reported the lowest starting rents (averaging \$513/mth) when compared to tenants receiving increases at or below the RSO allowable increase. The regions in the City with a large number of tenants reporting increases beyond the allowable rate were the North Valley (37 percent) and East Los Angeles (33 percent).

## **7. Rent Burden**

The majority of City households reported being rent burdened. 27 percent reported being rent burdened (paying 30 to 49 percent of their gross monthly income on rent) and 31 percent were severely rent burdened (paying 50 percent or more of their gross monthly income on rent). From 1990 to 2006, severely rent-burdened households in Los Angeles increased by 23 percent.

In South Los Angeles and the North Valley, 40 percent or more of households are severely rent-burdened and spend most of their income on rent. Low-income populations, seniors and disabled persons are most vulnerable. In 2006, a quarter of senior households were living in poverty and over 40 percent of all senior renters were severely rent burdened. The economic recession and the fall in home prices that ensued as the Study was concluding contributed to declining rents in Los Angeles and may have decreased the rent burden for all Angelenos.

## **8. Operating Costs**

The bulk of operating expenses for apartment buildings is attributable to management, maintenance, and property taxes, while insurance and utility expenses each average less than 2 percent of rental income. Nationally, apartment operating costs range from 35 to 60 percent, 30 to 40 percent in California, and in Los Angeles, from 25 to 35 percent of rental income. Small buildings report costs of less than \$300 per apartment per month, while larger buildings average expenses ranging from \$350 to \$434. This variation reflects differences in operating strategies among owners of smaller versus larger buildings, with owners of larger properties preferring to maximize rents, while owners of smaller properties opt to minimize costs associated with turnover.

The CPI is an objective and widely accepted benchmark for apartment operating cost changes. There are no other systematic sources that measure these types of expenses, except for industry reports for very large professionally managed buildings, which do not reflect the makeup of the majority of RSO buildings. Additionally, because apartment operating cost studies are derived from limited segments of rental owners, they may be perceived as arbitrary or political. For these reasons, the use of the CPI is the best and most reliable source.

### **9. Cost Increases for Utilities**

The analysis of the annual utility allowance of one-percent for gas and one-percent for electricity in master-metered buildings indicates that the passthrough is disproportionate to the annual cost increases for these services. Increases in electricity and gas rates have fluctuated substantially, rather than increased steadily during the past decades. There is no connection between the annual master-metered increase authorized by the RSO and actual cost increases.

### **10. Overcrowding**

The City experienced a dramatic decline in overcrowding between 2000 and 2006, with severe overcrowding (more than 1.5 occupants per room) falling 65 percent. This decline left 8 percent of all renters living in severely overcrowded housing and 11 percent in overcrowded conditions. The decline in overcrowding is likely due to the growing stock of larger units built in recent years. The problem, however, remains prevalent among low-income renters and large households. Latino households are also disproportionately affected by overcrowding. Latinos account for over 75 percent of severely overcrowded households and are the only group increasing in this category. Seventy percent of 5-person households live in overcrowded or severely overcrowded units with 4 rooms or less, and nearly 90 percent of households with 6 or more people live in inadequate housing.

### **11. Turnover and Tenure**

In general, turnover is lower in RSO units than in non-RSO units. The average annual turnover rate for RSO properties is 23 percent. Overall, 51 percent of RSO tenants moved into their units within the past 5 years. Among the various RSO building types, the turnover rate in buildings with 2 to 9 dwelling units was slightly lower (49 percent of tenants moved in within the past 5 years) than the rate for buildings with 10 or more units (53 percent of tenants moved in within the past 5 years). Citywide, 70 percent of the renter survey respondents have lived in their current units less than ten years. Only 8 percent of RSO units have been occupied by the same tenant for 15 or more years.

### **12. Evictions**

Based on the renter surveys and focus groups, it is clear that many tenants are unaware of the safeguards against illegal evictions and relocation assistance for no-fault evictions. It is likely that illegal evictions and failure to pay relocation assistance are taking place in RSO units. Many landlords are also unaware that the RSO does not restrict evictions for nuisance or illegal activities and that these types of evictions do not require the filing of a landlord declaration of intent to evict, except in limited cases (illegal drug or gang activity).

The RSO requires owners to file a "Landlord Declaration of Intent to Evict" with LAHD when the owner seeks to vacate the unit for reasons outlined in the RSO. 54 percent of evictions recorded by the LAHD are related to condo-conversions. Landlord Declarations of Intent to Evict increased and peaked in 2005, with over 5,000 cases filed. The increase in no-fault eviction cases paralleled the trend in the Los Angeles housing market. From 1998 to 2007, East and

West Los Angeles recorded disproportionately more cases of no-fault evictions. By 2007, evictions for condo conversion declined partly due to scarce financing resources available to owners.

### **13. Systematic Code Enforcement Program (SCEP)**

Although not a principal focus of the Study, the Systematic Code Enforcement Program (SCEP) is the most frequent point of contact between the LAHD and landlords. While the program has been recognized for its success in improving the habitability of rental housing in Los Angeles, property owners have mixed opinions on SCEP. About half of owners, particularly small owners, view the SCEP program as a useful service and a source of technical assistance for maintaining their properties. Owners with 10 or more units often view it as an "unnecessary expense" and intrusion into the management of their properties.

### **14. RSO Knowledge**

34 percent of renters were incorrect or unaware of their unit's RSO status. Additionally, low-income renters (earning less than \$35,000 annually) are less likely than higher income renters to know that the RSO limits rent increases and evictions. 48 percent of renters with an annual household income of less than \$25,000 know that the RSO regulates the reasons for eviction.

The RSO offers cost recovery programs for RSO owners, but many property owners are unaware of these provisions. Half of RSO owners do not know about the capital improvement passthrough program; during the last five years, only one percent of RSO owners filed capital improvement applications to recover costs of upgrading and maintaining their rental properties.

The reduced level of rent paid by long-term RSO tenants can significantly impact the NOI of owners of small properties, for whom a single unit provides a quarter to half of total rent revenue. The Just and Reasonable provision is the avenue available for RSO property owners to adjust rent levels when their net operating income has declined disproportionately. However, 99.9 percent of owners have not sought relief through the Just and Reasonable rent increase provisions.

## **ECONOMIC ROUNDTABLE RECOMMENDATIONS**

The Economic Roundtable offers several recommendations intended to strengthen the RSO benefits for both tenants and landlords. These are presented in detail in the attached "Conclusions and Policy Recommendations," Chapter 7. The recommendations are organized here by categories: Communication with Renters and Landlords, Rent Increases, Evictions and Tenant Relocation, Systematic Code Enforcement Program, Affordable Housing, and Administration of the RSO.

### ***Communication with Renters and Landlords***

- 1) Mail an annual letter (in multiple languages) to all RSO units providing information that their unit is covered by the RSO, tenant protections and responsibilities, eviction safeguards, relocation assistance and how to obtain additional information, including customized information on the nearest Housing Department public counter.
- 2) Augment the annual mailing to RSO property owners to provide summaries of major provisions of the RSO including: allowable rent increases, allowable passthroughs such as capital improvements and just and reasonable rent increases, legal reasons for

evictions and relocation. Inform landlords that the RSO does not restrict evictions for disruptive or destructive behavior.

- 3) Include information for both tenants and landlords on how to access available resources such as the Rent toll free hotline, LAHD office locations, and materials available online on the LAHD website, such as the Landlord-Tenant handbook. Provide information in Spanish and how to request information in other languages.
- 4) Encourage all landlords to use written leases when renting units.
- 5) Provide technical assistance workshops focused on owners of small properties (1 to 4 units) to provide information about RSO rent adjustment provisions and RSO procedures including evictions of disruptive tenants.

### ***RSO Rent Increases***

- 6) Retain the Consumer Price Index (CPI) as the best available economic benchmark for setting rents.
- 7) Authorize utility increases periodically when significant gas and/or electricity cost increases occur, rather than an unchanging fixed percentage annual increase.
- 8) Condition the right to gas and electricity passthroughs on an owner submitting one year of gas and electricity bills for the apartment building one time only (or once every five years).
- 9) Continue to use the Capital Improvement Passthrough program as the principal tool for providing additional income to owners to offset the cost of capital improvements and primary renovations that allow tenants to occupy their units from 5:00 pm to 8:00 am and do not expose them to hazardous material.
- 10) Streamline and simplify the tenant habitability component of the Primary Renovation Program and the process for determining whether tenants are able to remain in their units making the application eligible for the Capital Improvement Passthrough Program.
- 11) Simplify the tenant habitability planning process by holding a single review that covers all tenants affected by an application, rather than allowing separate appeals by multiple tenants.
- 12) Increase the capital improvement passthrough amount as follows:
  - a. 75 percent for work that meets current criteria for the passthrough program but does not meet the criteria for primary renovation
  - b. 100 percent for work that addresses systemic structural, plumbing, electrical, or mechanical requirements of RSO properties
  - c. 100 percent for either capital improvements or primary improvements for owners of properties with up to 4 units.
- 13) Extend the term of payment for the tenant's share of costs to up to 10 years to keep rent increases below \$25 per month for as many tenants as possible.

- 14) Index the \$55 monthly rent-increase ceiling for capital improvement passthroughs to the Los Angeles region's Consumer Price Index – All Urban Consumers and adjust the ceiling annually beginning with the annual RSO rent adjustment in 2010.
- 15) Track the cumulative amount of capital improvement passthroughs approved for each property to ensure that tenants do not receive rent increases that exceed the RSO ceiling amount.
- 16) Publicize the availability of the Just and Reasonable provisions of the RSO as a means to adjust rent levels; include this information in annual mailings.
- 17) Allow owners to bank annual rent adjustments and apply them in combination with the annual increase permitted under the RSO, with a combined 10% cap.
- 18) Eliminate the 3 percent floor on annual rent adjustments while retaining the current 8 percent ceiling on RSO annual rent increases.

#### ***Evictions and Tenant Relocation***

- 19) In annual informational letter to owners, inform owners that the RSO does not restrict or monitor evictions for disruptive or destructive behaviors.
- 20) In annual tenant mailing, inform renters about RSO eviction safeguards and relocation assistance.
- 21) Evaluate the delivery of tenant relocation services to determine whether the contracted scope of work is being properly implemented.
- 22) Evaluate the level of service to determine whether the number of hours of counseling needs to be increased to achieve the goal of finding replacement housing for displaced tenants.

#### ***Systematic Code Enforcement Program (SCEP)***

- 23) Continue to train code inspectors in standardized procedures to ensure consistent outcomes from inspections.
- 24) Adopt a "Joint Code of Landlord-Tenant Responsibilities" and enforce the Code by holding tenants accountable for code violations that they cause.

#### ***Affordable Housing***

In addition to an analysis of the impact of the RSO, the Study's Scope of Work included a review of citywide housing policy issues. The Study's Chapter 6 provides a rental market analysis and several recommendations in support of affordable housing. As the City is already engaged in these initiatives, this transmittal focuses on the recommendations which directly impact the administration of the RSO.

#### ***Administration of the RSO***

- 25) Retain the current scope of coverage by the Rent Stabilization Ordinance.

26) Streamline RSO administrative requirements for owners of 4 or less units, including:

- a. Increasing the capital improvement passthrough allowance.
- b. Providing technical assistance workshops and other training focused on small owners to provide information about the capital improvement passthrough program, applying for just and reasonable rent increase, and RSO procedures, including eviction of disruptive tenants.

27) Expand the yearly registration renewal to require the rent amount for each unit and whether the unit has been vacated and decontrolled in the past year. Provide an option for owners to submit this information electronically.

28) Increase the annual rental unit registration fee by the amount necessary to pay for these additional responsibilities.

### **LOS ANGELES HOUSING DEPARTMENT RECOMMENDATIONS**

The LAHD concurs with the following recommendations and will report back on implementation and the need for additional resources.

#### ***Communication with Renters and Landlords (Recommendations 1 – 5)***

A major issue identified is the need for enhanced communication, outreach, and education for both tenants and landlords on their rights and responsibilities under the RSO. The LAHD fully supports this recommendation and has already started this process by completing an RFP process to develop a comprehensive Landlord/Tenant Outreach program. The goal is to create a multi-faceted housing rights and responsibilities education program utilizing traditional outreach methods, media and new technologies. In order to replicate effective programs and leverage limited resources, the outreach campaign will also include a "train the trainer" component. In developing the outreach program, the selected consultant will evaluate the most effective methods to reach our target audiences. Together with the outreach consultant, the LAHD will work to identify the most effective methods to provide the information points identified in the Study. Funding for the outreach consultant is included in the LAHD's 2009-2010 budget.

The recommendations for an annual notice to tenants, as recommended by the Economic Roundtable, will be considered as part of the outreach program. The LAHD estimates it will cost \$64,000 to upgrade its current database capacity to include individual unit addresses for all 638,051 RSO units and \$230,255 annually for printing and mailing. The LAHD will report back on the need for additional resources, once the plan has been completed.

#### ***RSO Rent Increases***

##### ***a) Methodology for Calculating the Annual Allowable Rent Increase (Recommendations 6)***

An important finding is that the current method of determining the annual allowable rent increase utilizing the CPI is the best available economic benchmark for setting rent increases and the best available measure of an allowance for increases in operating costs. The current CPI standard fairly balances the interest of renters and owners.

b) Capital Improvement Passthrough Program (*Recommendations 9-15*)

The LAHD substantially concurs with the Capital Improvement program recommendations.

The Department is currently completing a review of the two programs which allow for the recovery of costs associated with upgrades and improvements to rental properties (the Capital Improvement and the Primary Renovation programs) and will submit a comprehensive report including program revisions in a separate transmittal.

c) Just and Reasonable Rent Increases (*Recommendation 16*)

The LAHD concurs with the recommendation to publicize the Just and Reasonable Rent Increase application process. This item will be included in the report back on the Landlord/Tenant Outreach Plan.

***Evictions and Tenant Relocation (Recommendations 19 –22)***

The LAHD concurs with the need to provide increased education to both landlords and tenants on the legal reasons for evictions and requirements for relocation assistance. LAHD also agrees with the need to conduct an evaluation of the delivery of services and adequacy of the number of hours in the scope of work for the tenant relocation assistance contract.

***Systematic Code Enforcement Program (SCEP) (Recommendation 23)***

The Department concurs with the recommendation to continue providing standardized training to its housing inspectors to ensure consistent inspections and outcomes. SCEP has already started addressing the consistency issue by conducting quarterly all-hands training. As a follow-up, training is conducted on a weekly basis at each field office to reinforce the material discussed at the quarterly training sessions.

***Scope of Coverage of the RSO (Recommendation 25 - 26)***

The LAHD concurs with the recommendation to retain the current scope of coverage of the RSO. The Department supports the expansion of education initiatives for property owners with 4 or less units, as well as streamlining of administrative requirements for all landlords when feasible.

***Rent Increases for Utilities (Recommendations 7 – 8)***

The LAHD will report back on a recommended methodology to determine the utility allowance and cost estimates for implementation.

Based on the finding that the annual utility allowance for gas and electricity in master-metered buildings of one-percent has no relation to the actual cost of these utilities, the Consultant recommends changing the method for the utility passthrough.

This recommendation would require an amendment to the RSO and new procedures for the processing of utility passthroughs. This would include the development of a new methodology and additional staff resources for data gathering and development of the necessary systems. We estimate the one-time systems development costs at \$74,000. Once the system is developed, at least one new Management Analyst and a clerical support position would be required to process the rent increase application. LAHD will report back in greater detail on a recommended methodology and cost.

### ***Fees for Administration of the RSO (Recommendation 28)***

The LAHD will report back on the need for an annual rent increase to support additional services. The Economic Roundtable is recommending a fee increase to implement the additional responsibilities outlined in the following recommendations:

- technical assistance workshops for owners of small properties;
- expansion of a database to facilitate mailing of annual educational letters to renters and owners;
- a higher level of relocation services (if borne out by an assessment of relocation services);
- collection and analysis of cost data for gas and electric utilities;
- creation of a rent database for all RSO units (rent-tracking).

### **STUDY RECOMMENDATIONS NOT SUPPORTED BY THE LAHD**

The LAHD cannot support the following recommendations because these are either difficult to enforce and/or the implementation is cost prohibitive.

#### ***Capital Improvement Passthroughs for 4 Units or Less (Recommendations 12c)***

The LAHD concurs with the recommendation to increase the allowable cost recovery, which is currently 50% of approved costs, to 75% - 100% of approved costs (depending on the category of work) for all landlords. However, the LAHD does not support the proposal to regulate capital improvement passthroughs differently based on property size. This recommendation would result in the disparate treatment of tenants for no reason other than the size of the property. Instead, the LAHD plans to use the expanded outreach program to enhance training and education opportunities for "mom and pop" property owners to inform them of the avenues available for cost recovery for improvements to their rental properties.

#### ***Joint Code of Responsibility for Landlords and Tenants (Recommendation 24)***

The Department concurs with the recommendation to encourage landlords to use written lease agreements, but opposes the proposed Joint Code of Responsibility because it is ambiguous and unenforceable. It fails to clearly delineate responsibilities and remedies for violation of the code-related issues and would not be enforceable in Court or under the RSO. State and local law already delineate landlord and tenant responsibilities under the California Civil Code, the California Health and Safety Code and the Los Angeles Building Code. The Los Angeles Housing Code already has a process in place for enabling landlords to hold tenants accountable for the violations they cause. The Joint Code may result in the imposition of additional landlord and tenant responsibilities that conflict with those existing under State and local law, or the parties' contractual obligations pursuant to a written lease. As a result, the Joint Code would confuse existing tenant and landlord regulations and may undermine the City's housing code enforcement system, a nationally recognized program which has achieved exemplary levels of compliance.

#### ***Banking Rent Increases (Recommendations 17-18)***

Because of the scale of the Los Angeles RSO unit inventory, the LAHD could not track and monitor rent increases without dedicating additional staff resources and developing new systems upgrades. While other rent-control jurisdictions allow rent banking, these cities have far fewer rental units and higher staff ratios per units monitored than Los Angeles. In addition, the jurisdictions which allow rent banking have tracked rent levels since the adoption of their rent

control laws. By contrast, Los Angeles has never required disclosure of individual unit rent levels.

The recommendation would require the City to track annual allowable rent increases in each of the 638,051 RSO units every year. This would include: verifying the information provided by the landlord with each tenant, correcting any disagreements, tracking any additional rent increases approved through the RSO's cost recovery programs, and monitoring the exact percentage that is banked per unit. These verifications would be required annually for each RSO unit.

One of the principle benefits of the RSO is that it moderates rent increases during inflationary periods. Allowing landlords to impose banked increases at one time would expose tenants to unanticipated and steeper rent increases. This would adversely impact low-income tenants, particularly families with children, seniors and the disabled.

**Information Needed for Administering the RSO - Rent Tracking (Recommendation 27)**

The Economic Roundtable recommends that the annual rental unit registration renewal be expanded to include the rent rate for each unit, any vacancies and/or subsequently rent-decontrol over the past year, with the option to submit this information electronically. This recommendation represents a major change in the administration of the Los Angeles RSO and would have a significant impact on LAHD operations.

In the 30 years since the adoption of the City's RSO, information on rent levels for individual units has never been collected. Instead, the LAHD investigates illegal rent increases on a complaint-driven basis. While other major rent-control jurisdictions in California already register and track rent levels, these cities also impose significantly higher fees and maintain higher staff/ per rental unit ratios.

**Staffing Comparison - Rent Stabilized Jurisdictions**

| City           | Annual Budget | Registration Fee | Rent Stabilized Units | # Rent Staff (Unit Ratio) |
|----------------|---------------|------------------|-----------------------|---------------------------|
| Berkeley       | \$3,500,000   | \$170/unit       | 19,000                | 19<br>(1,000)             |
| Santa Monica   | \$300,000     | \$156/unit       | 28,000                | 29<br>(966)               |
| West Hollywood | \$1,146,144   | \$120/unit       | 15,000                | 18<br>(833)               |
| Los Angeles    | \$12,567,000  | \$18.71/unit     | 638,000               | 90<br>(7089)              |

This task would require the development and maintenance of a comprehensive system, as well as the cooperation of landlords and tenants to obtain and update the rent levels for each of the more than 638,000 RSO rental units in the City. Additionally, the Department would need to create a new electronic system to update rent levels whenever a rent increase takes place or a unit is vacated. Implementation of this recommendation would also require close monitoring and tracking of all units with either permanent or temporary exemptions from the RSO. We estimate that such a system would require dedication of substantial staff resources, both temporary and permanent, and 6 to 12 months to develop, test and implement.

The estimated one-time costs associated with the implementation of this recommendation include:

|   |            |
|---|------------|
| Systems Development                     | \$ 221,867 |
| Rent Tracking – Initial Data Collection | \$ 457,000 |
| Initial Mailing to Landlords            | \$ 38,855  |
|   | \$ 717,722 |

The LAHD estimates that the ongoing costs of managing a rent-tracking system would require approximately 22 new positions, at an annual cost of \$1,911,842 (See Attachment 2). As illustrated in the following chart, the proposed funding and staffing levels would be well within the norm for other rent stabilized jurisdictions that track rent levels.

**Proposed Staffing Comparison with Rent Tracking**

| City                        | Annual Budget       | Registration Fee    | Rent Stabilized Units | # Rent Staff (Unit Ratio) | # Staff for rent tracking/rental unit registration (Unit Ratio) |
|-----------------------------|---------------------|---------------------|-----------------------|---------------------------|---|
| Berkeley                    | \$3,500,000         | \$170/unit          | 19,000                | 19<br>(1,000)             | 5<br>(3,800)  |
| Santa Monica                | \$300,000           | \$156/unit          | 28,000                | 29<br>(966)               | 2<br>(14,000)   |
| West Hollywood              | \$1,146,144         | \$120/unit          | 15,000                | 18<br>(833)               | 4<br>(3,750)  |
| Los Angeles                 | \$12,567,000        | \$18.71/unit        | 638,000               | 90<br>(7089)              | 15<br>(42,533)  |
| <b>L.A. w/rent tracking</b> | <b>\$14,479,875</b> | <b>\$24.13/unit</b> | <b>638,000</b>        | <b>112<br/>(5,696)</b>    | <b>37<br/>(17,243)</b>  |

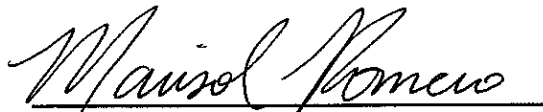
**CONCLUSION**

The LAHD recommends that the City Council and Mayor approve recommendations a-g listed on pages 1-2.

**FISCAL IMPACT**

There is no fiscal impact on the General Fund.

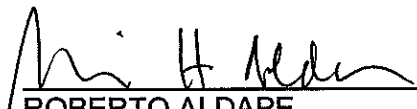
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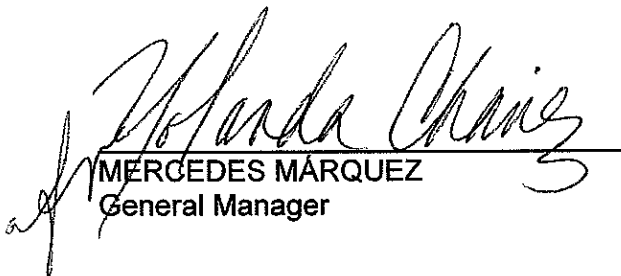
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Executive Officer

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MERCEDES MÁRQUEZ  
General Manager

**Attachments:**

Attachment 1 Study of the Rent Stabilization Ordinance & the Los Angeles Housing Market  
Prepared by the Economic Roundtable

Attachment 2 Rent Tracking Cost Analysis