

Apartment Rent Ordinance

Educational Branch Park Library

August 24, 2017



Agenda

- 1. Introductions**
- 2. Review Handouts**
- 3. Review of the policies for the Apartment Rent Ordinance**
 - Annual allowable increase
 - Banking
 - Capital Improvement Pass Throughs
 - Shared Fees
 - Rent Increase for Additional Occupants
 - Rent Registry
- 4. Policy Issue: Duplexes**
- 5. Questions & Answers**

Apartment Rent Ordinance



What is the Apartment Rent Ordinance (ARO)?

- Applies to apartments rented or built before September 7, 1979
- Creates rights and obligations for landlords and tenants including:
 - limits on annual rent increases
 - noticing requirements
 - restrictions on how much and what types of costs may be passed through tenants.

History of Updates to the ARO

- **September 7, 1979** – Apartment Rent Ordinance Established
- **1985** – Mobilehome Rent Ordinance
 - 75% CPI (3% floor – 7% ceiling)
- **2003** – Noticing requirements extended for no-cause notices
- **May 10, 2016** – 5% no debt service & capital improvements
- **August 30, 2016** – Interim Ordinance Regulations
 - Fair return process

Option A or B Overview

	OPTION A	OPTION B
Annual Allowable Increase	✓ 100% Consumer Price Index (CPI) <i>(floor 2% - ceiling 5%)</i>	✓ 5% fixed allowable rent increase every 12 months with no banking
Banking	✓ Maximum Allowable Rent (MAR)	☒ No Banking
Capital Improvement Pass-through	✓ Sustainability, safety, & seismic upgrades <i>(100% for amortization period)</i>	✓ Sustainability, safety, & seismic upgrades <i>(100% for amortization period)</i>
	✓ Major System Upgrades that improve Housing Services <i>(100% for amortization period)</i>	✓ Major System Upgrades that improve Housing Services <i>(100% for amortization period)</i>
	✓ Major Maintenance Replacements <i>(50% for amortization period)</i> <i>Sunsets after 5 years</i>	☒ No Major Maintenance Replacements
Shared Fees	✓ 50% of shared annual fees	☒ No shared annual fees
Rent Increase for Additional Occupants	✓ 5% Rent Increase <i>For occupants other than a tenant's spouse or children</i>	☒ No Rent Increase
Rent Registry	✓ Required	✓ Required

Policy Consideration Option A

Annual Allowable Increase

Consumer Price Index (CPI)

- **Economic Roundtable Study**
 - Combination of CPI annual increase and vacancy decontrol results in a fair return for landlords
 - Other CA jurisdictions used a study to determine increased costs for managing rental properties and determined CPI was a better alternative
- **City Auditor's Report**
 - 5% annual increases exceeds market rents

Policy Consideration Option B

Annual Allowable Increase

5% Flat Rate

Feedback Received:

- Simple to implement
- CPI does not cover increases in owner costs
- CPI with the Tenant Protection Ordinance may result in less tenant turnover

Policy Consideration Option A

Banking

Maximum Allowable Rent (MAR) with CPI

Example: Original lease amount is \$1,500

Year	CPI	Additional Increase	Maximum Allowable Rent	Actual Rent Charged
1	2 %	\$ 30	\$ 1,530	\$ 1,530
2	3 %	\$ 46	\$ 1,576	\$ 1,530
3	2 %	\$ 32	\$ 1,608	\$ 1,500
4	3.5 %	\$ 56	\$ 1,664	\$ 1,650
5	1 %	\$ 17	\$ 1,697	\$ 1,697

*Floor is 2% = \$ 33

Policy Consideration Option A

Banking

Banking

Example: Original lease amount is \$1,500

Year	CPI	% Used	Bank Balance	Additional Increase	Rent Charged
1	2 %	0 %	2 %	\$ 0	\$ 1,500
2	3 %	0 %	5 %	\$ 0	\$ 1,500
3	2 %	2 %	5 %	\$ 30	\$ 1,530
4	3.5 %	8 %	0.5 % *Ceiling is 8 %	\$ 122	\$ 1,652
5	1 %	2 %	2.5 %	\$ 41	\$ 1,693

*Floor is 2%

Policy Consideration Review

Annual Allowable Increase & Banking



	OPTION A	OPTION B
Annual Allowable Increase	✓ 100% Consumer Price Index (floor 2% - ceiling 5%)	✓ 5% fixed allowable rent increase every 12 months with no banking
Banking	✓ Maximum Allowable Rent	<input checked="" type="checkbox"/> No Banking

Policy Consideration

Capital Improvements Pass-through

- Create a capital improvement program allowing the pass-through of costs to tenants
- Three types of improvements:
 - a. Sustainability, Safety, & Seismic upgrades**
(100% for amortization period)
 - b. Major System Upgrades that Improve Housing Services**
(100% for amortization period)
 - c. Major Maintenance Replacements**
(50% for amortization period)
Sunsets after 5 years

Policy Consideration

Capital Improvement Pass-through

Example: HVAC system upgrade

# Apts	Total Cost	Amortization Period	Cost / Month	Cost / Apt / Month	3% Cap for \$1,500 Rent
4	\$ 20,000	10 years	\$ 166	\$ 42	\$ 45
20	\$ 30,000	10 years	\$ 250	\$ 13	\$ 45
100	\$ 135,000	10 years	\$ 1,125	\$ 11	\$ 45

Amount to pass through – depends on max allowed (3%)

Policy Consideration Review

Capital Improvement Pass-through



	OPTION A	OPTION B
Capital Improvement Pass-through	<ul style="list-style-type: none"> ✓ Sustainability, safety, & seismic upgrades (100% for amortization period) ✓ Major System Upgrades that improve Housing Services (100% for amortization period) ✓ Major Maintenance Replacements (50% for amortization period) <i>Sunsets after 5 years</i> 	<ul style="list-style-type: none"> ✓ Sustainability, safety, & seismic upgrades (100% for amortization period) ✓ Major System Upgrades that improve Housing Services (100% for amortization period) ☒ No Major Maintenance Replacements

Policy Consideration Option A

Shared Fees

50% of annual fees would be allowed

Fees	Landlord's Share	Tenant's Share
\$ 100	\$ 50	\$ 50

Policy Consideration Option A

Additional Occupants

Joint Petition agreed by both tenant and landlord: 5% Rent Increase for occupants **other** than a tenant's spouse or children

Additional Occupant(s)	Current Rent	Additional % Increase	Additional \$ Increase	New Rent*
1	\$ 1,500	5 %	\$ 75	\$ 1,575
2	\$ 1,500	10 %	\$ 150	\$ 1,650

**This additional rent increase is added to the Annual Allowable Increase.*

Policy Consideration

Rent Registry

- Submit registration for each Rent Stabilized Unit
- Registration will include the following:
 1. Address of unit
 2. Landlord's name and address
 3. Occupancy status of unit
 4. Date occupied
 5. Rent charged
 6. Rent charged in the Base Year (2014)
 7. Signature of Landlord

Policy Consideration

Shared Fees, Rent Increase for Additional Occupants & Rent Registry



	OPTION A	OPTION B
Shared Fees	✓ 50% of shared annual fees	<input checked="" type="checkbox"/> No shared annual fees
Rent Increase for Additional Occupants	✓ 5% Rent Increase For occupants other than a tenant's spouse or children	<input checked="" type="checkbox"/> No Rent Increase
Rent Registry	✓ Required	✓ Required

Policy Consideration

Duplexes



There are approximately 11,000 duplex units in the City of San José

Feedback Received:

- Duplexes are an entrance into the housing market for smaller landlords
- Outreach has not included duplex owners

**Any other ARO
Policy Considerations?**



Critical Dates

Meeting	Topic	Time	Location
August 24, 2017	Community Meeting	6:30-8:30 PM	Educational Park Library
August 31, 2017	Community Meeting	2:00-4:00 PM	San José City Hall Wing Rooms
September 14, 2017	Housing & Community Development Commission	5:45 PM	San José City Hall Wing Rooms
September 15, 2017	End of 30-day review period for draft ARO	5:00 PM	
September 15 – October 2017	<i>Staff will consider revisions & prepare final draft for Council action</i>		
October 2017	City Council Meeting	TBD	San José City Hall

For Future Updates

Sign up for our email updates by sending email to RRRP@sanjoseca.gov

For more information and updates, visit www.sanjoseca.gov/housing

Submit questions or comments to staff: ARO@sanjoseca.gov