

Apartment Rent Ordinance

San José City Hall – Wing Rooms

August 31, 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:

Public Facing

- Address of unit
- Occupancy status of unit
- Rent charged
- Rent charged in the Base Year (2014)

Internal

- Landlord's name and address
- Date occupied
- Tenant's name & contact information

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