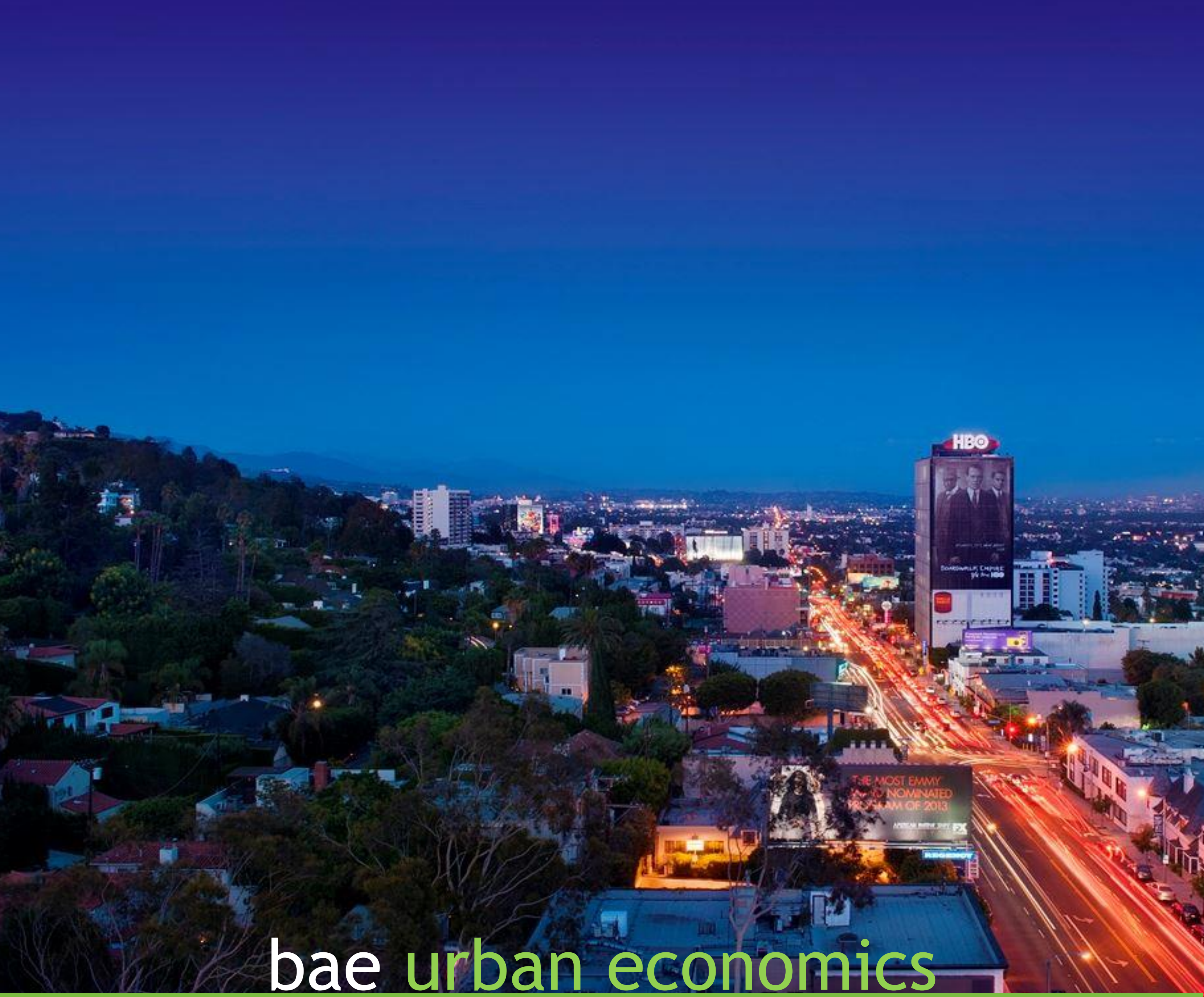

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DRAFT

West Hollywood Apartment Rehabilitation Study: Background Trends & Case Study Research

June 2016

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June 20, 2016

Mr. Peter Noonan
Rent Stabilization and Housing Manager
City of West Hollywood
8300 Santa Monica Boulevard
West Hollywood, CA 90069

Dear Peter,

We are pleased to submit this draft of the first part of the West Hollywood Apartment Rehab Study.

It has been a pleasure working with you. Please let us know if you have questions or comments.

Sincerely,

Janet Smith-Heimer, MBA
President

Jessica Hitchcock, MCP
Senior Associate

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Introduction

The City of West Hollywood is seeking innovative ways to encourage owners of rent-stabilized buildings to re-invest in necessary capital improvements and rehabilitation to maintain and upgrade essential building systems, while limiting increases in rental costs.

West Hollywood has long sought to balance the need for affordably priced housing with a landlord's right to a just return. Most rental housing in West Hollywood is aging, with buildings needing varying degrees of rehabilitation and other capital improvements. The City currently has a capital improvement pass-through and net operating increase (NOI) program providing property owners with a means of sharing a percentage of re-investment costs with tenants. These programs however are not used, and rent stabilization has been presumed to be a factor limiting landlords' willingness to make major improvements, even though anecdotal data suggests owners have been making cosmetic improvements as units vacate.

To meet the challenge of encouraging private owners to re-invest in the city's rent stabilized rental housing stock by maintaining and upgrading aging building systems, West Hollywood has undertaken this Apartment Rehabilitation Study. The Study's purpose is to develop programs incentivizing rehabilitation of multi-unit residential rental property subject to the City's Rent Stabilization Ordinance, that is, buildings built before July 1, 1979. Program ideally would balance tenants' needs for affordable housing and limited rent increases with landlord's right to a fair return on investments. "Rehabilitation work" in the context of this study refers to repairing or replacing major building systems such as plumbing, electrical, roof, structural, drainage, and elevators. The scope of the project does not include seismic upgrades.

This study addresses the following:

- Assessment of existing rehabilitation programs and cost pass-through programs in other jurisdictions based on considerations including but not limited to: potential costs for rehabilitation projects as defined above, financial and habitability impacts to tenants, potential means of limiting impacts on tenants, successful incentive programs, and various program structures for established cost pass-through programs.

- Analysis of potential incentive programs that could be offered by the City of West Hollywood with analysis based on industry acceptable factors, local case studies, and if available, studies conducted in other jurisdictions.

- Recommendations for establishing rehabilitation programs in the City of West Hollywood and recommendations for consideration of a potential cost pass-through program allowing property owners to possibly share some of the costs with tenants.

- Recommendations for exploring a possible cost pass-through program as a means of sharing rehabilitation costs with tenants evaluated on:
    - Financial impacts to in-place rent stabilized tenants, especially to lower-income tenants, seniors and disabled persons,
    - Financial needs for completing building rehabilitation projects, and

- Percentage pass-through amounts, amortization schedules, and other program aspects to consider when exploring a possible program.

This report is phase one of the Apartment Rehab Study and summarizes existing conditions and methods used by West Hollywood and other California cities with longstanding rent stabilization programs. This report provides a basis for phase two, which will evaluate potential new policies and programs aimed at encouraging private re-investment in aging rent stabilized apartment buildings.

This report is organized into the following sections:

- **Existing Conditions Analysis:** This section summarizes demographic and housing trends in West Hollywood, based on a review of existing reports and data from the U.S. Census Bureau. The City's rent stabilization database was also analyzed to understand the composition of rent stabilized housing, including average rents and turnover rate.

- **Case Study Research:** Four cities with rent stabilization and existing capital pass-through programs were selected to research in more depth for this report, San Francisco, Berkeley, Los Angeles, and Santa Monica. Capital improvement programs for three of these cities are described in detail, including the types of improvements permitted for pass-through, cost recovery formulas, and hardship exemptions.

Study Methodology

Existing Conditions Analysis

Demographic data for this analysis are taken from the California Department of Finance, the US Census Bureau, and the American Community Survey (ACS) 5-Year Estimates for 2009 to 2013. Additional housing reports and rent stabilized data was provided by the City of West Hollywood. BAE analyzed initial rents and turnover rates going back to January 1, 1999, the first full year when the City, pursuant to the Costa-Hawkins Rental Housing Act, permitted landlords to raise rents to market levels following a vacancy of a rent stabilized unit.

Case Study Research

For the case study analysis, four cities were chosen for analysis, San Francisco, Berkeley, Los Angeles, and Santa Monica. These cities were selected because all have rent stabilization[1] and capital pass-through programs. After an initial literature review, Santa Monica was excluded from this report because its pass-through program is substantially similar to West Hollywood's, and Santa Monica has had very few cases. A representative from the City of Santa Monica who was interviewed acknowledged that the City will likely need to revise its policy in the near future. Because there were few lessons to draw from this example, Santa Monica's program was not evaluated.

For the remaining three case study cities, a literature review was completed to describe the existing capital improvement pass-through program. Stakeholder interviews were conducted with the city agency in charge of administering the program. The following research topics were addressed in the literature review and stakeholder interviews:

<u>Policy, Background, History and Revisions</u>

- Describe the process for establishing the capital improvement pass-through program, and revising to the program.

<u>Policy Structure and Specific Requirements</u>

- Review the municipal code and describe the capital pass- through formula, improvements that qualify for pass- through, term and permanence of rent increases, rent caps, and hardship exemptions.

<u>Application Progress and Policy Administration</u>

- Discuss how claims are adjudicated and the standards used to determine variances to the formula.

<u>Policy Outcomes, Effectiveness, and Gaps</u>

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[1] The Cities of Berkeley and Santa Monica use the term rent control in place of rent stabilization.

- Review outcomes, including number of annual requests, average costs, and any suggested improvements necessary to achieve each city's policy goals.

Summary of Findings

The following summarizes findings from the analysis of West Hollywood's demographic trends and housing stock, along with the policy research on capital improvement programs as implemented by the cities of San Francisco, Berkeley, and Los Angeles.

Demographics: West Hollywood is physically built-out, and maintains a stable population characterized by small households. The overwhelming majority of households are renters who earn low-incomes. Approximately half of all renter households face a housing cost burden (pay more than 30 percent of income for rent and utilities), echoing the outcome for California cities with rent stabilization after passage of the Costa-Hawkins Act, which eliminated vacancy control.

Rent stabilized inventory: In 2013, there were approximately 24,000 housing units in the City, of which 16,895 units, or approximately 70 percent, were covered under the RSO. The median year built for renter-occupied structures is 1959, which suggests some rental buildings need major system upgrades, such as new roofs, plumbing, and electrical systems. Within the rent-stabilized housing stock, the majority of units are either studios or one-bedrooms.

There is consistent and regular turnover in West Hollywood's rent stabilized housing stock. According to the American Community Survey (ACS), 74.1 percent of renter households moved into their units after 2000. Data from the city's rent registration database shows that between 1999 and 2014, the annual turnover rate averaged 2,300 units per year, equivalent to 13.6 percent of the rent stabilized housing stock. The turnover appears to follow market cycles, with lower turnover when the economy is strong, and higher turnover during weaker economic periods.

Landlords have been taking advantage of Costa Hawkins and have increased rents up to market levels following vacancies. Between 1999 and 2015, rents charged when a new tenancy occurred increased by 91.7 percent from $944 in 1999 to $1,810 in 2014, which is equivalent to a growth rate in rents of 4.4 percent compounded annually. This turnover has allowed owners to improve their revenue and increase net operating income beyond levels allowed when vacancies were controlled. Revenue increases are rising faster than operating expenses, which means owners have increasing Net Operating Income (NOI) and likely have extra cash flow to pay for some capital improvements.

There are two types of capital improvement pass-through formulas: cost recovery and NOI approach. The cost recovery method takes the actual improvement cost and permits the landlord to recapture a portion of the costs over a specified period. This method presumes that the landlord needs the rent increase in order to make the investment. This approach is used by San Francisco and Los Angeles. The NOI approach permits the amortized cost of capital improvements to be counted as an expense, and compares the NOI in the current year to a specified base year. NOI is permitted to increase by a level tethered to CPI. If a landlord is shown to be earning a reasonable return, a capital improvement pass-through is not granted. Unlike the cost recovery method, the NOI option means-tests whether a pass-through is necessary. This method is used in West Hollywood and Santa Monica. The City of Berkeley uses a blend of the two approaches.

West Hollywood's capital improvement pass-through formula is outdated due to Costa-Hawkins and vacancy de-control. To recover the cost of improvements in West Hollywood, the current formula permits NOI to increase by 60 percent of CPI between the base year and current year. In a unit where a vacancy has occurred and then the unit re-rented at market rates, the increase may result in a current year NOI that exceeds the allowed 60 percent of the CPI difference. There are few instances where the current formula makes a rent increase to recover capital improvement costs workable. The cases where it may be workable are typically observed in smaller buildings, such as duplexes and triplexes, with low turnover (leading to low NOI's) and substantial improvement costs. NOI testing is also cumbersome and labor-intensive for both City staff and the applicant, and the lack of predictable outcomes may deter applicants from applying. The current formula does not provide most West Hollywood rental property owners with an incentive to invest in major capital systems, although anecdotal evidence suggests landlords are willing to make cosmetic improvements when units vacate and owners are allowed to charge market rents.

The math matters in the cost pass-through formula. There are tradeoffs between the percentage of re-invested costs eligible for pass-through, and the amortization period. In addition, other considerations include what types of improvements qualify as capital improvements, caps on per year and overall rent increases, allowances for hardship exemptions and relocation assistance – especially for tenants in lower income categories.

Berkeley's formula combines the cost recovery formula with principles from the NOI approach. Before landlords ask for additional rent increases, Berkeley "means-tests" the cost recovery formula by comparing the permitted pass-through using the cost recovery method against the prior rent increases following vacancies. If the landlord has already been collecting rent sufficient to cover the amortized value of the capital improvements, then the City does not grant a rent increase. Essentially, Berkeley does not allow the landlord to pass-through costs if the landlord is already earning a fair return.

Each city tailors its capital improvement program to meet its policy goals. San Francisco aims to encourage landlords to invest in improvements and permits a pass-through according to a simple cost recovery formula. Berkeley's program aims to balance impact to tenants and allows a pass-through only to the extent needed to provide a fair and reasonable return. Both cities claim their programs are working well in meeting intended goals.

There were few capital improvement cases reported in the case studies, however the number increases when improvement costs are high: Data from Berkeley shows that the number of landlord petitions, which includes capital improvement pass-through requests, declined significantly after Costa-Hawkins was fully implemented. In the same time period average Berkeley rents increased at a faster rate. Cities that have recently passed seismic ordinances, however, are seeing a slight increase in the number of petitions because costs related to seismic improvements can be high and range from $60,000 to $90,000 or more for the entire building.

It is important to strike a policy balance between owners and tenants. In San Francisco before 2001, when the allowable recovery was 100 percent, tenants felt that they were unfairly paying for the full cost of improvements. In a city comprised mostly of renters, tenants effectively pushed back with Proposition H, which was more favorable to their interests.[2] This highlights the potential voter-led initiatives at the ballot if a policy is perceived to favor landlords, especially in a city with a high proportion of renter households like West Hollywood. If crafted carefully based on the percentage of costs eligible and length of amortization, and balanced with rent caps and other tenant protections a cost pass-through program can provide a means for landlords to re-invest in aging rental properties while ensuring tenants are not overly burdened with costs.

[2] Proposition H would have amended San Francisco's rent control ordinance to prohibit residential landlords from passing onto tenants the cost of major capital improvements, such as a new roof, exterior paint, energy conservation measures, or remediation of lead hazards.

Existing Conditions and Trends

This chapter provides a summary of renter household demographic trends in West Hollywood compared to the City of Los Angeles and Los Angeles County. This analysis was performed for comparative purposes and to identify key demographic differences between West Hollywood and its surrounding area. This chapter also profiles the city's current rental housing supply, focused on those units that are subject to rent stabilization.

Demographic Trends

Population and Household Trends

Between 2000 and 2015, both population and the number of households of West Hollywood remained relatively stable. According to the California Department of Finance, in 2015, there were 35,825 residents living in 23,012 households in West Hollywood, with the population increasing by less than one percent since 2000. These trends illustrate that the City is physically built-out and maintains a stable population.

In comparison, in the same time period, the City of Los Angeles (Los Angeles) and Los Angeles County (County) grew by 7.5 and 7.0 percent, respectively.

The average household size in West Hollywood has been and remains notably small; in 2015, the average household size was 1.54 persons per household, significantly lower than in the City of Los Angeles and the County (2.84 persons per household in City of Los Angeles, and 3.01 in the County).

Table 1: Population and Household Trends, 2000-2015

Population	2000	2010	2015	% Change 2000-2015
West Hollywood	35,700	34,399	35,825	0.4%
Los Angeles	3,679,600	3,792,621	3,957,022	7.5%
Los Angeles County	9,477,651	9,818,605	10,136,559	7.0%
Households				
West Hollywood	23,159	22,511	23,012	-0.6%
Los Angeles	1,274,220	1,316,244	1,347,104	5.7%
Los Angeles County	3,130,635	3,239,280	3,285,160	4.9%
Average Household Size				
West Hollywood	1.53	1.52	1.54	0.5%
Los Angeles	2.82	2.81	2.84	0.7%
Los Angeles County	2.97	2.98	3.01	1.2%

Sources: California Department of Finance; BAE, 2015.

Housing Tenure

Renter households comprise the overwhelming majority in West Hollywood's residential base. In 2013, an estimated 17,282 renter-occupied units accounted for 78.6 percent of all residential units in West Hollywood. This proportion is substantially higher than for the City of Los Angeles (62.4 percent) or the County (53.1 percent). Between 2000 and 2013, the proportion of renter households remained fairly consistent.

Table 2: Housing Tenure, 2000-2013

	West Hollywood		City of Los Angeles		Los Angeles County	
Tenure (#)	**2000**	**2013**	**2000**	**2013**	**2000**	**2013**
Renters	18,135	17,282	783,530	824,597	1,634,030	1,715,285
Owners	4,985	4,698	491,882	496,363	1,499,744	1,515,098
Total	**23,120**	**21,980**	**1,275,412 0**	**1,320,960**	**3,133,774 0**	**3,230,383**
Tenure (%)						
Owners	21.6%	21.4%	38.6%	37.6%	47.9%	46.9%
Renters	78.4%	78.6%	61.4%	62.4%	52.1%	53.1%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Notes:
The American Community Survey (ACS) publishes demographic estimates based on statistic sampling conducted continuously between 2009 and 2013.
Sources: US Census, 2000; ACS, 2009-2013; BAE, 2015.

Household Composition

West Hollywood's smaller average household size is the result of a high proportion of single-person renter households. In 2013, there were 10,834 single-person renter households (62.7 percent of all renter households). In contrast, single renters accounted for only 34.6 percent of all renter households in Los Angeles, and 31.2 percent in Los Angeles County. Smaller household size corresponds with a high proportion of studios and one-bedrooms in the rental housing inventory.

Table 3: Household Composition for Renter Households, 2000-2013

	West Hollywood		Los Angeles		Los Angeles County	
HH Composition	**2000**	**2013**	**2000**	**2013**	**2000**	**2013**
Non-Family Households	**14,035**	**14,090**	**339,524**	**382,762**	**643,200**	**704,065**
Single Person	11,076	10,834	257,256	285,397	492,223	535,139
2+ Persons	2,959	3,256	82,268	97,365	150,977	168,926
Family Households	**4,097**	**3,192**	**443,998**	**441,835**	**990,880**	**1,011,220**
Married Couple	3,059	1,938	258,896	233,646	584,262	550,290
Other Family	1,038	1,254	185,102	208,189	406,618	460,930
Total	**18,132**	**17,282**	**783,522**	**824,597**	**1,634,080**	**1,715,285**
Non-Family Households	**77.4%**	**81.5%**	**43.3%**	**46.4%**	**39.4%**	**41.0%**
Single Person	61.1%	62.7%	32.8%	34.6%	30.1%	31.2%
2+ Persons	16.3%	18.8%	10.5%	11.8%	9.2%	9.8%
Family Households	**22.6%**	**18.5%**	**56.7%**	**53.6%**	**60.6%**	**59.0%**
Married Couple	16.9%	11.2%	33.0%	28.3%	35.8%	32.1%
Other Family	5.7%	7.3%	23.6%	25.2%	24.9%	26.9%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Notes:
The American Community Survey (ACS) publishes demographic estimates based on statistical sampling conducted continuously between 2009 and 2013.
Sources: US Census, 2000, ACS, 2009-2013; BAE, 2015.

Household Income

Renter households have substantially lower median incomes than owner households, a pattern observed in most cities. In 2013, West Hollywood's median renter household income was $46,174, approximately half of the median income of $93,357 for owner households. Renter incomes also did not rise as rapidly as owner incomes between 2000 and 2013.

Table 4: Median Household Income, 2000-2013

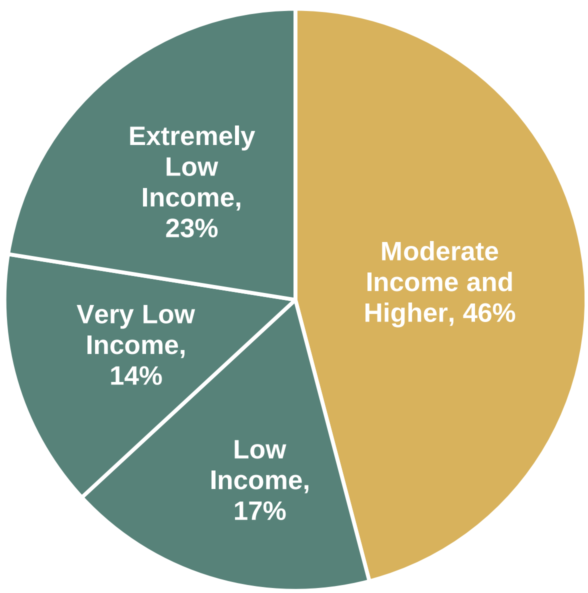
	Renter-Occupied Housing			Owner-Occupied Housing			Total Occupied Households		
	2000	**2013**	**% Change**	**2000**	**2013**	**% Change**	**2000**	**2013**	**% Change**
West Hollywood	$34,345	$46,174	34.4%	$64,554	$93,357	44.6%	$38,848	$52,649	35.5%
Los Angeles City	$26,775	$36,066	34.7%	$61,591	$82,834	34.5%	$36,541	$49,497	35.5%
Los Angeles County	$29,395	$39,016	32.7%	$62,180	$83,452	34.2%	$42,030	$55,909	33.0%

Notes:
The American Community Survey (ACS) publishes demographic estimates based on statistical sampling conducted continuously between 2009 and 2013.
Sources: ACS, 2009-2013; BAE, 2015.

As shown below, a sizable portion of West Hollywood's renter households have limited income[3]. Households earning "extremely low" (30 percent or less of AMI), "very low" (30 to 50 percent of AMI), and "low" incomes (50 to 80 percent of AMI) typically need housing costs to equal between 30 and 40 percent of income in order to afford to buy groceries, pay for medications and transportation, and to afford other daily living expenses.

Among West Hollywood's estimated 17,750 renter households, 9,585 households (54 percent) are lower income, earning income below 80 percent AMI (e.g., below moderate income levels). While the actual incomes per these definitions vary by household size, for reference purposes, the 80 percent AMI level for a single person household in 2012 was $54,450. In addition to defining housing needs, these income catagories may be important to crafting a capital improvement pass-through policy, because some aspects of other cities' policies tie exemptions and/or relocation cost eligibility to income.

Figure 1: Renter Households by Income Category, West Hollywood, 2012



Source: Comprehensive Housing Affordability Strategy, 2008-2012; BAE, 2015.

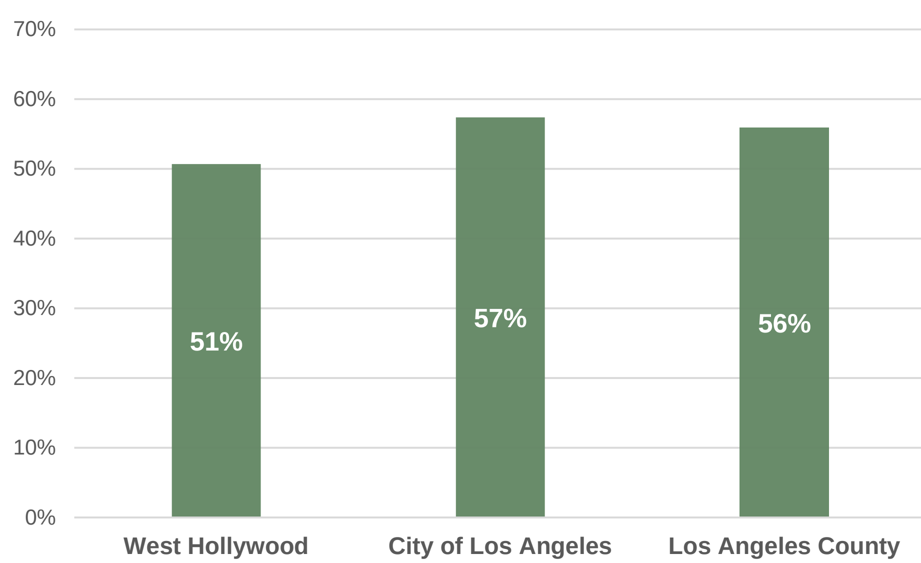
[3]. Based on HUD Area Median Family Income (HAMFI) from the Comprehensive Housing Affordability Strategy (CHAS), which provides cross-tabulations of ACS data. The most recent CHAS data currently available are based on ACS data collected between 2008 and 2012.

Housing Affordability

Housing affordability is generally defined by the relationship between household income and payment for housing (including rent and utilities if a renter household). If a household pays more than 30 percent of rent and utilities, the household is considered to face a housing "cost burden," and in need of lower-cost affordable housing.

In West Hollywood, 50.7 percent of all renters have a cost burden (See Appendix A). This cost burden rate is slightly lower than the County level (55.9 percent of renters have a cost burden). This high rate of cost burden among West Hollywood's renter households seems surprising, given the presence of rent stabilization. However, over time, as vacancy de-control has been implemented, allowing vacant units to be re-rented at higher market rates, this cost burden finding shows the relatively diminishing ability of rent stabilization to collectively ensure low cost rents. In addition, incomes for many middle and lower income households in California and the US have not kept pace with inflation, which contributes further to this situation.

Figure 2: Cost Burdened Renter Households (a), 2012



Notes:
(a) Cost burdened renter households pay more than 30 percent of income on rent and utilities.
Source: American Community Survey, 2008-2012; Comprehensive Housing Affordability Strategy, 2008-2012; BAE, 2015.

Age of Householder

While the largest proportion of renter households in West Hollywood are aged 35 to 64, the City also contains a relatively large concentration of senior renter householders (age 65+). Just over 16 percent of household members were age 65+ in 2013, compared to 12 percent in the City of Los Angeles and LA County.

Table 5: Renter Householder by Age, 2013

	West Hollywood		City of Los Angeles		Los Angeles County	
Age of Householder	**Number**	**Percent**	**Number**	**Percent**	**Number**	**Percent**
15 to 34 years	6,065	35.1%	273,687	33.2%	526,695	30.7%
35 to 64 years	8,392	48.6%	452,812	54.9%	976,075	56.9%
65 years and over	2,825	16.3%	98,098	11.9%	212,515	12.4%
Total	17,282	100.0%	824,597	100.0%	1,715,285	100.0%

Notes:
The American Community Survey (ACS) publishes demographic estimates based on statistical sampling conducted continuously between 2009 and 2013.
Sources: ACS, 2009-2013; BAE, 2015.

The West Hollywood 2013-2021 Housing Element Technical Appendix found that seniors were more likely to have lower incomes and a disability. The median income for householders over 65 was $22,285, considerably less than the median income among other age groups, likely reflecting the pattern of seniors living on a fixed income after retirement. In addition, of the 752 households participating in the City's Housing Choice Voucher Program (e.g., Section 8 rental assistance) as of March 2016, the majority were seniors. Moreover, approximately 51 percent of the City's senior residents faced some type of disability, with the most common being physical and mobility related disabilities. Given the higher incidence of seniors choosing to age in place in addition to the City's older residential infrastructure, the data suggest a need for greater accessibility improvements within the City's housing stock.

Table 6: Median Income by Age of Householder, 2013

Age of Householder	West Hollywood	City of Los Angeles	Los Angeles County
15 to 34 years	$37,880	$26,641	$29,198
25 to 44 years	$64,052	$52,606	$58,076
45 to 64 years	$55,779	$55,796	$65,821
65 years and over	$22,285	$36,079	$39,686

Notes:
The American Community Survey (ACS) publishes demographic estimates based on statistical sampling conducted continuously between 2009 and 2013.
Sources: ACS, 2009-2013; BAE, 2015.

Housing Supply

This section summarizes conditions and trends for West Hollywood's rent stabilized housing stock based on published reports and a database provided by the City's Rent Stabilization and Housing Division. Metrics and trends in the rent stabilized inventory are presented for the period of January 1, 1999[4] to December 31, 2014. This information illustrates how vacancy decontrol has allowed rents and net operating income to increase at a higher rate compared to rent stabilized rents.

Multi-family Units

According to American Community Survey (ACS) data, there were 24,039 housing units in West Hollywood in 2013, of which 90 percent were multifamily units. Between 2000 and 2010, the number of multi-family units increased by 103 units, although a decline was observed among the City's single-family homes. According to ACS data, the City lost 207 single family homes, or 8.3 percent of the single family inventory present in 2000. According to City staff, this is likely due to a trend among homeowners who are purchasing attached units and converting them into larger single family homes. The net impact due to this loss resulted in a slight decrease in the City's housing inventory from a total of 24,110 units in 2000 to 24,039 units in 2013 (see Appendix B-1).

A slight decrease in the number of units in certain multi-family structures was also observed, with a loss of 632 housing units in buildings with five to 19 units, and a decrease of 227 units in large buildings with more than 50 units. City staff expressed concern that some of these lost units may be due to property owners who invoke the Ellis Act and temporarily "go out of business" to demolish the building and build new units, which are then no longer rent stabilized because the ordinance does not apply to new construction.

Housing Stock for Renter Households

The majority of renter households live in multi-family housing (94.3 percent). Renter households in West Hollywood are more likely to reside in medium (5-19 units) or large buildings (20+ units) compared to small buildings (2-4 units). In 2013, only 8.4 percent of renters lived in small buildings. Almost half (47.0 percent) resided in buildings with 5-19 units, and 39 percent lived in buildings with more than 20 units.

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[4] 1999 was the first full year of vacancy decontrol which allowed landlords to set initial rents to what the market would bear. Prior to 1999 West Hollywood controlled initial rental rates.

Table 7: Housing Stock for Renter Households, 2013

	West Hollywood		City of Los Angeles		Los Angeles County	
Type of Residence	Number	Percent	Number	Percent	Number	Percent
Single Family Units	**951**	**5.5%**	**175,623**	**21.3%**	**501,267**	**29.2%**
Detached	756	4.4%	129,455	15.7%	390,534	22.8%
Attached	195	1.1%	46,168	5.6%	110,733	6.5%
Multifamily Units	**16,298**	**94.3%**	**645,704**	**78.3%**	**1,199,681**	**69.9%**
2-4 Units	1,444	8.4%	98,722	12.0%	224,580	13.1%
5-9 Units	2,873	16.6%	107,998	13.1%	231,314	13.5%
10-19 Units	5,257	30.4%	122,477	14.9%	227,234	13.2%
20-49 Units	4,986	28.9%	162,025	19.6%	259,542	15.1%
50+	1,738	10.1%	154,482	18.7%	257,011	15.0%
Mobile Home (a)	**33**	**0.2%**	**3,270**	**0.4%**	**14,337**	**0.8%**
Total	**17,282**	**100.0%**	**824,597**	**100.0%**	**1,715,285**	**100.0%**

Notes:
The American Community Survey (ACS) publishes demographic estimates based on statistical sampling conducted continuously between 2009 and 2013.
(a) Includes standard mobile homes and boats, RVs, vans, and other vehicles that serve as a primary residence.
Sources: ACS, 2009-2013; BAE, 2015.

Year Structure Built

West Hollywood has a relatively old housing stock, compared to the City of Los Angeles and the County. More than 54 percent of West Hollywood's overall housing stock was built before 1959, compared to 44 percent for the City of Los Angeles, and 42 percent for the County. Among the city's renter-occupied housing units, the median year built was 1959, compared to a later 1970 for owner-occupied units. The age of West Hollywood's rental housing stock suggests that much of it is reaching or exceeding the 50-year mark, and some buildings may be in need of capital improvements.

Table 8: All Housing Units by Year Built, 2013

Year Built	**West Hollywood**	**City of Los Angeles**	**Los Angeles County**
1949 or earlier	26.3%	29.0%	25.4%
1950 to 1959	27.8%	14.7%	16.8%
1960 to 1969	22.9%	15.2%	16.4%
1970 to 1979	12.5%	16.0%	16.5%
1980 to 1989	5.2%	11.3%	12.3%
1990 to 1999	2.1%	6.7%	6.5%
2000 or later	3.1%	7.1%	6.1%
Total	**100.0%**	**100.0%**	**100.0%**
Median Year Built	1960	1960	1962
Owner Occupied	1970	1956	1959
Renter Occupied	**1959**	**1964**	**1965**

Note:
The American Community Survey (ACS) publishes demographic estimates based on statistical sampling conducted continuously between 2009 and 2013.
Sources: ACS, 2009-2013; BAE, 2015.

Rent Stabilized Housing

According to the *2014 Rent Stabilization and Housing Annual Report*, 16,895 units (70.2 percent of total housing in West Hollywood) fell under the Rent Stabilization program. Most of the units that are subject to the RSO are smaller units; studios and one-bedrooms comprise 68.1 percent of the RSO inventory. Units with two or more bedrooms accounted for 31.9 percent of the City's rent stabilized housing stock. This unit size mix is consistent with the smaller average household sizes in West Hollywood.

Housing Mobility

The table on the following page shows the year tenants moved into their current housing unit, and can be used as a measure of housing mobility. In West Hollywood, 74.1 percent of renter households moved into their units after 2000, compared to 80.6 percent in the City of Los Angeles and the 82.0 percent in the County. Moreover, West Hollywood households tend to maintain tenancies for longer periods of time (9.5 percent predate 1989) compared to the City and County of Los Angeles (5.3 percent and 5.1 percent, respectively).

Table 9: Mobility for Renter Households, 2013

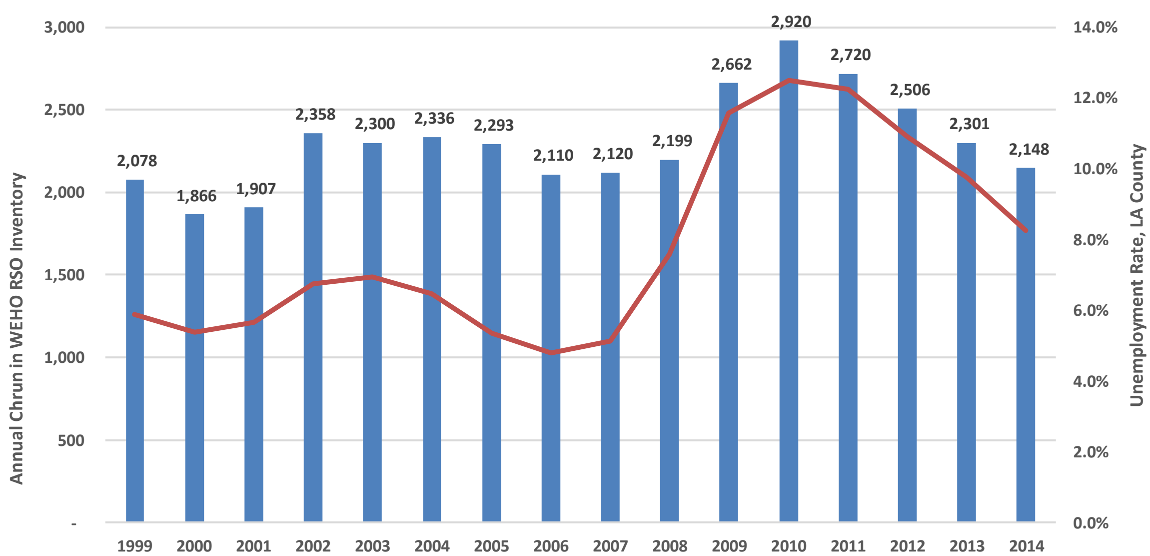
Year Moved	West Hollywood	City of Los Angeles	County of Los Angeles
1969 or earlier	140	4,668	9,201
1970 to 1979	617	12,481	23,735
1980 to 1989	882	26,278	53,888
1990 to 1999	2,830	116,157	221,113
2000 to 2009	7,640	421,941	902,890
2010 or later	5,173	243,072	504,458
Total	**17,282**	**824,597**	**1,715,285**
1969 or earlier	0.8%	0.6%	0.5%
1970 to 1979	3.6%	1.5%	1.4%
1980 to 1989	5.1%	3.2%	3.1%
1990 to 1999	16.4%	14.1%	12.9%
2000 to 2009	44.2%	51.2%	52.6%
2010 or later	29.9%	29.5%	29.4%
Total	**100.0%**	**100.0%**	**100.0%**
% Moved after 2000	**74.1%**	**80.6%**	**82.0%**
% Remained in Unit since 1989	**9.5%**	**5.3%**	**5.1%**

Notes:
The American Community Survey (ACS) publishes demographic estimates based on statistical sampling conducted continuously between 2009 and 2013.
Sources: American Community Survey, 2009-2013; BAE, 2015.

Turnover in RSO Inventory
According to the *2014 Rent Stabilization and Housing Annual Report,* in the 18 years since Costa-Hawkins has been in effect, a total of 10,792 rental units (64 percent) in West Hollywood have turned over at least once. However, the report was not able to take the total churn into account, because some of these RSO units may have been vacated and re-rented more than once. BAE analyzed the registration database by sorting for instances that qualified as vacancies to determine total churn. Between 1999 and 2014, there were a total of 36,824 vacancies in the RSO inventory.[5] Based on the units that have returned to market at least once, each unit, on average, has been re-rented approximately 3.41 times between 1999 and 2014.

The table below illustrates the annual turnover pattern for West Hollywood's RSO units. Between 1999 and 2014, turnover ranged from a low of 1,866 units in 2000 to a high of 2,920 units in 2010. The annual average for the 15-year period was 2,300 units per year. It is interesting to note that the pattern of churn follows the unemployment rate (a proxy for economic conditions). When the economy is strong and unemployment is low, fewer tenants need or want to move. When the economy is weak and unemployment high, this generally correlates to higher churn in the RSO inventory, perhaps because workers need to move to find employment elsewhere, or lower rents regionally may provide renters with more options during weaker points in the economic cycle.

Figure 3: Annual Turnover for West Hollywood's Rent Stabilized Units Compared to the Unemployment Rate, 1999-2014



Sources: West Hollywood Division of Rent Stabilization and Housing, 2015; EDD, 2015; BAE, 2015.

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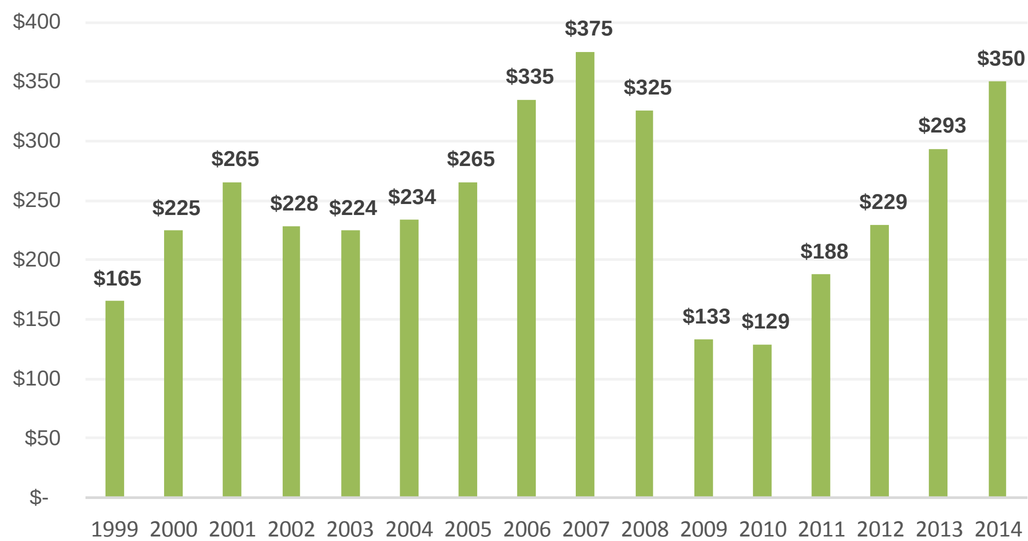
[5] Vacancies included recorded database entries coded as Rent Adjustment, New/Returned to Market, Initial Registration, Base Rent Adjustment, First Market Rate Rent Post Costa Hawkins, Not El Rent Adj, Section 8 Registration, and Return to Market/Section 8.

Average Rents for Continuously Controlled RSO Units Compared to New Market Rents
The Costa-Hawkins Rental Housing Act permits owners to set rents at market levels following a vacancy. Once the new rent is set, subsequent increases for that tenant are again stabilized, with annual increases limited to the permissible escalations set by the Rent Stabilization Commission.

The Rent Stabilization and Housing Division (Division) publishes the average move-in rents for units that were vacated after Costa Hawkins went into effect in 1995 and compares to this yearly average rents paid by long-term, pre-1996 tenants who are still in their units.[6] This demonstrates the average rents associated with the different "tiers" of housing for pre- and post-Costa Hawkins units.

Figure 4: Average Rent Increase Following a Vacancy, West Hollywood Rent Stabilized Housing, 1999-2014



Sources: West Hollywood Division of Rent Stabilization and Housing rent registration database, 2015; BAE, 2015.

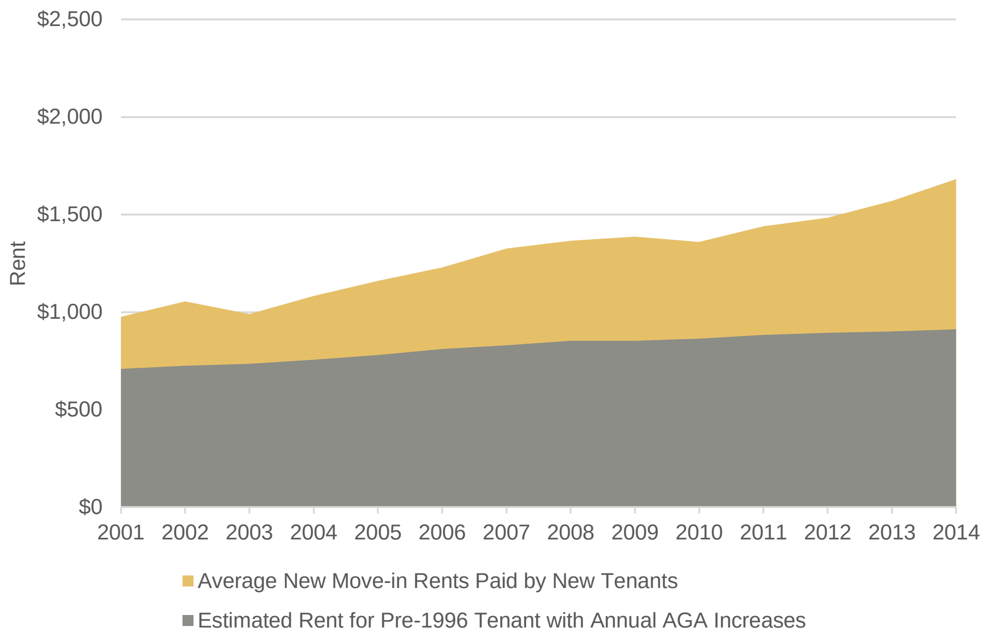
The graph on the next page shows the difference between rents that have been continuously controlled since 1996 to the average rent for units that have been re-rented, based on data from the *2014 Rent Stabilization and Housing Annual Report.* One-bedroom units were selected to highlight because smaller units comprise the majority of the RSO inventory. The rents for continuously controlled units reflect the average rent for a one-bedroom in 1996, inflated annually by the Annual General Adjustment permitted by the RSO.

As shown in the following graph, the spread between the rents for continuously controlled units and newly vacated rentals is considerable. For one-bedroom units, the average rent for a

[6] The average rents for pre-1996 tenants is taken by using the maximum allowable rent (MAR) from December 1995 and applying the annual general adjustments through 2014.

tenancy beginning before 1999 was $912 in 2014. In comparison, initial rents for new one-bedroom tenancies beginning in 2014 averaged $1,682, an 84.4 percent increase or $770 rent differential. The differential in studios and two-bedrooms is equally stark, with the spread between 2014 new market rents and controlled rents ranging from $568 per unit for a studio, and $1,029 for a two-bedroom. Calculated on an annualized basis, an owner who was able to reset rents in 2014 following a vacancy of a 1999-tenant would earn approximately $6,800 more annually for a studio, $9,200 for a one-bedroom, and $12,300 for a two-bedroom.

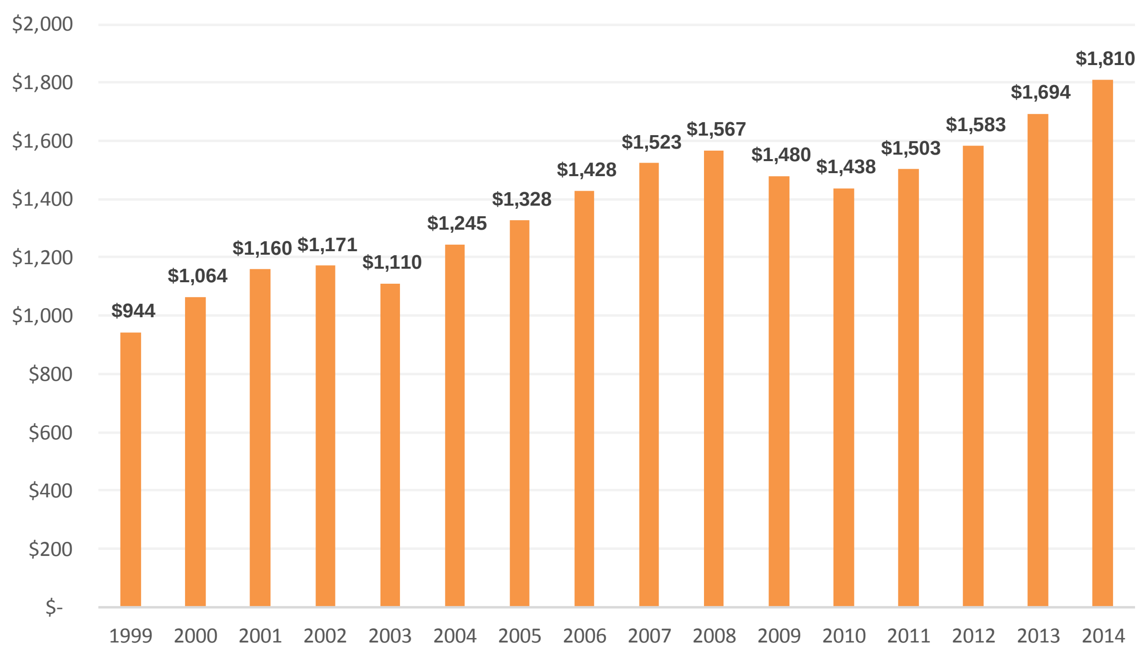
Figure 5: Rent Comparison between New Rents Charged Upon Vacancy to Estimated Rents for Continuously Controlled Units, One-Bedroom Units in RSO Inventory, 2001-2014



Note: The rent for the continuously controlled one-bedroom unit assumes the average rent in 1996 adjusted annually by the AGA.
Source: Rent Stabilization and Housing Annual Report, 2014.

The figure below shows the average new rent charged after a vacancy, based on the rent registration database. Between 1999 and 2014, the average rent increased from $944 to $1,810, which represents a 91.7 percent increase over a 16-year period. This is equivalent to an annual average increase of 4.4 percent per year. This is higher than the Annual General Adjustment (AGA) allowed, which is limited to 75 percent of the May to May change in the Consumer Price Index for all urban consumers in Los Angeles, Orange, and Riverside Counties rounded to the nearest quartile. From 1999 to 2014 the AGA averaged 2.0 percent per year.

Figure 6: Average New Rent Following a Vacancy by Year, West Hollywood Rent Stabilized Housing, 1999-2014



Sources: West Hollywood Division of Rent Stabilization and Housing rent registration database, 2015; BAE, 2015.

Capital Improvements: West Hollywood and Other Case Study Cities

West Hollywood

Policy Background

The City enacted rent stabilization in 1985 as a response to what it saw as a critical shortage of rental housing in the city and surrounding areas. Due to the shortage the City felt it was very difficult to find adequate, safe and decent rental housing at reasonable rates, and without controls many tenants would be forced to move and relocate. Further, there was a shortage of rental units in the city and rents were increasing at an excessive rate. The rental housing shortage was compounded by high interest rates and high land costs that resulted in a very low construction rate of new rental units. In addition, a substantial number of renters in the city were age sixty-five or older and spent a high proportion of their income on rent. Further, when low and moderate income tenants were displaced as a result of rent increases they could not afford to pay, they had extreme difficulty finding affordable apartments within the city. As a result, the City felt that the ability of tenants to negotiate initial rents had become an illusory concept.

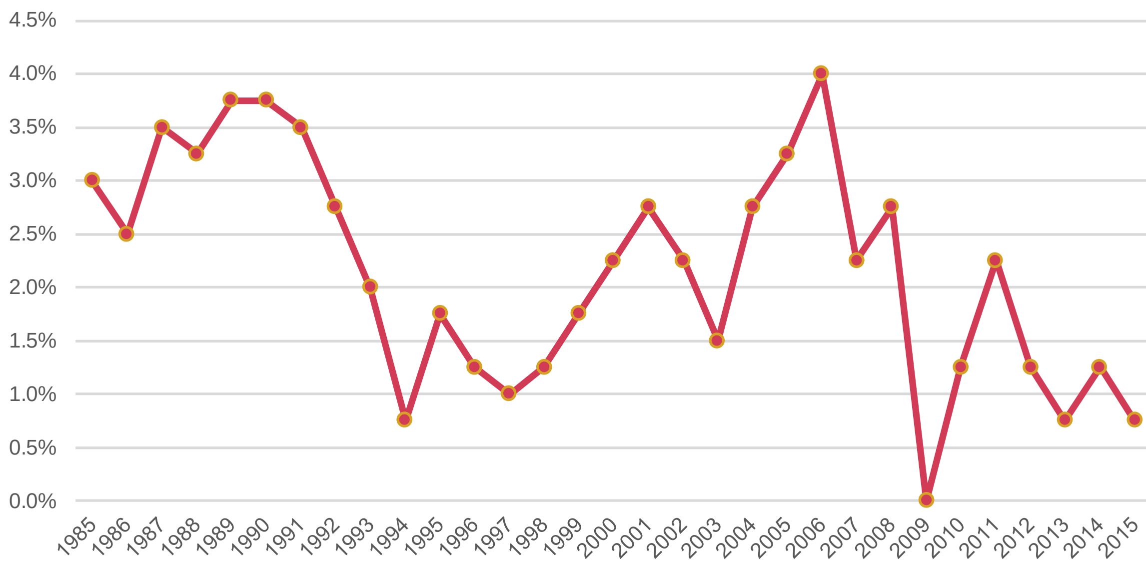
Further, prior to the formation of the city on November 29, 1984, rental rates were regulated by the County of Los Angeles. Total deregulation at that time would have led to immediate, widespread and excessive rent increases resulting in the forced eviction and dislocation of tenants, many of whom were living on low and moderate incomes. The city, therefore, adopted a temporary moratorium ordinance as an urgency measure on November 29, 1984 rolling back rents to those in effect on August 6, 1984 and limiting evictions to certain specified grounds. On June 27, 1985, the City Council adopted a comprehensive Rent Stabilization Ordinance (RSO) to protect tenants from unreasonable and excessive rents, to protect tenants from involuntary displacement, and to keep rents within the city at a moderate level and at the same time to ensure a just and reasonable return to landlords.

The RSO covers 70 percent of the City's housing stock, and includes multi-family properties built before 1979 and a separate category of properties with only one unit with pre-1996 tenants. Certain residential buildings qualify for exemptions, including new construction built after 1979, condominiums and single family homes with only one unit whose tenants moved in after 1996, institutional facilities, non-profit and government-owned housing, hotels, and motels.

Annual General Adjustment

Rents in stabilized units are allowed to increase annually by the Annual General Adjustment (AGA), which is adjusted on September 1 each year. The AGA is calculated as 75 percent of the May to May change in the Consumer Price Index for all urban consumers in Los Angeles, Orange, and Riverside Counties rounded to the nearest quartile. Landlords of rent-stabilized units, who are in compliance with the RSO registration and fee requirements, may increase rents by the AGA annually after giving proper notice to their tenants. The table below shows the annual allowable AGA from 1985 to 2015.

Figure 7: Annual General Adjustment (AGA), West Hollywood, 1985-2015



Source: City of West Hollywood; BAE, 2015.

Policy Structure and Specifics
West Hollywood uses a net operating income analysis (NOI) to determine whether an applicant is eligible for a capital improvement pass-through. With the exception of a few minor changes, the capital improvement pass-through policy has remained virtually unchanged since the RSO was adopted in 1985.[7] It should be noted that West Hollywood, along with Santa Monica, are the only rent stabilization programs that rely on a full NOI analysis to determine whether a unit is eligible for a capital improvement rent adjustment. Other California cities with rent stabilization programs, namely Berkeley, San Francisco, and San Jose, use a cost recovery formula tied directly to the actual cost of improvements.

Definition of Capital Improvement
According to the City's Rent Stabilization Regulations, a capital expenditure must be "necessary or reasonable to maintain or improve the property and result in real benefit to the tenants of the property as opposed to merely increasing the value of the property to the benefit of the landlord without commensurate benefit to the tenants." There is a minimum $100 cost threshold, so improvements below this value cannot be passed on to tenants.

The permitted types of capital improvements eligible for pass-through include appliances, improvements to apartment interiors such as painting, flooring/carpeting, window coverings, and major building systems, such as elevators, gates, plumbing, and roofing. The types of improvements eligible for pass-through are fairly broad, defined by outcome (e.g., real benefit to the tenants) rather than specific cost levels or degrees of repair/improvement.

Pass-Through Formula for Capital Improvements
West Hollywood's Rent Stabilization Ordinance ("Ordinance") provides that a landlord who incurs expenses for building improvements, major repairs, and maintenance is entitled to rent increases in order to provide a just and reasonable return.

To determine whether an applicant is eligible for a pass-through, the City compares the net operating income (NOI) in the base year to the current year. The base year is 1983, the year before rent stabilization became effective, unless the Commission decides to use a different year for income and expenses. The RSO establishes a presumption that the net operating income produced by the property in the base year provided the landlord with a fair return.[8]

The City calculates the NOI in the base year, and increases it by 60 percent of the change in CPI between the base year and current year. It then compares this "reasonable NOI" to the

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[7] In 1991, the Rent Board Commission enacted a provision which enabled landlords to increase rents that were "disproportionately low" in order to earn a "just and reasonable return" following a 1990 State Supreme Court decision in Vega v. City of West Hollywood. This change did not directly relate to the calculation for capital improvement pass-throughs, but were applicable to NOI adjustment cases, which shares a similar formula for calculating pass-through surcharges.
[8] Adjustments can be made to account for revenue or expenses that were disproportionately high or low in the base year.

actual NOI in the current year, which includes the amortized cost for capital improvements (see example below). If this NOI is below the "reasonable NOI", then the City permits a rent increase to recover some of the capital improvement cost.

Example Calculation
This example is taken from a sample case which has been simplified for this report.

A landlord was proposing to spend approximately $140,000 in improvements in a duplex, and applied for a capital improvement pass-through in 2002 claiming that the NOI after the capital improvement cost, would not permit him to earn a fair return. The improvements included a variety of short- and longer-term improvements, including new carpeting, new appliances, major systems upgrades (electrical and plumbing), a new roof, and new deck. Based on the owner's calculations, the NOI in 2000, the base year, was $8,900. Between the base year and the petition year in 2002, the CPI in Los Angeles increased from 167.3 to 181.9, which translates into a permissible NOI increase of 5.2 percent (equivalent to 60 percent multiplied by the CPI difference). Applying 5.2 percent to the base year NOI, the NOI permitted in 2002 by the Rent Stabilization Ordinance would have been approximately $9,375.

West Hollywood permits the amortized value of improvements to be included in the current year NOI. If a landlord spends $1,000 on appliances, which have a 10-year amortization period as defined by the RSO, then $100 would be permitted as an annual expense included in the NOI calculation. In this instance, the owner claimed that the amortized capital improvement expense was $15,000, which would reduce his NOI in the current year from $15,550 to $550. Under the owner's calculations, the permitted annual rent increase should have been $8,825 ($9,375-$550), which if divided between two units, would have amounted to a permanent $367 monthly increase per tenant.

Under the NOI method, applicants have an incentive to overestimate NOI in the base year and undervalue it in the current year to generate a larger differential in NOI, which would result in a higher permissible rent increase. Therefore, the NOI pass-through method necessitates a thorough review by the Rent Stabilization and Housing Division, which may arrive at different findings. In this case, the Division arrived at a higher base year NOI of $13,435, and a "reasonable NOI" of $14,133. The Division also calculated a different current year NOI of $8,600. The Rent Board's calculations entitled the owner to additional annual income of $5,533, not the $8,825 that the owner had requested (a 37 percent reduction below the requested income).

According to these calculations, the period it would take for the owner to recover his $140,000 investment would have been 25 years ($140,000 divided by $5,533). Given the types of improvements that were proposed, some of which included appliances with shorter life cycles, the 25-year period to fully recover the capital improvement cost is longer than what would have been permitted under other depreciation schedules, such as the Internal Revenue Code. The Internal Revenue Service (IRS) permits a shorter depreciation schedule for less intensive improvements. According to IRS Publication 527, carpeting and appliances can be depreciated over five years, while more extensive improvements, such as the roof and major systems, are depreciated over 27.5 years. West Hollywood's current NOI method for calculating pass-throughs does not align with the IRS method for depreciating capital improvements.

Impact of Costa Hawkins

According to City staff interviewed, the passage of the Costa-Hawkins Rental Housing Act of 1995 has significantly curbed landlords' ability to qualify for a capital improvement pass-through. In residential buildings where tenants have vacated and owners have increased rents up to market levels, the impact of these market rate increases results in current year Net Operating Incomes that exceed 60 percent of the CPI difference, meaning that capital improvements cannot be passed through under the current formula due to the relatively higher rents achieved by vacancy de-control and re-renting.

There are few instances where the current formula makes a rent increase feasible, and these are typically observed in smaller buildings, such as duplexes and triplexes, where there have been none or very few vacancies with limited rent increases, and the capital improvement costs were substantial. In larger buildings, where the chances that units have turned over is higher because there are more units, qualifying for a capital improvement is less likely, unless the improvements costs are extraordinary.

City staff corroborated that the number of NOI adjustment cases have declined significantly following Costa Hawkins. The City applies the same formula for NOI adjustment cases and does not separately track the number of capital improvement requests, so the following data conflates all NOI adjustment requests, although the findings are still relevant. Between 1984 and 1996, there were approximately 120 NOI adjustment cases. Between 1996 and 2015, there have only been 19, which is an average of one NOI adjustment case per year.

It should be noted that it is not clear whether the NOI formula is causing a decline in the number of capital improvement requests, or whether landlords are earning a sufficient income based on new vacancy rent increases to make improvements without requesting a pass-through from the City. Anecdotal evidence based on discussions with City staff seem to suggest a combination of the above factors, which means there may be potential for the City to update its formula.

Allowable Rent Increase

If an owner is shown to be eligible for a rent increase following the NOI analysis, the rent can be increased by a maximum of 12 percent during the first twelve months following a decision. The balance of the final increase, if any, is applied in the subsequent year. For example, if the Rent Stabilization and Housing Division approves an increase of $200 for a unit where the tenant is currently paying $1,000, in the first year, the rent can only be increased to $1,120. In subsequent years, the tenant will pay the full amount of $1,200.

Hardship Exemption

West Hollywood does not exempt any special categories of persons or households from qualifying rent increases. The ordinance attempts to mitigate the impact by phasing in the full increase over two years, but otherwise, there are no exemptions. Without a hardship exemption, this puts tenants on fixed or low-incomes at risk of displacement if they cannot afford the permitted rent increase.

Tenant Relocation

According to City staff, there is currently no provision in the City's ordinance that allows landlords to relocate tenants in order to complete voluntary rehabilitation work unless a notice has been issued indicating code violations. If substantial repairs are required to correct code violations and the work cannot be performed with the tenants in place, the landlords must pay for reasonable costs for temporary housing up to six months. Once the code violations have been remedied, tenants have the right to return to their units. If the work cannot be completed within six months, then the owner is required to pay the requisite relocation fees.

Based on the current fee schedule, each household is entitled to a fee based on the unit size:

- $6,180 for a studio
- $8,726 for a one-bedroom
- $11,754 for a two-bedroom
- $15,512 for a three-bedroom

Qualified tenants earning less than 120 percent of Area Median Income (AMI) are eligible for relocation assistance of $16,359. These include senior or disabled tenants, households with children under the age of 18, and terminally ill patients. Households earning less than 100 percent of Area Median Income are eligible for relocation assistance up to $20,600.

Outcomes

As West Hollywood's rent-stabilized properties age, and especially as 21st century energy-efficiency and seismic upgrade goals become increasingly critical, the current method appears to have resulted in few applicants making capital improvements. In the long run, this impasse could impact the quality of the housing stock, and the quality of life and safety of some of its tenants if landlords choose to not maintain their buildings

In summary, reasons to consider changing the current pass-through policy include:

- **West Hollywood's capital pass-through formula is outdated due to impact of Costa-Hawkins.** The current formula permits NOI to increase by 60 percent of the change in the CPI index between to the current year and base year. With the introduction of Costa-Hawkins, enabling greater rents to be achieved upon vacancy than the AGA otherwise allows, the approach of comparing to the long-ago base year and limiting pass-through adjustments eliminates most property owners from qualifying for this method of cost-recovery.

- **NOI testing is cumbersome and difficult for property owners to predict, deterring some applicants from making needed improvements.** Staff responsible for calculating NOI adjustments indicated that the process can be onerous. In order to complete an NOI analysis, a substantial burden of evidence is needed to establish the base year NOI (typically 1983) and current year NOI. The longer the period of time that has passed since the base year, the more difficult it is for current property owners to establish these facts. In addition, the process is somewhat subjective, and the permitted rent increase may be substantially different from the owner's expectation. This process and the lack of predictability may deter applicants from applying for a capital pass-through.

- **West Hollywood should consider updating its relocation policy for voluntary improvements and consider establishing a hardship exemption.** Currently, there is no established relocation policy if owners want to make major voluntary improvements. In addition, the city does not have a hardship exemption, which puts seniors and low-income tenants at-risk of displacement.

San Francisco

Policy Background

San Francisco's capital improvement pass-through program has historically been tied to the improvement cost. The City's original program permitted landlord's to pass through 100 percent of the improvement cost onto tenants. In 2000, in response to rising rents and displacement, San Francisco voters passed Proposition H, which favored tenants by prohibiting rent increases for capital improvements except for seismic work. At the time, San Francisco was facing a severe housing shortage, and renters made the argument that the capital improvement pass-throughs exacerbated already high rents and were unfair because tenants were responsible for the full capital costs. Proposition H was challenged in court, and was struck down on the basis that there was not a sufficient mechanism to ensure a fair return to landlords.

In 2001, the San Francisco Board of Supervisors forged a political compromise, which led to the creation of the current formula. The revisions included new amortization schedules, established maximum annual pass-through surcharges, and limited cost recovery for large buildings to 50 percent of the improvement cost.

Policy Structure and Specifics

<u>Capital Improvement Definition</u>

In San Francisco, a capital improvement "materially adds to the value of the property, appreciably prolongs its useful life, or adapts it to new uses, and may be amortized over the useful life of the improvement of the building." Examples include, but are not limited to, appliances, interior and exterior painting, new roof structures, boiler replacement, and new electrical or sprinkler systems.

Repairs and maintenance, such as replacing broken windows or clearing a clogged drain, do not count as capital improvements. Code violation corrections may be certified for a pass-through if the work is completed within 90 days of the issuance of the notice of violation.

Seismic work and improvements required by federal, state, or local laws enacted after 2002 are also eligible for pass-through, although the formula dealing with seismic-related work is different from the capital improvement calculation.

<u>Pass-Through Formula for Capital Improvements</u>

San Francisco applies different capital improvement calculations for small and large buildings. Smaller buildings are allowed to recoup 100 percent of the improvement cost, and the time period for recovery is extended over a longer period, of 10-, 15-, or 20-years. In contrast, larger buildings, defined as buildings with six or more residential units, can only recover 50 percent of the improvement cost, but the recovery period is accelerated, ranging from seven to ten years, depending on the improvement.

The table below shows the pass-through allowances, eligible costs, and amortization periods for small and large buildings.

Table 10: Capital Improvement Pass-Through Eligible Costs, San Francisco, 2015

	Small Buildings	Large Buildings
Definition	Five residential units or less	Six residential units or more
Percent cost recovery	100%	50%
Amortization	Straight-line	Straight-line
Amortization Period for Eligible Costs		**7-Year**
		Appliances, fixtures, carpeting, exterior and interior painting of common areas
	10-Year	**10-Year**
	Electrical heaters, new doors and skylights, appliances, fixtures, water heaters, shower heads, carpeting, exterior and interior painting of common areas, central security system, central smoke detection system, new roof structure and cover	New foundation, plumbing, electrical and plumbing, roof structure, boiler replacement, elevator rebuild/cables, exterior siding, floors, central smoke system, sprinkler system, A/C system, stairs, fire escapes, ceilings/walls/ sheetrock, windows, doors, cabinets, sinks
	15-Year	
	New kitchen or bathroom cabinets, sinks, furnaces and gas heaters, windows, sprinkler systems, A/C system, exterior siding or stucco, elevator rebuild/cables, new floor structure, ceilings/walls/sheetrock, decks, stairs	
	20-Year	
	New foundation, plumbing , electrical wiring, chimneys, fire escapes, concrete patios, iron gates, sidewalk replacement	

Sources: City and County of San Francisco, Residential Rent Stabilization and Arbitration Board, Rules and Regulations, 2015; BAE, 2015.

It should be noted in San Francisco, the amortization period is not necessarily related to the useful life of the improvement. For example, a new foundation, which typically has an extended useful life, has a 20-year amortization period for small buildings, which is typical considering how long that improvement is expected to last. However, in larger buildings, the amortization period for a new foundation is accelerated to ten years, which allows the landlord to recoup the investment at a faster rate.

This accelerated amortization period represents a tradeoff to larger buildings for limiting the total cost recovery to 50 percent of the actual cost. According to a senior staff member in San Francisco interviewed for this case study, the creation of this policy was not necessarily tied to a mathematical formula, but rather resulted from political negotiations when the rule was revised by the Board of Supervisors in 2001.

This highlights the bifurcation in San Francisco's policy in the way it treats small and large buildings. Smaller buildings are allowed to recapture the full value of the improvements over a longer period. Larger buildings are permitted to recapture a smaller percentage of the cost but in a shorter time frame. However, despite these differences, the net impact on the permitted rent increase is negligible for large and small buildings, as demonstrated in the pass-through example calculation in the following pages.

Pass-Through Formula for Seismic Improvements

Seismic improvements and work required by law follow a more systematic approach, and does not change depending on the building size. These improvements are amortized on a straight-line basis over twenty years, and the City allows the landlord to recoup 100 percent of the improvement cost.

Table 11: Seismic Improvement Pass-Through, San Francisco, 2015

	Small Buildings	Large Buildings
Definition	Five residential units or less	Six residential units or more
Percent cost recovery	100%	100%
Amortization	Straight-line	Straight-line
Amortization Period for Eligible Costs	**20-Year** Seismic improvements or work required by federal, state, or local laws	**20-Year** Seismic improvements or work required by federal, state, or local laws

Sources: City and County of San Francisco, Residential Rent Stabilization and Arbitration Board, Rules and Regulations, 2015; BAE, 2015.

In 2013, San Francisco passed a seismic ordinance requiring wood-frame residential buildings with five or more dwelling units and three or more stories constructed before 1978 to be seismically retrofitted. The program has been successful in eliciting a high response rate, 99 percent, of all affected property owners. The work needs to be completed by 2020, and the Rent Board has already begun to see an increase in applications related to seismic work. Twenty seismic improvement projects have been certified so far, and most range between $60,000 and $90,000, with some costing over $100,000. The senior staff member interviewed for this case study estimated the monthly pass-through averages $60 per unit per month.

Soft Costs

Landlords who make capital or seismic improvements are entitled to interest, irrespective of whether the improvements are financed with debt or equity. If financing was obtained, the actual interest rate up to 10 percent can be counted in the pass-through. If no funds were borrowed for the work, an imputed interest rate is used. Every year, the Rent Board publishes annual interest rates that are tied to the Federal Reserve rates for treasury securities of varying investment periods, including seven, 10, 15, and 20-year terms, which correspond to the City's amortization periods.

Other soft costs, such as architectural or engineering fees, are not permitted for pass-through.

Allowable Rent Increase

The maximum annual pass-through varies for small and large buildings. The annual maximum limit is five percent of base rent in buildings with five or less units, and ten percent in buildings with six or more units. These are annual caps, which means that if the cap is reached in the first year, additional increases are permitted in following years until the total permitted pass-through is reached. For example, assume that the City certifies a capital improvement pass-through of $150 per unit for a large building. A tenant who is paying $1,000 in rent can only have his rent increased by $100 in the first year. In the second year, the tenant is responsible for the remaining $50, paying the full $150 pass-through amount in year 2. This method phases the capital improvement pass-through over time but does not cap the total amount of the increase.

The pass-through does not become part of the tenant's base rent and is not permanent. Once the pass-through is fully amortized for a unit, it is discontinued. In addition, once a tenancy ends, a new tenant cannot be charged a capital improvement pass-through because the landlord was free to set a new market rent at the time the unit was vacant.

San Francisco crafted its formula setting the percent cost recovery and amortization periods to pass-through an equivalent dollar amount per unit to tenants in small and large buildings. The table following illustrates how San Francisco's formula is applied to capital improvements totaling $10,000 per unit for small and large buildings, and highlights the interplay between cost recovery and amortization period. For a small building with five units, 100 percent of the improvement cost can be passed through over a 20-year period, which translates into a pass-through of $42 per unit per month. In contrast, for a building with ten units, only 50 percent of the costs are eligible for pass-through, but the amortization is accelerated, leading to the same monthly increase for tenants of $42 per unit per month.

According to Rent Board staff, most certified capital improvement pass-through amounts do not reach the annual cap, and is not a common issue in the majority of cases. The caps mostly apply to tenants with low rents who have remained in a unit for a long time, or if the work is substantial and costly.

Table 12: Sample Calculation for Capital Pass-Through, San Francisco, 2015

Assumptions	**Small Buildings** (a)	**Large Buildings** (b)
Per Unit Improvement Cost	$10,000	$10,000
Number of units	5	10
Improvement cost	$50,000	$100,000
Allowable cost recovery %	100%	50%
Amortization period	20	10
Calculation		
Maximum recoverable cost	$50,000	$50,000
Annual cost recovery	$2,500	$5,000
Monthly cost recovery	$208.33	$416.67
Monthly pass-through per unit (c)	$41.67	$41.67

Notes:
(a) Small buildings are rental properties with five units or less.
(b) Large buildings are properties with six units or more.
(c) The annual cap rents can be increased is 5% in small buildings and 10% in large buildings.
Sources: BAE, 2015.

Optional Formula

For large buildings with six or more units, a tenant can opt for an alternate formula and elect to have 100 percent of the costs passed through. No increase shall exceed five percent in a twelve-month period, and over the life of the tenancy, the total increase shall never exceed 15 percent of the tenant's base rent.

According to Rent Board staff, this alternative was an important component in the 2001 compromise, as tenant groups wanted to create an option to cap the maximum increase, especially for tenants with historically low rents or on fixed-incomes. However, this option has rarely been invoked in practice, because tenants who would use this typically qualify for the hardship exemption.

Hardship Exemption

San Francisco has clear guidelines establishing qualifications for hardship exemptions:

- A Tenant is a recipient of means-tested public assistance, such as Social Security Supplemental Security Income (SSI), General Assistance (GA), Temporary Assistance for Needy Families (TANF), or California Work Opportunity and Responsibility to Kids (CalWORKS), or
- Gross household income is less than 80 percent of Area Median Income for the metro area that includes San Francisco; rent charged exceeds 33 percent of gross household income; and assets, excluding non-liquid assets and retirement accounts, do not exceed amounts permitted in determining eligibility for below market-rate (BMR) home ownership, or
- Exceptional circumstances, such as excessive medical bills, which is reviewed on a case by case basis

A tenant can file a hardship application at any time. Before 2001, the hardship exemption could only be claimed at the time the landlord requested the pass-through, but the 2001 changes expanded this provision, so a tenant could file a hardship request at any time.

Tenant Relocation

If a tenant must be relocated, payments vary depending on the expected length of the disruption. For work expected to last 20 days or less, tenants are eligible for a $302 per diem payment plus actual moving expenses. If the work is expected to last more than 20 days, the landlord must pay $5,511 to any tenant who has resided in the unit for more than a year up to a maximum of $16,653 for one unit. An additional $3,701 is required for each elderly (60 years or older) or disabled tenant, or household with minor children.

According to Rent Board staff, most landlords attempt to complete work, if possible, with tenants in place because relocation expenses can significantly add to the cost. This policy encourages landlords to complete work as quickly as possible and with tenants in place, because the cost of relocation can be substantial.

Capital improvements and substantial rehabilitation work are just causes for eviction in San Francisco. For a capital improvement, a tenant has the right to reoccupy the unit once the repairs are completed. However, the right to reoccupy does not extend to substantial rehabilitations, which is defined as buildings over 50 years old for which the proposed work is at least 75 percent the cost of new construction. In an effort to deter displacement, San Francisco limits the ability of a unit to convert to a condominium if a landlord invokes the substantial rehabilitation cause for eviction.

Application Process and Administration

Administrative Review

Landlords seeking to pass through the costs of capital improvements must file an application with the Rent Board and submit the requisite information. Capital improvement petitions must be filed within five years of the completion of the capital improvement work.

A hearing date is scheduled within 45 days of the application filing date. The hearing is conducted by an Administrative Law Judge, and the burden of proof is on the landlord. The Administrative Law Judge issues findings as to whether the proposed rent increases are justified based on the following considerations:

- The application and its supporting documentation
- Evidence presented at the hearing establishing the extent and the cost of the work performed
- Estimator's report, when applicable
- Other relevant factors

The decision is final unless appealed to the Rent Board.

Tenant Notifications

To impose the pass through, landlords are required to issue a written notice of increase to the affected tenants, after the initial petition is filed with the Rent Board. If the notice is served before the petition is filed, the notice is void.

Tenants are not required to pay the pass through until a final decision is issued by the Rent Board. However, the pass through, if approved, is retroactive to the effective date of a valid notice of increase.

According to state law, a 30-day notice is required if the combination of the annual rent increase and the capital improvement increase is less than 10 percent. A 60-day notice is required if the combination of increases exceeds 10 percent.

Pre-Application for Large Projects

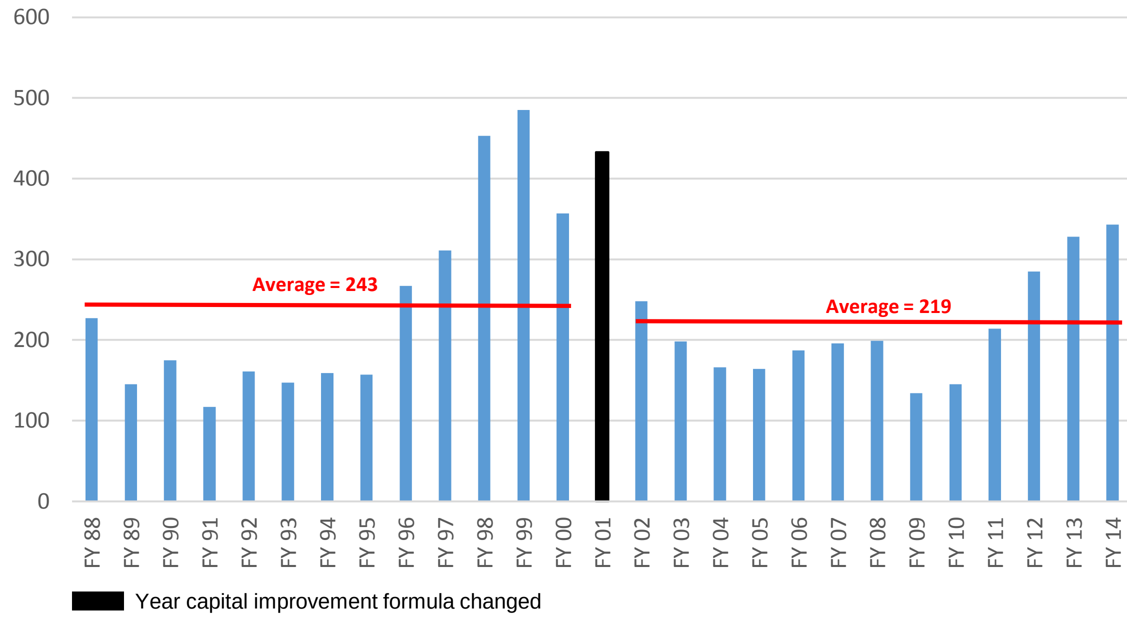
San Francisco attempts to mitigate the impact associated with high-cost projects by requiring landlords to provide a pre-application notice to the Rent Board and tenants of capital improvement projects totaling more than $25,000 per unit. Landlords also have to pay for the cost of an estimator hired by the Rent Board to corroborate costs, unless the applicant provides copies of competitive bids.

Impact of Lowering the Cost Recovery Percentage from 100% to 50%.

One of the complaints cited by landlords is that reducing the cost recovery from 100 percent to 50 percent does not permit the landlord to recapture the full cost of their investment, although tenants would argue that capital improvements improve the landlord's fixed assets, so the costs should be split.

San Francisco publishes data on their capital improvement program dating back to 1984, and BAE analyzed this to assess whether there were changes in the number of petitions for units affected before and after the formula change went into effect in 2001. 2001 data was excluded from analysis because the formula change may have caused an anomalous increase in the number of petitions filed. The 12-year period was assumed to be a sufficient time frame to account for potential aberrations in any given year and economic cycles.

Figure 8: Number of Petitions for Capital Improvement Pass-Through, San Francisco, FY 1988 – FY 2014

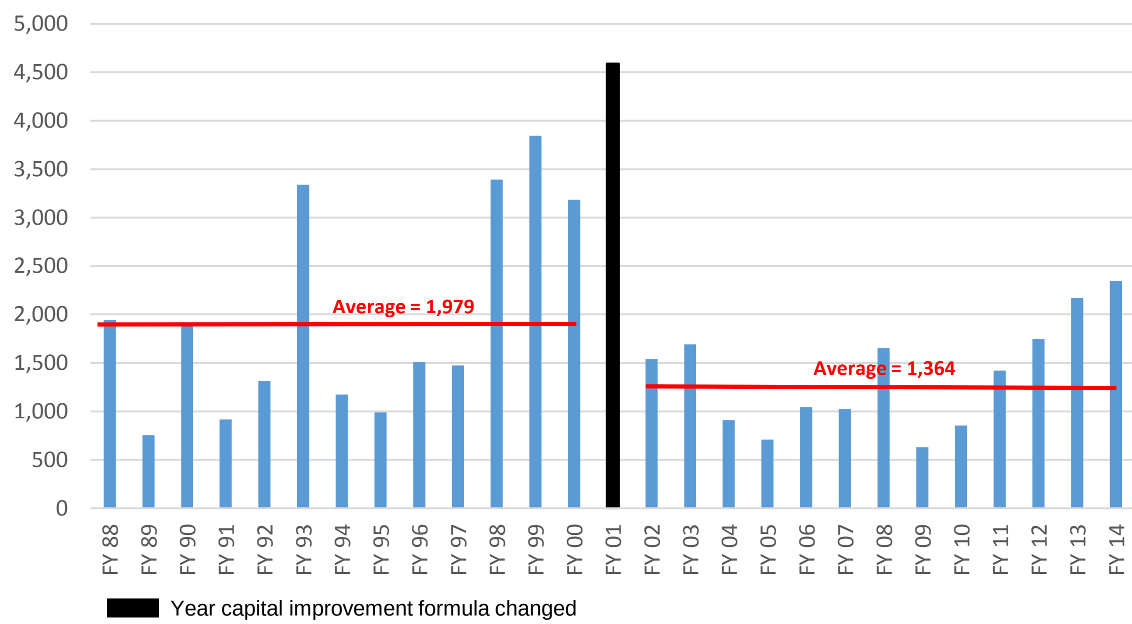


The data suggests that there is a high correlation between pass-through petitions and economic cycles. The above figure compares the number of capital improvement petition requests filed in the twelve-year period before and after the 2001 formula change. According to the staff person interviewed, the number of petitions rise and fall according to the business cycles, in part because landlords are more willing and have access to capital during boom periods.

The average number of petitions filed is fairly consistent in the twelve years before and after 2001. Between FY 1988 and FY 2000, an average of 243 petitions were filed, which was somewhat higher than the average number of petitions filed between FY 2002 and FY 2014, at 219.

Although the total number of petitions was similar, the total number of units associated with the petitions was noticeably lower in the years following 2001. The table below shows that in the twelve years before 2001, capital pass-through petitions affected an average of 1,979 units annually. After 2001, the number of affected units fell by 31 percent to an average of 1,364 units per year.

Figure 9: Number of Units Associated with Petitions for Capital Improvement Pass-Through, San Francisco, FY 1988 – FY 2014



This means that the average building size requesting capital improvement pass-through petitions decreased from 8.1 units to 6.3 units in the twelve-year time period before and after the formula change. Interestingly, the average building size of 6.3 units after the formula change still puts the average above the 6-unit threshold, where only 50 percent of the improvement costs can be passed onto tenants. This suggests that although there may have been some shift towards smaller building owners applying for the pass-through, the formula change did not completely deter large building owners from applying for the pass-through, despite the reduced recovery allowance.

Outcomes

Based on the above data and comments from Rent Board staff, San Francisco's case study illustrates the following lessons:

- **Using a cost approach for calculating the capital improvement pass-through is a straightforward alternative to the NOI method employed by West Hollywood.** This approach provides a predictable formula for landlords and guarantees at least a partial recovery of improvements costs, without considering whether a landlord needs the pass-through to earn a fair return.
- **Landlords claim that the primary incentive for undertaking building upgrades is because they need to or want to make the improvements, or are required to do so by a City ordinance.** According to San Francisco staff interviewed for this study, rent increases are not the primary drivers for undertaking capital improvements.

- **The two primary reasons that the Rent Board cites for the low number of capital pass-through requests is (1) Costa Hawkins permits landlords to earn a sufficient return so they do not need to apply pass-through costs to tenants, and (2) owners do not apply because they think the process is onerous.** In Fiscal Year 2014-15, the Rent Board received only 343 petitions for rent increases, which translates into a small percentage of all the improvement work undertaken in the City. However, with the recent passage of the seismic ordinance, the Rent Board has begun to see an increase in capital improvements related to seismic upgrades.
- **It is important to strike a policy balance between owners and tenants.** Before 2001, when the allowable recovery was 100 percent, tenants felt that they were unfairly paying for the full cost of improvements. In a city comprised mostly of renters, tenants effectively pushed back with Proposition H, which was more favorable to their interests. This highlights the potential ballot box backlash if a policy is perceived to favor landlords, especially in a city with a high proportion of renter households like West Hollywood.
- **With respect to the hardship exemption, San Francisco established a clear policy tied to existing affordability definitions, which made it simple for the Rent Board to administer.**
- **The City's relocation payment requirement discourages landlords from relocating tenants, unless a substantial rehabilitation is required.** According to the Rent Board, most landlords complete capital improvements within the 20-day period and with tenants in place.

Berkeley

Policy Background

Berkeley's capital improvement program is unique among the case study cities because although the calculation is based on a cost recovery approach, Berkeley borrows heavily from the principles in the net operating income method and limits the pass-through only to the extent needed by the landlord to receive a fair return.

Berkeley applies the following principle to rent ceiling adjustments:

> It is the intent of these regulations that individual upward adjustments in the rent ceilings be made only when the landlord demonstrates that such adjustments are necessary to provide the landlord with a fair return on investment under the Rent Ordinance (Section 1261.C).

Berkeley's capital improvement pass-through formula has been modified several times. According to a Rent Stabilization Board staff member interviewed for this study, Berkeley used a net operating income approach when rent control was first adopted in 1980, and the definition was fairly expansive, which led to many applications filed by landlords for small repairs, and a substantial work load for the Rent Stabilization Board. Since then, Berkeley has modified its formula and drawn a narrower definition for what qualifies for a capital improvement pass-through. Interestingly, Berkeley is the only city among the case study cities that considers the impact of Costa Hawkins in its calculation.

Policy Structure and Specifics

<u>*Capital Improvement Definition*</u>

In Berkeley, a capital improvement "materially adds to the value of the property, appreciably prolongs its useful life or adapts it to new use and has a useful life of more than one year and a direct cost of $200 or more per unit affected, or $1,500, whichever is less." This definition is fairly broad with a low cost threshold. In order to narrow the definition and encourage certain improvements, such as seismic safety, energy efficiency, and those that primarily benefit the tenant, the City modified its policy so that in addition to the above definition, a capital improvement must:

(1) bring the unit into compliance with applicable new code requirements, or
(2) improve seismic safety or increase energy efficiency, or
(3) be provided by the landlord in good faith to primarily benefit the tenant, or
(4) qualify as one of the following major long-term repairs:

   a. new roof
   b. significant upgrade of the foundation
   c. new plumbing, electrical, or heating system

d. exterior painting or siding
e. repairs pursuant to a Termite Report, subject to a minimum cost threshold

This definition narrowly limits what can be considered for pass-through. Berkeley prohibits pass-throughs for costs related to property damage and deterioration resulting from an unreasonable delay in undertaking repairs or improvements in order to deter substantial deferred maintenance. Expenses related to routine maintenance are also not permitted.

Pass-Through Formula for Capital Improvements

Berkeley's cost recovery formula is based on actual improvement costs, and 100 percent of the costs are eligible for pass-through to tenants. The table below summarizes the amortization periods associated with different improvements.

Table 13: Capital Improvement Pass-Through Eligible Costs, Berkeley, 2015

	All buildings subject to the Rent Stabilization Ordinance
Percent cost recovery	100%
Amortization	Straight-line
Amortization Period for Eligible Costs	**10-Year**
	Exterior painting or siding
	12.25 Years
	Capital improvements that bring the unit into compliance with applicable new codes, improve energy efficiency or seismic safety, or primarily benefits the tenant, like a skylight.
	15-Year
	Major repairs, which includes new roof, significant foundation upgrade, new plumbing, electrical, or heating system, termite repair if cost exceeds $6,000 or $1,000 per unit

Sources: Berkeley Rent Stabilization Board; BAE, 2015.

Soft Costs

Landlords who make capital improvements are entitled to recover interest costs, irrespective of whether the work is financed with debt or equity. An imputed 7.5 percent interest rate is applied to all costs.

Allowable Rent Increase

Berkeley combines the amortization and interest schedules into a simple formula, expressed as follows:

- Capital improvements are eligible for a monthly increase of 1.042% of the cost
- Exterior painting and siding are eligible for a monthly increase of 1.187% of the cost
- Other major repairs are eligible for a monthly increase of 0.927% of the cost

These monthly increases are then divided by the total number of units.

Costa Hawkins - Limitations on Rent Increases

Berkeley's capital improvement pass-through formula is unique because it considers the impact of rent increases following a vacancy. Before the Costa-Hawkins Rental Housing Act, rent increases following a vacancy were capped at a percent set by the Berkeley Rent Board, so effectively, there was a "lid" on all permissible rent increases. Costa-Hawkins changed the rule so the rent charged after a vacancy was no longer regulated, which allowed landlords to charge up to market and earn higher returns if there was turnover. The difference between the old rent and the new market rent can be significant, especially in strong housing markets. Like San Francisco, a new tenant in Berkeley cannot be charged for a capital improvement completed before the tenancy began because the landlord was free to set a new market rent at the time the unit was vacant.

Berkeley discounts the permitted pass-through if there were rent increases from vacancies in years preceding the capital improvement petition that allows the landlord to cover the amortized improvement cost. For example, assume that a landlord spends $15,000 to replace a roof. Applying the 0.927% increase factor, this would translate into a monthly cost of $139.05 to be distributed among the building's units. The City would then review the rent increases following vacancies after 1999. Assume Unit 1 had a vacancy increase of $50, Unit B had a vacancy increase of $100, and Unit 3 had a vacancy increase of $25. The total increase is $175 per month, which exceeds the estimate pass-thru of $139.05. In this case, no pass-thru would be permitted.

Berkeley presumes that the new rent set after a vacancy provides the landlords with a fair return on improvements that were completed or reasonably anticipated. The legal rationale is that rent adjustments "are intended to provide a fair return on capital expenditures for improvements to rental units that have had their rent ceilings continuously controlled under the Rent Ordinance." To the extent that vacancy increases post Costa-Hawkins "result in rent ceilings that exceed the return that would be obtained from rent ceilings that were continuously controlled, rent adjustments…may not be necessary in order to obtain a fair return on capital expenditures at the property."

Rent Increase Cap

If a capital improvement pass-through is permitted, after accounting for vacancy increases, there are caps to the monthly increase in order to prevent excessive rent increases to tenants. The current limit is approximately $100 per month or 15 percent of base rent up to a maximum limit. These figures are increased annually by the Consumer Price Index.

If the permitted capital improvement pass-through exceeds the cap, then the increase is phased-in until the full pass-through is reached. Like San Francisco, there is an annual cap in terms of how much rent can increase per year, but no cap on the total amount of the increase.

Hardship Exemptions

Low-income tenants may qualify for a gradual phase-in of rent increases, including:

- Tenants over the age of 62 with household income less than 30 percent of the area median income adjusted for household size or income is less than 150 percent of the total SSI payment, and
- Tenants receiving general assistance pursuant to California Welfare & Institutions Code sections 17000 et seq., Aid to Families with Dependent Children or any successor program, Supplemental Security Income or Social Security Disability Insurance.

A tenant must file a request to phase-in the increase within 20 days after receiving a Notice of Right to Object from the Rent Board. Hardship exemptions are only granted at the time the petition is requested by the landlord, and unlike in San Francisco, cannot be granted after a determination has been issued, even if circumstances change for the tenant.

Relocation Assistance

The amount of relocation assistance depends on the duration of displacement. As of 2015, if the period is less than one month, the tenant is entitled to a per diem payment of $120 per day for a single person household, with an extra $15 added for each additional occupant. In addition, tenants may qualify for reimbursements for boarding costs for dogs or cats of $20 per day for cats and $50 per day for dogs if the pets are lawfully permitted through written agreement and the tenant is unable to keep them in temporary housing.

If the displacement is greater than one month, the tenant is entitled to (1) a one-time payment of $400 to defray incidental expenses, (2) the actual costs for moving and storage, and (3) the difference in rent between the temporary and current unit for the displacement period but not more than three months.

Tenants who are given a notice to vacate so that the owner can perform substantial repairs have the right to re-occupy once the repairs are completed. In other cities, substantial rehabilitation is often a just cause for eviction, although this is not the case in West Hollywood

Application Process and Administration

Administrative Review

Landlords seeking to pass through the costs of capital improvements must submit a rent increase petition to the Rent Board, supporting documentation, and proof of service showing that each affected rental unit has been sent a complete copy of the petition.

The petition is reviewed for completeness, and once accepted; Rent Board staff mail all tenants a Notice of Right to Object, which provides detailed information on the grounds for objection. Tenants have 30 days from the mailing date to file an objection. Within 30 days of the termination of the objection period, the Board issues a decision based on the supporting documentation or schedules a hearing.

If a hearing date is scheduled, all parties are notified of the date and location. The hearing is conducted by a hearing examiner, who examines the records, documents, and testimony. The hearing examiner considers all relevant factors and issues findings as to whether the proposed rent increase is justified. The decision is final unless the landlord appeals the hearing examiner's decision to the Board.

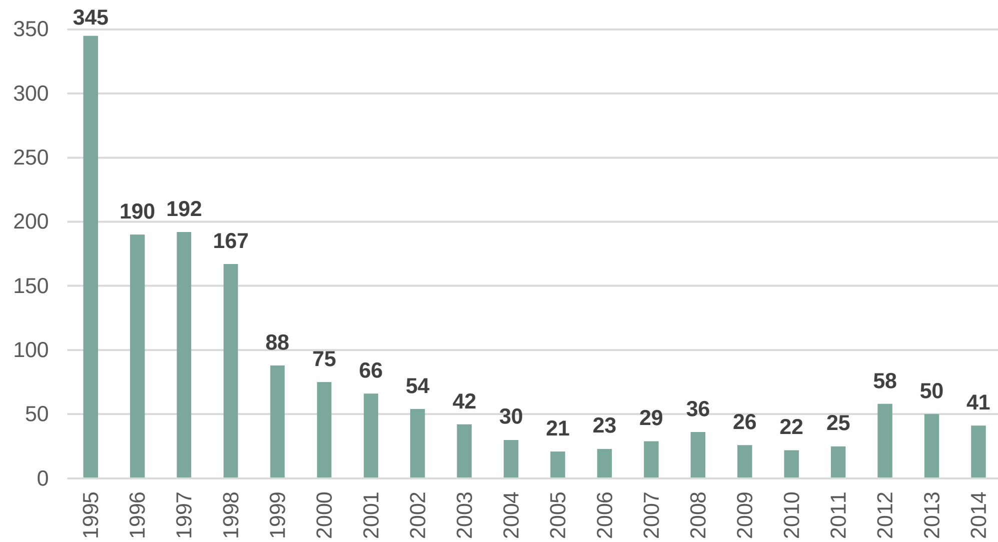
Tenant Notifications

A 30-day notice is required if the combination of the annual rent increase and the capital improvement increase is less than 10 percent. A 60-day notice is required if the combination of increases exceeds 10 percent.

Landlord Petitions

The graph below shows the total number of landlord petitions filed with the Berkeley Rent Board between 1995 and 2014. Capital improvement petitions are a subset of landlord petitions, and Berkeley does not separately track capital pass-through requests. Between 1995 and 1998, petitions averaged 224 per year. After 1999 when Costa Hawkins was fully implemented, the number of petitions dropped drastically, and have remained consistently low compared to the pre-Costa Hawkins period. Between 1999 and 2014, the Rent Board received an average of 43 landlord petitions per year. In 2015, the City provided a count of capital improvement petitions, which have totaled 9 for the year to date (through November, 2015). Like San Francisco, Berkeley reported a slight increase in petitions due to seismic upgrades, following a seismic ordinance passed by the City to retrofit soft-story residential buildings.

Figure 10: Landlord Petitions, Berkeley, 1995-2014



Source: City of Berkeley Rent Stabilization Board, 2015

Impact of Vacancy Decontrol on Berkeley's Rent Stabilized Housing

In 2013, the City of Berkeley published a study analyzing the impact of vacancy decontrol on the city's rent stabilized housing stock. Data was presented on turnover, impact on net operating income, and whether higher rents were being invested back into building improvements. Below is a summary of the findings. See Appendix C for graphs.

- Between 1999 and 2011, 85 percent of Berkeley's rent stabilized housing units had turned over at least once.
- The median market rents rose faster than inflation after vacancy decontrol. Appendix C compares the median rent in Berkeley after Costa-Hawkins passed in 1995 to the median rent had rents continued to increase based on the annual adjustment. Since 1978, Berkeley's rent stabilization ordinance has allowed annual increases that roughly tracked the rate of inflation. After 1995, market rents escalated much faster than inflation, reflecting the strong demand for housing in the city and the region.
- In 2012, about 16,000 units were occupied by tenants who moved in after vacancy decontrol, and were paying a rent closer to the market rent. Only 3,000 units were occupied by tenants who had moved in before 1999.
- Net operating income, when compared to operating expenses, was higher in the East Bay than other metropolitan areas. This suggests that vacancy decontrol, when permitted in an area with high housing demand, results in a windfall to landlords who are able to charge market rents following vacancies.
- After 1995, there was an increase in renovation activity, and the average building permit valuation per unit increased from $91 per unit to $131 before and after 1995 on an inflation-adjusted basis.
- However, comparing the annual permit value per unit to the average increase in rents, which rose by $6,408 between 1995 and 2012, only two percent of the increased rent ($131 divided by $6,408) was being reinvested in permits for renovations. Even if the permit valuation underestimates the actual improvement cost, only a small fraction of the increased rental income is being invested back into the buildings.

Outcomes

This case study lends credence to Berkeley's policy for discounting the capital improvement pass-through if rent increases have occurred following Costa-Hawkins. Berkeley's policy is centered on the concept that rent adjustments are intended to provide a fair return on capital expenditures for units that have had their rent ceilings *continuously controlled* under the Rent Ordinance. When units return to market following vacancies, landlords can reset the rent under unregulated market conditions, and that price should reflect reasonable expectations about expenditures. In a tight housing market, the price tenants are willing to pay will likely exceed expenditures and present an opportunity for landlords to reap greater profitability.

Berkeley's policy goal is to limit pass-through increases to the extent needed by the landlord to receive a fair return. The blended approach used for capital cost recovery meets the City's goal, according to staff interviewed. Berkeley combines the cost recovery formula with principles from the NOI approach. Before landlords are permitted additional rent increases, Berkeley means-tests the cost recovery formula by comparing the permitted pass through using the cost recovery method against the prior rent increases following vacancies. If the landlord has already been collecting rent sufficient to cover the amortized value of the capital improvements, then the City does not grant a rent increase to allow the landlord to continue earning an equivalent return. It is assumed the landlord is already earning a fair return.

Los Angeles

Policy Background

Los Angeles employs a cost recovery formula to determine the capital pass-through, similar to San Francisco. Los Angeles' program is distinct because it has three tiers that qualify for pass-through, including capital improvements, major systems modifications, and work related to government orders or natural disasters. For each category, the City applies different assumptions to the recovery formula. For example, capital improvements are eligible only for a partial cost recovery and rent increases are temporary, while major system upgrades qualify for full cost recovery and permanent rent increases.

The City has amended its program multiple times since it was first enacted. The original ordinance included pass-through provisions for capital improvements and work arising from code violations and natural disasters. The major systems pass-through option is a more recent addition from 2005.

In 2005, the City amended its ordinance to encourage landlords to invest in substantial modifications of major building systems. Before then, major system upgrades were limited a 50 percent cost recovery, and the City wanted to encourage owner investments while simultaneously safeguarding tenants against displacement. The 2005 amendment removed major rehabilitation as a just cause for eviction, allowed owners to recoup 100 percent of substantial rehabilitation costs through rent adjustments, and created a permanent pass-through option for landlords. However, changing the formula did not lead to a significant increase in the number of requests for pass-through.

Tenant displacement was a concern, so Los Angeles crafted special procedures intended to mitigate impacts to tenants due to substantial rehabilitation. The 2005 amendment requires for a landlord to apply for a Primary Renovation Work permit before a building permit. A Tenant Habitability Plan (THP) must be submitted that specifies the scope and duration of work, potential impacts, and mitigation measures. This process ensures that for substantial rehabilitation projects, landlords are not placing tenants in uninhabitable conditions or circumventing relocation requirements.

Policy Structure and Specifics

Capital Improvement and Major Rehabilitation Definitions
Los Angeles differentiates between capital improvements, and rehabilitation work.

A capital improvement, as defined by Los Angeles, is "the addition or replacement of improvements to a rental unit or common areas of the housing complex, provided such new improvement has a useful life of five years or more."

Capital Improvement includes:

- Carpeting, draperies, appliances, smoke detectors, children's play equipment permanently installed on the premises, stuccoing the outside of a building, air conditioning, security gates, fencing, and roofing.
- The Capital Improvement definition is fairly broad and covers small, low-cost improvements like mini-blinds to costlier investments like swimming pools.

Rehabilitation work, as defined by Los Angeles is divided into two types: Primary Renovation Work, which requires a Tenant Habitability Plan (THP), and Rehabilitation Work that does not require a THP.

Primary Rehabilitation Work includes:

- Replacement or substantial modification of major building systems, such as structural, electrical, plumbing, or mechanical systems, and elevators,
- Reinforcement of the building structure that requires a building permit, and
- Abatement of hazardous materials, such as lead-based paint and asbestos, in accordance with applicable federal, state, and local laws.

Rehabilitation Work includes:

- Work done in order to comply with an order issued by the Department of Building and Safety, the Health Department, or the Fire Department due to changes in the housing code since January 1, 1979, or to repair damage resulting from fire, earthquake or other natural disaster.

Although seismic improvements technically meet these criteria, the City is crafting a separate policy to address seismic retrofits, following intense lobbying by tenant groups after the City passed its seismic retrofit ordinance.

Pass-Through Formula

The pass-thru formula varies depending on whether the improvement is considered a capital improvement or a rehabilitation project. Like San Francisco, Los Angeles only permits a partial cost recovery for capital improvement costs. Prior to 1989, landlords were allowed to pass through 100 percent of capital improvement costs to tenants. The provision was changed in 1989 to limit the pass through to 50 percent of the approved capital improvement cost. For Primary Renovation Work and Rehabilitation Work, 100 percent of the costs can be passed through to tenants.

The following criteria are applied to determine if costs are eligible for pass-through:

- The improvement must primarily benefit the tenant rather than the landlord.
- The improvement must have a life expectancy of five years or more.
- Normal routine maintenance is not a capital improvement.
- The improvement must be permanently fixed in place or relatively immobile.
- The application must be submitted within twelve months of the completion of work.

Table 14: Capital Improvement Pass-Through Eligible Costs, Los Angeles, 2015

	Capital improvement	Rehabilitation Work	Primary Renovation Work
Definition	Improvements with useful life of five years or more that primarily benefit the tenant and is not routine maintenance	Any repair work to comply with government order or to repair damage resulting from a fire, earthquake, or natural disaster	Replacement or substantial modification of structural, electrical, plumbing, or mechanical system, or abatement of lead-based paint and asbestos, rehabilitation. Interest and tenant relocation costs eligible for pass-through.
Percent cost recovery	50%	100%	100%
Amortization	Straight-line	Straight-line	Straight-line
Amortization period	5-years	5-years	15-years
Permanent or temporary pass-thru	Temporary	Temporary	Permanent
Maximum Cap on Tenant Rent	$55 per month	$75 per month or 10% of base rent, which is less	10% of the base rent, imposed in two equal increments over two years

Sources: Los Angeles Rent Stabilization Ordinance; BAE, 2015.

Compared to rehabilitation work, capital improvements are permitted a faster recovery schedule of five years, which partly reflects the shorter-term nature of improvements that fit this definition. The amortization period for Rehabilitation Work is also short, which gives owners an opportunity to recover damages and recoup their investments quicker. For major rehabilitation, the amortization period is more closely tied to the expected useful life of the improvement.

Moreover, rent increases granted for Capital Improvements and Rehabilitation Work are temporary, while rent increases for Primary Renovation Work are permanent. The rationale was to use the permanent increase to entice landlords to make major investments. Theoretically, if the rent increase is permanent, a landlord can recoup more than the total cost of the improvement cost for rehabilitation.

Soft Costs

Interest is only imputed when an owner finances the improvements through a loan.

Primary Renovation Work is the only category for which soft costs are eligible for pass-through in accordance with an accepted Tenant Habitability Plan. In addition, Los Angeles permits landlords to pass-through temporary relocation costs associated with Primary Renovation Work to the tenants. Relocation costs are not permitted for pass-through in other cities, so this is a unique policy in Los Angeles.

Allowance Rent Increase

The maximum monthly pass-through varies for all three improvement types. Unlike San Francisco and Berkeley, which cap the annual increase at five to ten percent of base rent but place no cap on the cumulative increase, Los Angeles caps the maximum pass-through at $55 per month for capital improvements, which can be collected for up to six years. The monthly cap for Rehabilitation Work is $75, or 10 percent of base rent. If the calculated pass-through exceeds these thresholds, then the landlord can collect the surcharge for a longer period until the full amount of the pass-through is collected.

Timing of Rent Increase

No capital improvement increase can be given to a tenant on a fixed lease until either (a) the lease expires or (b) the lease provides otherwise. In other cities, the landlord can pass-through the increase as soon as the petition is granted, and sometimes, retroactively to the date the petition is filed.

Pass-Through Calculation Example

The table on the following page illustrates how Los Angeles' formula is applied to capital improvements and rehabilitation projects. For a Capital Improvement project costing $20,000, only 50 percent of the costs can be recouped, which translates into a $166 monthly surcharge to be split among units in the building. Assuming a five-unit building, this translates into $33 per month, well below the $55 maximum cap per month.

For Rehabilitation Work, while 100 percent of the cost can be recovered, the $75 monthly cap effectively extends the length of time it takes for a landlord to recover costs. In the example following, a $100,000 rehabilitation project would require a monthly surcharge of $1,667 to be distributed among the units. Assuming a 6-unit building, this would translate into $278, well above the $75 per unit per month cap. Los Angeles permits landlords to extend the period of recapture until the full cost is recovered. In this case, it would take 19 years for the owner to fully recapture costs.

Table 15: Sample Calculation for Capital Pass-Through, Los Angeles, 2015

Assumptions	Capital Improvement (a)	Rehabilitation (b)
Improvement cost	$20,000	$100,000
Allowable cost recovery %	50%	100%
Amortization period	5	5
Number of units	5	6
Calculation		
Maximum recoverable cost	$10,000	$100,000
Annual cost recovery	$2,000	$20,000
Monthly cost recovery	$167	$1,667
Monthly pass-through per unit	$33	$278
Maximum Cap Test		
Monthly pass-through not to exceed	$55	$75
Collectible pass-through/month	$33	$75
Years to recover permitted cost	5	19

Notes:
(a) Small buildings are rental properties with five units or less.
(b) Large buildings are properties with six units or more.
Sources: BAE, 2015.

Hardship Exemption

Hardship exemptions are only granted for Primary Renovation Work and not for Capital Improvements or Rehabilitation Work. Lower-income tenant households, defined as those earning at or below 80 percent of Area Median Income, are not required to pay the Primary Renovation pass-through if it exceeds ten percent of base rent, subject to approval by the City. However, if the pass-through is less than ten percent, a lower-income tenant household may be subject to a limited rent increase. Any subsequent rent increase arising from the annual general adjustment shall be limited to the balance of the percentage increase available under the ten percent cap. The hardship must be claimed at the time the tenant is notified by the City about the pass-through.

Tenant Habitability Plan/Tenant Relocation

When the City amended the ordinance in 2005 to create a provision encouraging owners to undertake major system upgrades, tenant displacement was a major concern expressed by tenant groups, so the City implemented procedures aimed at mitigating impacts to tenants.

For Primary Renovation Work, when a landlord submits plans requesting a building permit for major system improvements, the building department asks if the work will affect tenant habitability. If the answer is yes, the landlord is required to acquire a Primary Renovation Work permit from the Los Angeles Housing and Community Investment Department (HCIDLA) before applying for a building permit. An owner must submit a Tenant Habitability Plan (THP) and specify the scope and duration of work, potential impacts, and identify mitigation measures. The Plan is reviewed by the HCIDLA within five days of receipt, and the owner is given 15 days to respond or appeal. Once the HCIDLA accepts the THP, the owner serves the THP and other notifications to affected tenants. The owner must wait sixty days after notices have been served to start construction.

The owner is responsible for paying all of the tenant's temporary relocation costs, including moving and hotel expenses. If the repairs are minor, the landlord can perform the work without relocating the tenant so long as the tenant is not exposed to toxic substances. If the work takes longer than 30 days, the temporary housing provided to the tenant must be comparable in size, rooms, accessibility, and proximity to services and institutions as the unit being renovated. During this period, the tenant must continue to pay rent. A tenant who fails to cooperate with an approved Tenant Habitability Plan can be evicted on that ground.

Application Process and Administration

<u>*Administrative Review and Tenant Notifications*</u>

Landlords seeking to pass through the costs of capital improvements must file an application with the LA Housing Department's Rent Stabilization Division ("RSD"). Applications for rent adjustments must be made within twelve months after the completion of the work.

Upon receipt of an adjustment application, the RSD notifies all tenants in the building by mail of the receipt of the application, the amount of the requested rent increase, the landlord's justification for the request, and the tenant's right to submit written objections within ten days.

Within 45 days of the receipt of a completed application, the RSD makes a determination. Copies of the findings and determination are mailed to the applicant and all affected tenants. The determination is final unless the applicant or tenants file a request for hearing within 15 days. Hearings are scheduled within 30 days. Final decisions are made by the hearing officer within 45 days of the hearing. There is no administrative appeal of a Hearing Officer's decision, with the exception of denial of an application due to bad faith.

Economic Study of the Rent Stabilization Ordinance

In 2009, Los Angeles published a comprehensive report on the City's rent stabilization ordinance.[9] The study included a comprehensive data analysis, focus group discussions, and surveys to landlords and tenants aimed at assessing whether changes were needed to improve the RSO. The capital improvement program was one of the topics covered in the review. The following findings were presented in the study (see Appendix D for charts).

Los Angeles Rent Stabilization Study Outcomes

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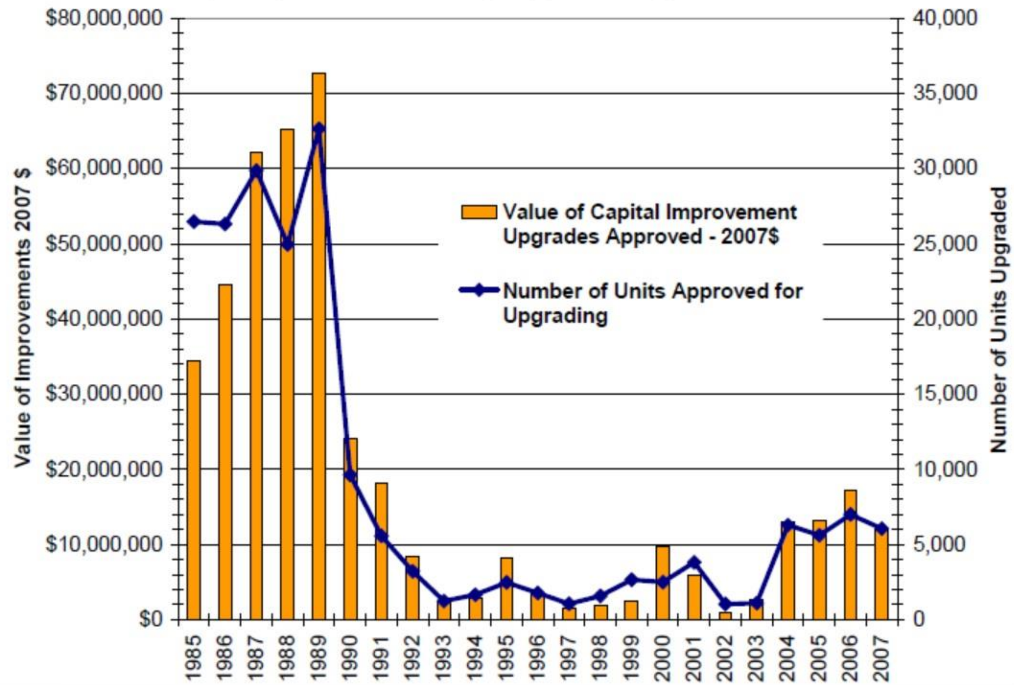
[9] Retrieved December 10, 2015 from https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&uact=8&ved=0ahUKEwiki_uvs7jNAhUY02MKHaEqCnQQFggeMAA&url=http%3A%2F%2Fhcidla.lacity.org%2Fsystem%2Ffiles_force%2Fdocuments%2FEconomic%2520Study%2520of%2520the%2520Rent%2520Stabilization%25202009.pdf%3Fdownload%3D1&usg=AFQjCNHmyTps6_aVAf0niKGTVa8E9ZvJ9g

- **Pass-Throughs Not Used.** Between 2003 and 2008, few owners applied for capital improvement pass-throughs. Administrative records show only 1.3 percent of RSO owners applied to pass through capital improvements to their tenants.
    - Owners of 40 or more units were the most likely group to have applied.
- **Need for Better Outreach.** Lack of knowledge about the capital improvement program was the number one reason why owners had not applied for the program (56 percent). However, many owners admit to not inquiring about the program until they were interested or ready to initiate capital improvements. Therefore, enhancing awareness through educational programs may not be effective at increasing pass-through requests, especially if landlords are not planning improvements.
- **Other Issues.** Other reasons cited include tenants cannot afford it (19%), too much paperwork (14%), no capital improvements (13%), 50 percent pass-through is insufficient (12%), and other (9%).
- **Most Capitol Improvement Claims Small.** Between 2003 and 2008, approximately 60 percent of capital improvement claims were for project costs below $20,000. Another 20 percent of projects ranged from $20,000 to $40,000 in improvement value, and the remaining 20 percent of projects costed more than $40,000.
- **Most Common Improvements.** The most frequent capital improvement requests were related to roofing, exterior painting, copper piping, and windows, which accounted for 45 percent of all capital improvement requests.
- **Most Requests Approved.** A high percentage of petitions that were submitted were approved. Between 2003 and 2008, 87 percent of applications were approved, with approximately half for a reduced amount and the other half for the full amount claimed.
- **Average Monthly Per Unit Cost $19.** LAHD data for approved capital improvement petitions show that the average monthly surcharge was $19 per unit.
- **Requests Decreased When Program Changed from 100% to 50%.** The figure on the following page shows the number of capital improvement pass-through applications between 1985 and 2007. This exhibit was presented in the City's 2009 study to illustrate the impacts of reducing the cost recovery formula from 100 percent to 50 percent in 1989. The number of capital improvement requests declined substantially after the formula was changed, and the report recommended for the City to increase the cost recovery formula up to 75 percent.

  However, what the report did not note was that 1989 was pre-Costa Hawkins, and landlords were not fully able to decontrol rents. Thus, limiting the cost recovery percentage would have a significant impact, especially if landlords were unable to raise rents up to market following a vacancy.

  Looking at the number of cases after 1999, the year vacancy decontrol took effect, shows that the number of capital improvement cases appears to have increased somewhat compared to the 1990s, which may be due in part to owners collecting higher income post-Costa Hawkins.

Figure 11: Capital Improvement Pass-through Applications Approved, 1985-2007



Source: *Economic Study of the Rent Stabilization Ordinance and the Los Angeles Housing Market,* Los Angeles Housing Department, 2009

Again, as was observed in San Francisco, the number of petitions seems to fluctuate with economic cycles, with more capital improvement petition in stronger years (e.g. 2004-2007) compared to weaker economic periods (e.g. early 1990s).

City staff interviewed for this study suggested one reason why there are so few capital improvement petitions is because landlords feel the application process is too cumbersome, especially for owners of smaller buildings who are less savvy than large property owners, who employ property management firms. This is despite the fact the City offers counseling and educational programs.

- The 2009 study reported that the Primary Renovation Program was "smaller, more paperwork-intensive, and the less used program". At the time of study, only three years had elapsed since the program was adopted. Focus group and survey comments indicate the reason why few owners applied was because of the complicated application process. The major bottleneck reportedly was the Tenant Habitability Plan. The study recommended simplifying this process by developing clear standards when construction work would require a tenant habitability plan. Another recommendation was to hold a single review for all tenants affected by an application, rather than managing each tenant case separately.

Appendix A: Supplemental Demographic Tables

Appendix A-1: Household Composition by Tenure, 2000-2013

Renter Occupied Units

	West Hollywood		Los Angeles		Los Angeles County	
HH Composition	**2000**	**2013**	**2000**	**2013**	**2000**	**2013**
Non-Family Households	**14,035**	**14,090**	**339,524**	**382,762**	**643,200**	**704,065**
Single Person	11,076	10,834	257,256	285,397	492,223	535,139
2+ Persons	2,959	3,256	82,268	97,365	150,977	168,926
Family Households	**4,097**	**3,192**	**443,998**	**441,835**	**990,880**	**1,011,220**
Married Couple	3,059	1,938	258,896	233,646	584,262	550,290
Other Family	1,038	1,254	185,102	208,189	406,618	460,930
Total	**18,132**	**17,282**	**783,522**	**824,597**	**1,634,080**	**1,715,285**
Non-Family Households	**77.4%**	**81.5%**	**43.3%**	**46.4%**	**39.4%**	**41.0%**
Single Person	61.1%	62.7%	32.8%	34.6%	30.1%	31.2%
2+ Persons	16.3%	18.8%	10.5%	11.8%	9.2%	9.8%
Family Households	**22.6%**	**18.5%**	**56.7%**	**53.6%**	**60.6%**	**59.0%**
Married Couple	16.9%	11.2%	33.0%	28.3%	35.8%	32.1%
Other Family	5.7%	7.3%	23.6%	25.2%	24.9%	26.9%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Owner Occupied Units

	West Hollywood		Los Angeles		Los Angeles County	
HH Composition	**2000**	**2013**	**2000**	**2013**	**2000**	**2013**
Non-Family Households	**3,849**	**3,671**	**132,172**	**138,662**	**643,200**	**355,687**
Single Person	2,914	2,593	105,986	111,398	492,223	292,212
2+ Persons	935	1,078	26,186	27,264	150,977	63,475
Family Households	**519**	**1,027**	**205,882**	**357,701**	**990,880**	**1,159,411**
Married Couple	237	787	130,777	272,733	584,262	895,269
Other Family	282	240	75,105	84,968	406,618	264,142
Total	**4,368**	**4,698**	**338,054**	**496,363**	**1,634,080**	**1,515,098**
Non-Family Households	**88.1%**	**78.1%**	**39.1%**	**27.9%**	**39.4%**	**23.5%**
Single Person	66.7%	55.2%	31.4%	22.4%	30.1%	19.3%
2+ Persons	21.4%	22.9%	7.7%	5.5%	9.2%	4.2%
Family Households	**11.9%**	**21.9%**	**60.9%**	**72.1%**	**60.6%**	**76.5%**
Married Couple	5.4%	16.8%	38.7%	54.9%	35.8%	59.1%
Other Family	6.5%	5.1%	22.2%	17.1%	24.9%	17.4%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Notes:
The American Community Survey (ACS) publishes demographic estimates based on statistical sampling conducted continuously between 2009 and 2013.
Sources: US Census, 2000, ACS, 2009-2013; BAE, 2015.

Appendix A-2: Household Income by Age, 2013

	West Hollywood		City of Los Angeles		Los Angeles County	
Household Income	**Number**	**Percent**	**Number**	**Percent**	**Number**	**Percent**
Householder under 25 years	**789**	**3.6%**	**57,740**	**4.4%**	**106,744**	**3.3%**
Less than $15,000	185	0.8%	19,100	1.4%	30,686	0.9%
$15,000-$24,999	91	0.4%	8,238	0.6%	16,117	0.5%
$25,000-$34,999	115	0.5%	7,297	0.6%	13,986	0.4%
$35,000-$49,999	132	0.6%	8,750	0.7%	16,248	0.5%
$50,000-$74,999	163	0.7%	7,603	0.6%	15,724	0.5%
$75,000-$99,999	12	0.1%	3,257	0.2%	7,090	0.2%
$100,000-$149,999	37	0.2%	2,498	0.2%	4,963	0.2%
$150,000+	54	0.2%	997	0.1%	1,930	0.1%
Householder 25 to 44 years	**10,348**	**47.1%**	**541,728**	**41.0%**	**1,225,958**	**38.0%**
Less than $15,000	795	3.6%	63,755	4.8%	120,494	3.7%
$15,000-$24,999	847	3.9%	60,634	4.6%	121,376	3.8%
$25,000-$34,999	911	4.1%	58,938	4.5%	123,616	3.8%
$35,000-$49,999	1,187	5.4%	74,386	5.6%	163,187	5.1%
$50,000-$74,999	2,038	9.3%	96,158	7.3%	226,213	7.0%
$75,000-$99,999	1,693	7.7%	61,954	4.7%	159,547	4.9%
$100,000-$149,999	1,257	5.7%	67,946	5.1%	173,401	5.4%
$150,000+	1,620	7.4%	57,957	4.4%	138,124	4.3%
Householder 45 to 64 years	**6,962**	**31.7%**	**484,121**	**36.6%**	**1,277,166**	**39.5%**
Less than $15,000	1,246	5.7%	64,792	4.9%	130,819	4.0%
$15,000-$24,999	572	2.6%	48,099	3.6%	105,200	3.3%
$25,000-$34,999	682	3.1%	45,883	3.5%	104,917	3.2%
$35,000-$49,999	691	3.1%	60,785	4.6%	152,948	4.7%
$50,000-$74,999	775	3.5%	78,308	5.9%	214,991	6.7%
$75,000-$99,999	927	4.2%	55,106	4.2%	163,159	5.1%
$100,000-$149,999	852	3.9%	62,544	4.7%	200,692	6.2%
$150,000+	1,217	5.5%	68,604	5.2%	204,440	6.3%
Householder 65 years and ov	**3,881**	**17.7%**	**237,371**	**18.0%**	**620,515**	**19.2%**
Less than $15,000	1,372	6.2%	53,286	4.0%	117,351	3.6%
$15,000-$24,999	657	3.0%	38,331	2.9%	98,427	3.0%
$25,000-$34,999	502	2.3%	24,695	1.9%	67,662	2.1%
$35,000-$49,999	371	1.7%	28,657	2.2%	78,473	2.4%
$50,000-$74,999	409	1.9%	30,719	2.3%	88,441	2.7%
$75,000-$99,999	65	0.3%	19,259	1.5%	55,085	1.7%
$100,000-$149,999	333	1.5%	20,273	1.5%	58,762	1.8%
$150,000+	172	0.8%	22,151	1.7%	56,314	1.7%
Total	**21,980**	**100.0%**	**1,320,960**	**100.0%**	**3,230,383**	**100.0%**

Notes:
The American Community Survey (ACS) publishes demographic estimates based on statistical sampling conducted continuously between 2009 and 2013.
Sources: ACS, 2009-2013; BAE, 2015.

Appendix A-3: Renter Housing Affordability by Household Type, West Hollywood, 2008-2012

	Renter Households					
	Elderly 1 & 2 Member Households	Small Related (2 to 4 Members)	Large Related (5 or more Members)	Elderly Non-Family	All Other Households	Total Renters
Household Income <=50% MFI	**580**	**460**	**34**	**2,100**	**3,365**	**6,535**
Household Income <=30% MFI	**405**	**210**	**30**	**1,655**	**1,690**	**3,985**
% with any housing problems	75.3%	90.5%	100.0%	76.1%	80.2%	78.8%
% Cost Burden >30%	75.3%	92.9%	0.0%	76.1%	80.2%	78.2%
% Cost Burden >50%	46.9%	88.1%	0.0%	46.5%	75.4%	60.7%
6. Household Income >30% to <=50% MFI	**175**	**250**	**4**	**445**	**1,675**	**2,550**
% with any housing problems	42.9%	96.0%	100.0%	88.8%	87.8%	85.6%
% Cost Burden >30%	42.9%	96.0%	100.0%	80.9%	87.8%	84.3%
% Cost Burden >50%	8.6%	46.0%	0.0%	27.0%	74.0%	58.4%
10. Household Income >50 to <=80% MFI	**40**	**370**	**-**	**330**	**2,310**	**3,050**
% with any housing problems	37.5%	74.3%	N/A	77.3%	81.6%	79.7%
% Cost Burden >30%	37.5%	74.3%	N/A	72.7%	80.3%	78.2%
% Cost Burden >50%	37.5%	4.1%	N/A	12.1%	26.8%	22.6%
14. Household Income >80% MFI	**180**	**1,390**	**45**	**460**	**6,065**	**8,135**
% with any housing problems	8.3%	25.2%	100.0%	21.7%	19.0%	20.4%
% Cost Burden >30%	8.3%	19.4%	0.0%	17.4%	16.0%	16.4%
% Cost Burden >50%	0.0%	0.0%	0.0%	0.0%	0.8%	0.6%
18. Total Households	**800**	**2,220**	**79**	**2,890**	**11,740**	**17,720**
% with any housing problems	51.3%	47.5%	100.0%	69.6%	49.9%	53.1%
% Cost Burden >30%	51.3%	44.1%	5.1%	67.1%	48.1%	50.7%
% Cost Burden >50%	27.5%	14.2%	0.0%	32.2%	27.1%	26.2%

Definitions:
Any housing problems: cost burden greater than 30% of income and/or overcrowding and/or without complete kitchen or plumbing facilities. Cost burden is the fraction of a household's total gross income spent on housing costs.
Household types:
Elderly family (2 related persons, with either or both age 62 or over)
Small family (2 related persons, neither person 62 years or over, or 3 or 4 related persons)
Large family (5 or more related persons)
Elderly non-family
Other household type (non-elderly non-family)
Totals may not add due to independent rounding.

Sources: HUD, CHAS special tabulations from American Community Survey 2008-2012; BAE, 2015

Appendix A-4: Renter Housing Affordability by Household Type, West Hollywood, 2008-2012 (continued)

	Renter Households					
	Elderly 1 & 2 Member Households	**Small Related (2 to 4 Members)**	**Large Related (5 or more Members)**	**Elderly Non-Family**	**All Other Households**	**Total Renters**
1. Household Income <=50% MFI	**580**	**460**	**34**	**2,100**	**3,365**	**6,535**
2. Household Income <=30% MFI	**405**	**210**	**30**	**1,655**	**1,690**	**3,985**
3. % with any housing problems	305	190	30	1,260	1,355	3,140
4. % Cost Burden >30%	305	195	0	1,260	1,355	3,115
5. % Cost Burden >50%	190	185	0	770	1,275	2,420
6. Household Income >30% to <=50% MFI	**175**	**250**	**4**	**445**	**1,675**	**2,550**
7. % with any housing problems	75	240	4	395	1,470	2,184
8. % Cost Burden >30%	75	240	4	360	1,470	2,149
9. % Cost Burden >50%	15	115	0	120	1,240	1,490
10. Household Income >50% to <=80% MFI	**40**	**370**	**0**	**330**	**2,310**	**3,050**
11. % with any housing problems	15	275	0	255	1,885	2,430
12.% Cost Burden >30%	15	275	0	240	1,855	2,385
13. % Cost Burden >50%	15	15	0	40	620	690
14. Household Income >80% MFI	**180**	**1,390**	**45**	**460**	**6,065**	**8,135**
15. % with any housing problems	15	350	45	100	1,150	1,660
16.% Cost Burden >30%	15	270	0	80	970	1,335
17. % Cost Burden >50%	0	0	0	0	50	50
18. Total Households	**800**	**2,220**	**79**	**2,890**	**11,740**	**17,720**
19. % with any housing problems	410	1,055	79	2,010	5,860	9,414
20. % Cost Burden >30	410	980	4	1,940	5,650	8,984
21. % Cost Burden >50	220	315	0	930	3,185	4,650

Definitions:
Any housing problems: cost burden greater than 30% of income and/or overcrowding and/or without complete kitchen or plumbing facilities. Cost burden is the fraction of a household's total gross income spent on housing costs.
Household types:
Elderly family (2 related persons, with either or both age 62 or over)
Small family (2 related persons, neither person 62 years or over, or 3 or 4 related persons)
Large family (5 or more related persons)
Elderly non-family
Other household type (non-elderly non-family)
Totals may not add due to independent rounding.
Sources: HUD, CHAS special tabulations from American Community Survey 2008-2012; BAE, 2015

Appendix B: Housing Inventory

Appendix B-1: Housing Stock, 2000-2013

Type of Residence	West Hollywood				
	2000		2013		% Change
	Number	Percent	Number	Percent	2000-2013
Single Family Units	**2,495**	**10.3%**	**2,288**	**9.5%**	**-8.3%**
Detached	1,813	7.5%	1,867	7.8%	3.0%
Attached	682	2.8%	421	1.8%	-38.3%
Multifamily Units	**21,615**	**89.7%**	**21,718**	**90.3%**	**0.5%**
2-4 Units	1,836	7.6%	2,109	8.8%	14.9%
5-19 Units	10,490	43.5%	9,858	41.0%	-6.0%
20-49 Units	5,556	23.0%	6,245	26.0%	12.4%
50+	3,733	15.5%	3,506	14.6%	-6.1%
Mobile Home (a)	**-**	**0.0%**	**33**	**0.1%**	**N/A**
Total	**24,110**	**100.0%**	**24,039**	**100.0%**	**-0.3%**

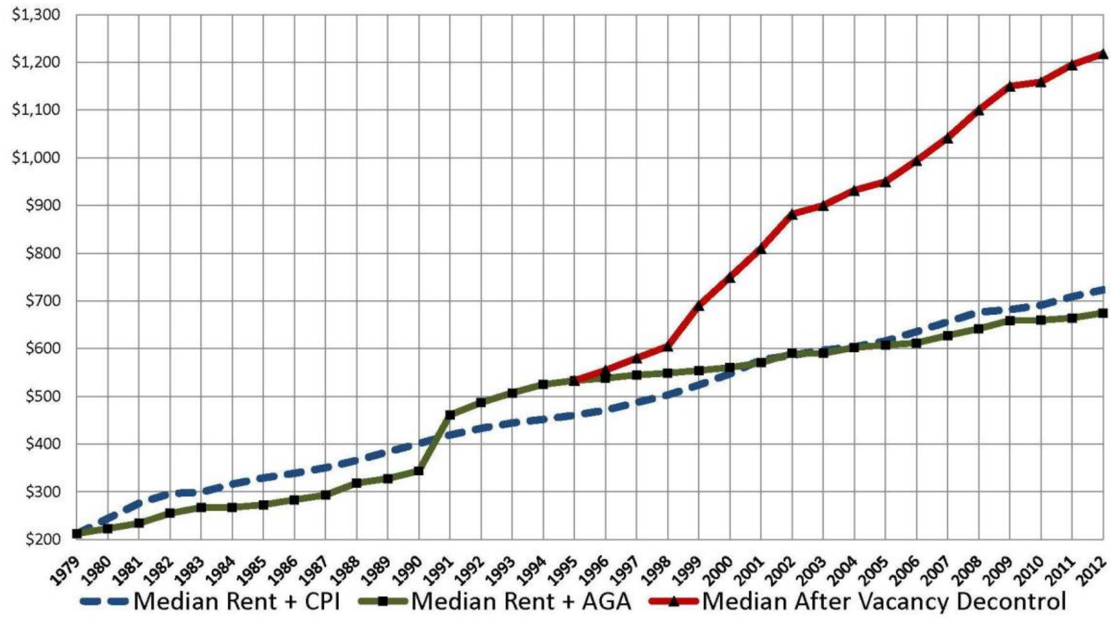
Type of Residence	City of Los Angeles				
	2000		2013		% Change
	Number	Percent	Number	Percent	2000-2013
Single Family Units	**612,563**	**45.8%**	**636,818**	**44.8%**	**4.0%**
Detached	524,787	39.2%	551,349	38.8%	5.1%
Attached	87,776	6.6%	85,469	6.0%	-2.6%
Multifamily Units	**716,023**	**53.5%**	**775,947**	**54.6%**	**8.4%**
2-4 Units	129,067	9.6%	122,753	8.6%	-4.9%
5-19 Units	264,897	19.8%	266,251	18.7%	0.5%
20-49 Units	171,633	12.8%	192,106	13.5%	11.9%
50+	150,426	11.2%	194,837	13.7%	29.5%
Mobile Home (a)	**9,082**	**0.7%**	**9,603**	**0.7%**	**N/A**
Total	**1,337,668**	**100.0%**	**1,422,368**	**100.0%**	**6.3%**

	Los Angeles County				
	2000		2013		% Change
Type of Residence	Number	Percent	Number	Percent	2000-2013
Single Family Units	**1,835,087**	**56.1%**	**1,942,160**	**56.2%**	**5.8%**
Detached	1,593,516	**48.7%**	1,716,738	**49.7%**	7.7%
Attached	241,571	**7.4%**	225,422	**6.5%**	-6.7%
Multifamily Units	**1,379,201**	**42.2%**	**1,455,760**	**42.2%**	**5.6%**
2-4 Units	287,524	**8.8%**	278,371	**8.1%**	-3.2%
5-19 Units	532,441	**16.3%**	539,917	**15.6%**	1.4%
20-49 Units	289,352	**8.8%**	312,143	**9.0%**	7.9%
50+	269,884	**8.3%**	325,329	**9.4%**	20.5%
Mobile Home (a)	**56,621**	**1.7%**	**54,981**	**1.6%**	**N/A**
Total	**3,270,909**	**100.0%**	**3,452,901**	**100.0%**	**5.6%**

Notes:
The American Community Survey (ACS) publishes demographic estimates based on statistical sampling conducted continuously between 2009 and 2013.
(a) Includes standard mobile homes and boats, RVs, vans, and other vehicles that serve as a primary residence.
Sources: US Census, 2000; ACS, 2009-2013; BAE, 2015.

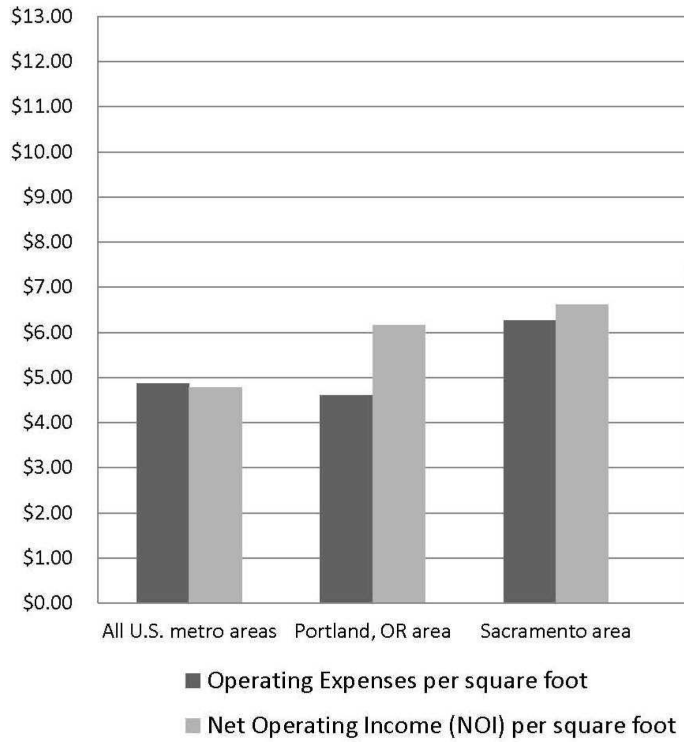
Appendix C: Tables from Berkeley Case Study

Appendix C-1: Median Market Rent Compared to Regulated Rent before Vacancy Decontrol, Berkeley, 1979-2012



Source: Rent Stabilization and the Berkeley Rental Housing Market 15 Years after Vacancy Decontrol, Berkeley Rent Stabilization Board, 2013.

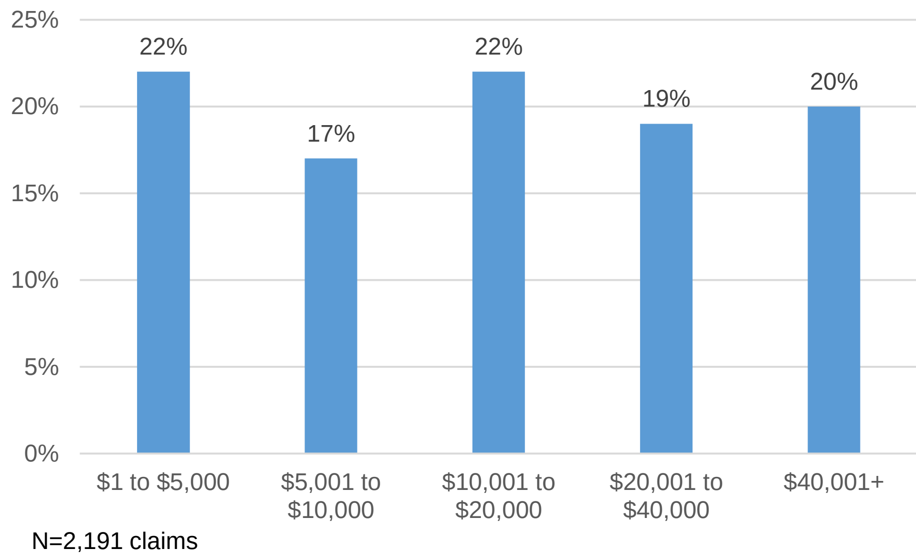
Appendix C-2: Net Operating Income Compared to Operating Expenses, 2011



Source: Rent Stabilization and the Berkeley Rental Housing Market 15 Years after Vacancy Decontrol, Berkeley Rent Stabilization Board, 2013.

Appendix D: Tables from Los Angeles Case Study

Appendix D-1: Dollar Value of Capital Improvement Claims, 2003-2008



Source: Economic Study of the Rent Stabilization Ordinance, City of Los Angeles Housing Department, 2009