RENT ADJUSTMENT

Proposal. The Tenants Committee proposes that the yearly allowable rental increase be determined by the Bureau of Labor Statistics 'Los Angeles-Riverside-Orange County Consumer Price Index' (CPI) and fluctuate with inflation to an 8% ceiling commensurate with the Chapter 5 policy.

Discussion. For over forty years the CPI has been used successfully by the City of Beverly Hills to determine the allowable annual rent increase for Chapter 5 tenants. The policy has increased residential stability in Beverly Hills. Today CPI is also used elsewhere in the current rent stabilization ordinance to determine the rate of increase in relocation fees (for both Chapter 5 and Chapter 6 tenants). This is tacit acknowledgment that no adjustment to the fees beyond CPI is necessary in order to keep pace with the market for rental housing.

Moreover, rent-stabilized cities as a rule look to CPI to determine the annual 'general rent adjustment' (that is, the change in the maximum allowed rent or MAR). West Hollywood and Santa Monica calculate their adjustment at the rate of 75% of CPI. This year that amounts to an increase of 1.75% in the maximum allowable rent for West Hollywood, for example. Los Angeles this year allows for an annual adjustment of 3%. The allowed increase is also benchmarked to CPI and has been unchanged for the past seven years. For 20 of the past 25 years it has remained at 3%.

The Committee had proposed that no rent adjustment should be approved automatically unless the property owner maintains the property to applicable building codes as well as revised habitability standards (to include the unit interior). We have withdrawn that proposal; the Committee acknowledges that maintenance to a standard may be accomplished though other means.

Landlords, however, have consistently claimed that higher expenses mandate a higher increase. For months they have claimed that a 7% annual increase is required to meet expenses *which they have estimated to increase 8% every year*. They have rejected any increase indexed to CPI (indeed *any* CPI) as simply unworkable. That is nonsense.

First, their expenses do not increase by 8% annually; indeed they offer no support for the claim. However the Bureau of Labor Statistics does collect data on housing inputs and the CPI-U (all urban areas costs) conveniently includes *all* of the landlords' likely expenses from electricity to gardening. So our Committee looked at twelve key inputs including all utilities and labor for repairs. We found that <u>expenses for housing providers have over nearly ten years increased at an average rate of just .6%</u> (less than one percent). Even when we isolate utilities to include only electricity, water, gas, and trash collection, the CPI urban sample shows that costs have increased at only an annual average of just 1.3% over that time.

Landlords also claim that their expenses in Beverly Hills are higher than surrounding areas. Yet they have provided no support for their claim that *they get billed more* because they are located in Beverly Hills. All communities in the Los Angeles urban region share the same markets for commodities, labor, and most utilities, after all.

However we want to give the landlords the benefit of the doubt. Our Committee looked at the books for three Beverly Hills rental properties. We examined most expenses over the past four years to included insurance, property taxes, city permits, gross receipts tax, and of course all utilities.[1] We found that, for all three buildings during the period, actual expenses for operations increased at an annual rate of less than 1.5%. If we isolate utilities over that relatively brief period, we actually see a decline in actual utilities costs. (Utilities vary quite a bit year-to-year but tend to average out to a low annual increase.)

Our Committee then compared the actual operating expenses (above) for Beverly Hills properties over four years to the CPI-U costs for that period. According to the Bureau of Labor Statistics, expenses for all urban housing consumers increased at just .8% (less than one percent) while utilities increased by 1.7% between 2013 and 2016.

No cost of providing housing, whether actual costs incurred here in Beverly Hills or those surveyed nationally by BLS, comes anywhere close to the annual increase that landlords' have claimed (8%).

Finally, whatever the determined annual increase may be, any landlord can apply for a 'rent adjustment' (Section 4-6-11: Rent Adjustments Upon Application). Under the current policy, the adjustment expressly affords the housing provider a "just and reasonable return based on net operating income principles." Should net operating income (gross income minus every conceivable operating expense) decline relative to the baseline year (2016), a Hearing Officer may find substantive grounds for a rent increase beyond the allowed annual increment.

The rent adjustment provision greatly favors the landlords by 1) benchmarking profits relative to just last year which was a high-water mark since the economic crisis (and a period that City Council has characterized as a period of rising rents); 2) allowing the landlord to include expenses that do not distinguish between maintenance and capital improvements that may be fair reason for a rent increase; and 3) giving landlords a get-out-of-jail-free card in the guise of a 'savings clause."

The savings clause "provides a basis for a hearing officer to receive relevant evidence demonstrating that a landlord is not receiving a just and reasonable return under the provisions of the net operating income formula, *so that the application of the net operating formula may be modified* to provide a just and reasonable return to the landlord." (Emphasis added.)

Addendum. Our Committee had proposed to use the Bureau of Labor Statistics 'Rent of primary residence in U.S.' index (an index focused on rented housing) to determine the allowed annual increase. We did so because we accepted as an article of faith the landlords' claim of high-and-rising provider expenses (8% annually they claimed many times). Now we have seen the data, both a sample of actual expenses incurred by local landlords and the change in costs nationally as published by the Bureau of Labor Statistics. The landlords' claim is simply not supported. As a consequence, our Committee now aligns with other rent-stabilized cities to tie the allowed annual increase to an objective benchmark, the BLS-published 'Los Angeles-Riverside-Orange County Consumer Price Index.'

[1] We excluded expenses like management fees and repairs because significant variation precluded drawing general inferences from that data. In any case, the costs of excluded expenses are both less likely to impact costs and, more importantly, less subject to change year-over-year.