



AGENDA REPORT

Meeting Date: June 27, 2023
Item Number: G-2
To: Honorable Mayor & City Council
From: Nestor Otazu, CCEO, Deputy Director of Rent Stabilization
Cameron Kesinger, Senior Management Analyst
Subject: REPORT ON CONSUMER PRICE INDEX (CPI) DATA AND THE
RENT STABILIZATION ORDINANCE (RSO) ANNUAL RENT
INCREASE
Attachments: None

RECOMMENDATION

Staff recommends that the Council receive a report on the most recent CPI data and its relationship to the RSO authorized annual rent increases and provide direction on any future action regarding allowable rent increases, including whether to approve staff's recommendation to follow the methods of computing annual rent increases set forth in Chapters 5 and 6 of Title 4 of the Beverly Hills Municipal Code.

INTRODUCTION

On March 15, 2020, the City's Director of Emergency Services declared a local emergency and on March 16, 2020, the City Council adopted Urgency Ordinance 20-O-2805, as superseded from time to time by subsequent ordinances, affirming the local emergency and imposing a temporary moratorium on the annual rent increases authorized by Sections 4-5-303(C) and 4-6-3 of the Beverly Hills Municipal Code (BHMC). On March 15, 2022, the City Council commenced their discussion on amendments to Urgency Ordinance 20-O-2818, which superseded Urgency Ordinance 20-O-2805, and the maximum allowable rent increases that would be allowed at the end of the rent increase moratorium. On May 10, 2022, the City Council passed Ordinance 22-O-2861, amending Ordinance 20-O-2818.

Ordinance 22-O-2861, among other things, ended the rent increase moratorium on May 31, 2022, and established a maximum rent increase of 3.1% for the period of June 1, 2022 through June 30, 2023 for both Chapter 5 and Chapter 6 tenants. The rent increase was only authorized for units that would have been eligible for a rent increase during the

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period of July 1, 2019 through June 30, 2020, but either were not given a rent increase or were given a rent increase of less than 3.1%. If the rent increase was imposed at a rate of less than 3.1%, the maximum allowable rent increase was reduced by the percent increase that was imposed.

On April 18, 2023, the City Council approved Urgency Ordinance 23-O-2874, affirming the 3.1% cap on the allowable annual rent increase for the period June 1, 2022 through June 30, 2023, established by Ordinance 20-O-2861 following the end of the local emergency on April 19, 2023.

No other annual rent increases were allowed during the period from June 1, 2022 through June 30, 2023, which means that the owners of approximately 74% of rent stabilized units have been precluded from implementing any rent increase for the current period.

As the May-to-May Consumer Price Index figures upon which Chapter 6's calculations are based are now publicly available, staff wishes to share these calculations with the City Council in order to seek confirmation of allowable annual rent increases for the period July 1, 2023 through June 30, 2024.

DISCUSSION

Maximum Allowable Rent Increases

The general purpose of the Rent Stabilization Ordinance (RSO) is to create a balance between protecting tenants from excessive rent increases while allowing housing providers to receive a reasonable rate of return on their investments. Units subject to the maximum allowable rent increases are those with continued occupancy. Once a unit is voluntarily vacated, the rent for the unit can be set to market rate, and when the unit is reoccupied, the unit becomes subject to the RSO's annual maximum allowable rent increase cap.

Rent Increases

The Beverly Hills Municipal Code classifies tenants of units in apartment buildings as either a Chapter 5 or Chapter 6 tenant as follows:

- **Chapter 5.** Those tenants with original rental contracts that provide for rents of \$600 or less per month and living in a structure completed before September 20, 1978; or
- **Chapter 6.** Those tenants with original rent contracts that provide for rents exceeding \$600 per month or living in a building that has a certificate of occupancy issued on or before February 1, 1995.

For Chapter 5 tenants, the maximum allowable annual rent increase is calculated monthly, using the lesser of 8% or the change in the CPI as of the date of the notice of increase, calculated by determining the difference between the sum of the Los Angeles Area CPI for the most recent 12 months and the preceding 12 months, and dividing that difference by the lesser of the two 12 month period sums (BHMC 4-5-303).

For Chapter 6 tenants, the maximum allowable annual rent increase is the greater of 3% of the rental rate then in effect or the percentage equal to the percentage increase, if any, of the LA Area CPI between May 1 of the then current year and May 1 of the preceding year (BHMC 4-6-3).

The State Tenant Protection Act (TPA), Civil Code Section 1947.12, limits annual rent increases for certain rental units to 5% plus the cost-of-living increase or 10%, whichever is less, of the lowest gross rental rate charged for that unit at any time during the 12 months prior to the effective date of the increase. However, the TPA does not prohibit local annual rent increase caps that are more restrictive and, therefore, does not override the annual caps on rent increases that are set forth in Chapters 5 and 6 of Title 4 of the Beverly Hills Municipal Code, provided that an allowable increase for Chapter 6 units does not exceed 10%.

Both Chapter 5 and Chapter 6 tenancies are limited to a maximum of one rent increase every 12 months, except that housing providers may petition for rent increases beyond the allowable percentage amount through a rent increase application process to ensure that housing providers are receiving a reasonable rate of return on their investments (BHMC 4-6-11) and are not subject to an undue hardship (BHMC 4-5-401).

The Beverly Hills Municipal Code provides that a housing provider shall not be authorized to place into effect an annual rent increase unless the housing provider has given the affected tenants advance written notice in accordance with the requirements of state law. State law, Civil Code Section 827, provides that if the proposed rent increase is 10% or less, the notice must be delivered at least 30 days before the effective date of the increase. Otherwise, the notice must be delivered at least 90 days before the effective date of the increase.¹

Current CPI Data and Potential Rent Increases

As has been previously discussed by the City Council, the rate of inflation has increased, which resulted in high CPI numbers last year that would have affected the allowable rent increases for both Chapter 5 and Chapter 6 tenants, but for the City Ordinance that limited the rent increase for the period from June 1, 2022 to June 30, 2023 to 3.1%. May-to-May CPI data for the current period was released earlier this month, and the allowable annual rent increases calculated in accordance with the Beverly Hills Municipal Code are as follows:

- **Chapter 5 Tenants:** 5.94%
- **Chapter 6 Tenants:** 3.20%

The calculation for Chapter 5 is still elevated relative to many previous years because the CPI calculation for Chapter 5 takes into account the increases from each month over the last 12 months. (BHMC 4-5-303). As the City Council may recall, inflation was significantly higher during several months of the most recent 12-month period.

As such, the calculation necessarily incorporates the elevated rates of inflation between 2021 and 2022, which were heightened in part due to the extraordinary circumstances surrounding the COVID-19 pandemic.

The calculation for Chapter 6, on the other hand, only takes into account the CPI change from May of the preceding year to May of the current year, and as such is not significantly altered relative to other years (including the last allowable annual rent increase figure for the period from 2019-2020, which was 3.10%).

¹ Five additional days must be added, if notice is provided by mail.

Neighboring Cities' Approach

City of West Hollywood

The City of West Hollywood ended its rent increase moratorium effective March 1, 2023, and returned to their established means of calculating the annual rent increase effective that same date. The annual allowable rent increase is determined by the Rent Stabilization Commission based on 75% of the Consumer Price Index for the area. For the period from March 1, 2023 through August 31, 2023, the City is allowing an increase in rent not to exceed 3.0%. The yearly allowable increase period in the City generally runs from September 1st through August 31st of the following year, so it is likely that a new calculation of the Consumer Price Index will be forthcoming in August of this year. The City has not provided for landlords to recover rent increases not implemented due to the rent increase moratorium during the pandemic; rather, there was a direct return to the regular calculations for the annual allowable rent increase following the expiration of the rent increase moratorium earlier this year.

City of Santa Monica

The City of Santa Monica provides for a calculation of 75% of the percentage change in the Consumer Price Index for the Los Angeles area for the year ending in March, with the effective increase date in September of the same year. The rent increase calculation effective September of 2022 was 6% and reflects a return to the calculations used for the annual rent adjustment prior to the pandemic-associated rent increase moratoria. However, voters subsequently approved Measure RC, which caps any annual allowable rent increase for rent-stabilized units at 3%. As such, the City subsequently revised the figure for the allowable rent increase to 0.8% effective February 1, 2023, reflecting an average increase of 3% for the period of September 1, 2022 through August 31, 2023. The City of Santa Monica has not provided for landlords to recover rent increases not implemented due to the rent increase moratorium during the pandemic.

City of Los Angeles

The City of Los Angeles established a provision that does not allow the resumption of annual rent increases until at least one year following the expiration of the City's local COVID-19 emergency order. As the COVID-19 emergency order for the City expired on January 31, 2023, no rent increases will be allowed until after January 31, 2024. The traditional calculation for the annual allowable rent increase in Los Angeles is based on the Consumer Price Index, with a minimum of 3% and a maximum of 8%. Los Angeles has not given any indication on the question of allowable rent increases following the January 31, 2024 date, and it is unclear whether landlords will be provided the opportunity to recoup any increases lost during the rent increase moratorium following that date.

City of Culver City

Culver City utilizes a monthly annual allowable rent increase calculation of 100% of the Consumer Price Index, with a minimum increase of 2% and a maximum increase of 5%. The calculation is based on CPI figures for two months prior to the announced increase (for example, the allowable increase published for December would be calculated using the CPI data from October of the same year as compared to the previous year). Culver City's Ordinance went into effect on October 30, 2020, and the City has been allowing

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rent increases using the above formula for all tenants since that point. The most recent calculation for the period of June 1-June 30, 2023 is the 5% maximum allowed, which has been the allowed figure for more than one year. As there has been no rent increase moratorium in effect since the implementation of the Rent Stabilization Ordinance, effective October 30, 2020, the City is not currently considering any mechanism to address missed increases by housing providers.

Next Steps

Some housing providers have expressed a desire that the City Council provide a mechanism for housing providers to recoup rent increases missed during the City's rent increase moratorium. Others have indicated that they prefer a return to the calculations set forth in the Beverly Hills Municipal Code, in order to increase predictability moving forward. Tenants have expressed concern about the volatility of increases in the current inflationary environment and are concerned about the impact of any large increases.

Although there is a noteworthy increase on Chapter 5 tenants compared to recent years, the Rent Stabilization Division is currently in the process of proposing a means tested rent subsidy program to the City Council that is intended to offset the impact of the annual allowable rent increase on the City's most vulnerable tenants. There are approximately 139 rental units in the City that still are subject to Chapter 5.

Given this pending program and the relatively normal CPI figures for Chapter 6 tenants, and in recognition of the lapse of city, county, state, and federal emergency orders related to the COVID-19 pandemic, staff recommends that the City Council allow housing providers to return to the regular calculations for Chapter 5 and Chapter 6 units, as established under the Beverly Hills Municipal Code because this will bring back predictability and normalcy to both housing providers and tenants in the City.

NOTIFICATION

Notice regarding the City Council meeting of June 27th and discussion of this item was mailed out to all housing providers and tenants on Thursday, June 8, 2023. The same Notice was also provided by email on June 15, 2023 to all housing providers. Information regarding the CPI figure release date and upcoming City Council meeting was also posted on the City's website on May 8, 2023.

FISCAL IMPACT

There is no direct fiscal impact associated with this item.

Ryan Gohlich
Assistant City Manager
Approved By