

Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Vice Mayor Magdalena Carrasco
Councilmember Raul Peralez

SUBJECT: SEE BELOW

DATE: November 9, 2017

Approved

Date

11/9/17

ACTIONS RELATED TO APARTMENT RENT ORDINANCE AND REGULATIONS

RECOMMENDATION

Accept staff recommendation of modifying annual rent increases to 100% Consumer Price Index (CPI-U) with the following amendment to set the floor at 2% and ceiling at 5%.

BACKGROUND

I thank the Housing department and my colleagues for beginning the necessary conversations and taking the actions to update our 38-year-old rent control ordinance. Passing the CPI-U recommendation with a modification of a 5% ceiling will let the Apartment Rent Ordinance (ARO) finally serve its purpose in striking a fair balance to providing the most vulnerable communities with rental stability while maintaining a fair return for landlords on their property in San José.

Housing affordability is the most pressing issue our region is currently facing. As the wealth gap continues to grow in the Silicon Valley, ARO tenants, many of whom are low income and minority residents, face the harsh reality of being out priced and displaced. Our City's current policy measures have not been strong enough to provide our tenants' adequate protection from the housing market.

There are an overwhelming number of families and individuals whose quality of life is severely compromised in order to meet the demands of their rents. With an estimated half of San José renters qualifying as rent burdened, paying 30% or more of their income on housing, the CPI-U model will allow for affordability and stability as income levels are

not matching the rates in which rents are rising.¹ Tying in rent increases to the CPI-U will ensure that rents remain rather steady and do not rise more quickly than incomes.

Capping the ceiling at 5% gives tenants the assurance of knowing that fluctuation in rent would be restricted. An 8% ceiling would continue to create uncertainty as an unexpected 8% spike one year could become a financial burden and thus continue to uphold the cycle of rent uncertainty and displacement that the new ARO is intended to fix.

Seven major cities that consistently rank as the most expensive rental markets in the nation set their rent increases to the CPI-U and have still allowed landlords to receive a fair return. In addition, landlords have the fair return petition process in the event they are not meeting their guaranteed net income. Reports have shown that very few fair return petitions have been filed in cities that use the CPI-U model, even in those that only utilize a fraction of it.²

At this time, we agree with our Housing Department that the addition of duplexes should not be recommended. While it would add more rent stabilized units into the program, we do not have a policy review to know the full beneficial impacts on both landlords and tenants as duplexes are smaller in size and more often, owned locally and individually. The inclusion of duplexes will create a significant strain on our Housing Department's workload with its current demands and priorities.

Affecting 44,000 rental units, the ARO is a powerful tool to protect the most vulnerable but is just one tool in tackling our severe shortage of affordable housing. Whether it is our tenants and their families that have lived in San José for generations or working class individuals that provide the services we need everyday, there is no denying that they play an integral part in shaping San José's societal and cultural structure. It is now time to revise our outdated ARO to create the housing stability they deserve to live, work, and thrive in our City.

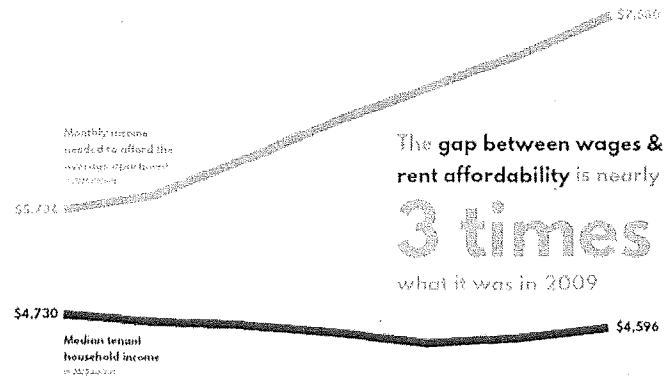


Table 4.2.
Rent Stabilization Ordinances
Annual Rent Increase Standards

Annual Rent Increase Based on CPI*	
Jurisdiction	Annual Rent Increase Standard
Los Angeles	100% of CPI (Minimum 3%, Maximum 8%)
San Francisco	60% of CPI
Oakland	100% of CPI
Berkeley	65% of CPI
Santa Monica	75% of CPI
West Hollywood	75% of CPI
East Palo Alto	80% of CPI
Fixed Percentage Annual Increase	
Jurisdiction	Annual Rent Increase Standard
San José	8%
Hayward	5%
Beverly Hills	10%
Los Gatos	5%

*All of the ordinances use the CPI-U All Items except the Oakland ordinance which uses the average of the CPI All Items and All Items Less Shelter Indexes.

¹ Working Partnerships USA and Silicon Valley Rising, Soaring Rents, Falling Wages (Oct. 2017)

² Bar, K., Burns, P., & Fleming, D. (2016). San José ARO Study (Rep.). San Jose, CA: Economic Roundtable

The signers of this memorandum have not had, and will not have, any private conversation with any other member of the City Council, or that member's staff concerning any action discussed in the memorandum, and that each signer's staff members have not had, and have been instructed not to have, any such conversation with any other member of the City Council or that member's staff.