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### **Author**

Phillips, Shane

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# Revisiting LA’s Rent Stabilization Ordinance and “Allowable Rent Increases”

Shane Phillips • 2019

## Key Findings and Policy Implications

- » Currently, cities with rent-stabilization programs are not allowed, under state law, to expand rent control to newer buildings; however, they can modify the amount that landlords are allowed to increase rents in a given year.
- » Jurisdictions vary in how they calculate “allowable rent increases,” but almost all tie rent increases to the consumer price index (CPI), which is the standard measure of inflation.
- » San Francisco limits annual rent increases to 60 percent of CPI; Santa Monica limits to 75 percent of CPI. The Beverly Hills rent-stabilization program works differently, limiting rent increases to CPI or 3 percent, whichever is greater.
- » Among California cities with rent control programs, Los Angeles has among the highest floors on allowable rent adjustments. Since 1985, Los Angeles has limited rent increases to between 3 and 8 percent even when the inflation rate has been lower.
- » The gap between CPI and Los Angeles’ annual allowable rent increase has compounded for more than a decade, and renters — especially long-time tenants — are paying more because the 3-percent minimum exceeds, rather than matches, inflation rates.

## California’s worsening housing crisis has triggered an intense debate about rent control.

Rent control has always been controversial: Seen by some as essential to protecting vulnerable households from increasing rent burden and displacement, and by others as a well-intentioned but flawed action that often makes housing affordability worse. The rent control debate has been taken statewide with citizen action, massive political expenditures, and a flurry of legislative activity.

In 2018, more than \$100 million was spent on Proposition 10, a ballot initiative allowing cities to expand their rent control programs. Specifically, it would have repealed the Costa-Hawkins Rental Housing Act, a state law that limits the

extent of local rent control. That initiative was defeated at the polls by a 59-41 margin, and legislative efforts to repeal or reform Costa-Hawkins also failed in 2018 and 2019 (AB 1506 and AB 36, respectively). In 2019, the state legislature passed a more modest cap on rental housing over 15 years old, limiting rent increases to 5 percent plus inflation.<sup>1</sup> Looking ahead to 2020, another Costa-Hawkins reform initiative will probably be on the ballot.<sup>2</sup>

These statewide efforts have drawn the most money and attention, and can create the impression that rent control’s efficacy depends entirely on state action. However, local jurisdictions already have considerable leeway in establishing and/or reforming their own rent control policies. In this brief, we examine one such opportunity in the design of Los Angeles’ rent-stabilization ordinance — the minimum and maximum limits on “allowable rent increases.”

## LA's Rent Stabilization Ordinance

Los Angeles' rent-stabilization ordinance (RSO) limits annual rent increases on approximately 600,000 homes<sup>3</sup>, representing more than 40 percent of total units and nearly 70 percent of rental housing in the city.<sup>4</sup> Rent stabilization protects tenants from large rent hikes once they move into a home, only permitting landlords to raise rents by a rate determined each year by the city's Housing and Community Investment Department. In Los Angeles, as in many other California jurisdictions with rent-stabilization programs, these "allowable rent increases" are tied to annual changes in the consumer price index (CPI).

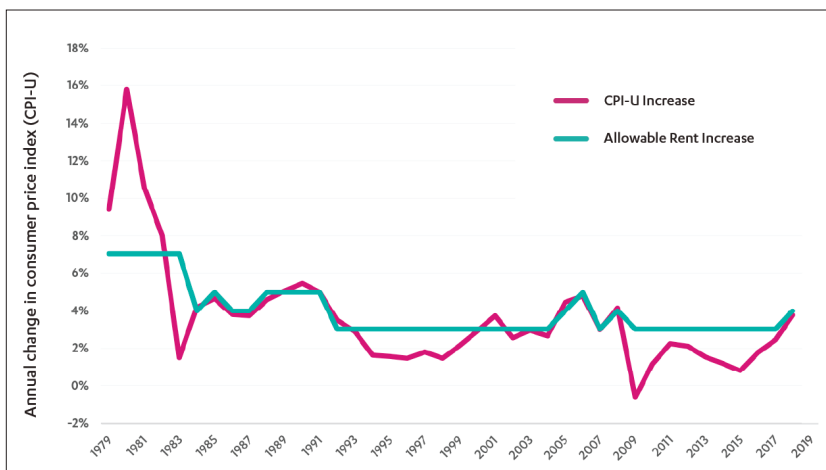
Different jurisdictions use CPI to determine rent increase limits in various ways. San Francisco and Santa Monica both limit rent increases to a percentage of the increase in CPI: 60 percent and 75 percent, respectively. Beverly Hills sets a minimum allowable rent increase of 3 percent but does not establish a maximum. Los Angeles rounds the CPI to the nearest whole number to establish its annual allowable rent increase, but does not allow this number to fall below 3 percent or above 8 percent. So in Los Angeles, if the regional CPI is 3.7 percent a year, then landlords would be permitted to increase rents by 4 percent. If CPI increases by 12 percent, the maximum allowable rent increase would be 8 percent. If CPI grew by 1.2 percent, then rent increases of up to 3 percent would be allowed.

The Costa-Hawkins Rental Housing Act prohibits cities from expanding pre-existing rent control programs to most newer buildings. This prohibition includes Los Angeles, where the rent-stabilization ordinance applies almost exclusively to

multi-family rental housing built before 1979. Costa-Hawkins also mandates "vacancy decontrol," a policy allowing landlords to set rents at the market rate when tenants vacate their unit. The law does not, however, prohibit cities from modifying their rules relating to maximum annual rent increases.

The allowable rent increase limits in Los Angeles are the result of a 1985 compromise between two opposing political factions. The city passed a rent-stabilization ordinance in 1979 that limited rent increases to 7 percent annually. Six years later, tenant advocates argued for increases to be capped at 65 percent of CPI, while landlords wanted to maintain the 7-percent limit. Either plan would have required support from the majority of City Council, and there was concern that neither proposal could secure enough votes to pass. The compromise plan, which established the 3- to 8-percent range, won approval in a 12-2 vote — what the Los Angeles Times called "a surprisingly large margin."<sup>5</sup>

These increases were passed at a time when inflation was relatively high, and on the tail end of a long period where inflation had not just been high but where policymakers worried it could not be controlled. The inflation rate in the Los Angeles region, measured as a 12-month average from October through September, peaked at 15.8 percent in 1979-1980 and was at or above 7 percent from the inception of the rent-stabilization program through 1982. However, it fell sharply to 1.5 percent in 1983 and then rose again to approximately 4 to 5 percent for the next two years.<sup>6</sup> With the country beginning to recover from the runaway inflation of the past decade, in which the national inflation rate had not fallen below 3 percent since 1973, the compromise plan approved in 1985 may have appeared favorable to tenants.



**Figure 1.** Changes in the consumer price index (CPI-U) have regularly fallen below LA's minimum allowable rent increase since the 1990s, and especially since 2009.

**Table 1.**

Rent increases have been permitted to outpace the inflation rate for rent-stabilized homes in Los Angeles.

Year Moved In	Starting Monthly Rent	Monthly Rent in 2019		Additional Monthly Rent Paid using 3% Min. Instead of CPI-U
		w/ 3% Min.	w/CPI-U	
1994	\$600	\$1,358	\$1,089	\$269
2009	\$1,200	\$1,628	\$1,411	\$217
2015	\$1,500	\$1,756	\$1,655	\$101

*The gap between the consumer price index (CPI-U) and the rent-stabilization ordinance’s 3-percent floor have caused allowable rent growth to outpace inflation, especially for long-term tenants in rent-stabilized housing.*

## Allowable Rent Increases Under the New Regulations

The consumer price index increased between 3 and 6 percent every year from 1985 through 1994, meaning that CPI and allowable rent increases were closely aligned. Over the next 16 years, through 2009, CPI fell below 3 percent 10 times. The trend has accelerated in the last decade: The inflation rate plunged into negative territory in 2009 and remained below 3 percent every year until 2018, averaging about 1.4 percent over this time period.

While these numbers may sound small, the consequences for low-income renters have not been. Had LA rent increases been tied directly to the CPI instead of an arbitrary range, a long-term tenant with a \$600/month lease in 1994 would be paying a maximum of \$1,089 in rent in the same home today. Under current law, the same tenant is instead paying up to \$1,358 — nearly \$300 more per month, or an additional \$3,200 annually. (Approximately 300,000 Angeleno households earn \$25,000 or less each year.)

The share of tenants who stay in the same home for 20 years or more is very small, but this policy has a significant impact on more recent movers as well. Someone who moved into their home in 2009 and paid \$1,200 could have seen their monthly rent increase to \$1,411 by 2018, according to CPI calculations, but may instead be paying up to \$1,628 under the city’s minimum 3-percent rule. A tenant who moved into a \$1,500 unit as recently as 2015 could have a monthly rent \$100 greater than if their rent increases were tied directly to inflation (\$1,655 vs \$1,756 per month).

## Possible Reforms to the Rent Stabilization Ordinance

If policymakers want to strengthen tenant protections but don’t want to run afoul of state laws, they may consider eliminating the 3- to 8-percent limitations and tying annual allowable rent increases directly to the CPI. If inflation is 1.2 percent, rent increases would be capped at the same rate; if inflation was 3.8 percent, that would be the maximum allowable rent increase for the year. This solution would be the simplest and most responsive to different circumstances in the future. It would also eliminate the discrepancy between inflation and rent growth.

The city could also limit rent increases to a fraction of CPI (as is done in San Francisco, Santa Monica, and elsewhere), which some tenant advocates have called for since the inception of rent stabilization in LA. However, in its 2010 report the city’s housing department stated that it “fails to find an appropriate policy basis for expansion of the discounted CPI to the Los Angeles RSO” (LAHD Supplemental Rent Study Transmittal, pg. 3). Similarly, an Economic Roundtable report stated that CPI, not a portion of it, “is the best available economic benchmark for setting rent increases, although it has weaknesses as well as strengths,” and that it “fairly balances the interests of renters and owners.”

Another option is to adjust the range. A 2010 report<sup>7</sup> by the city’s housing department recommended widening the range of allowable rent increases to 2 to 9 percent, and that the adjustment be rounded to the nearest tenth of a percent rather than the whole number. However, this change was not adopted at the time, and it still would have resulted in allowable rent increases outpacing inflation for a number of recent years.

