

# PASADENA RENTAL BOARD

Agenda Item No. 1: Annual General Adjustment and Base Rent

# AGENDA ITEM NO. 1: PURPOSE

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Provide the Rental Board with an informational training about Base Rent and Annual General Adjustments in preparation for adoption of the first Annual General Adjustment.

# PURPOSE OF CHARTER AMENDMENT

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“The purpose of this Amendment is to promote neighborhood and community stability, healthy housing, and affordability for renters in Pasadena by regulating excessive rent increases and arbitrary evictions to the maximum extent permitted under California law, while ensuring Landlords a fair return on their investment and guaranteeing fair protections for renters, homeowners, and businesses.” (Section 1801.)

# RENT STABILIZATION

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- Regulates “excessive rent increases” via rent stabilization
- Rent stabilization means:
  - ▣ “[N]o Landlord shall charge Rent for a Covered Rental Unit in an amount that exceeds the sum of the Base Rent plus any lawful Rent increases actually implemented pursuant to” the Charter Amendment. (Section 1807(a).)
- Lawful rent increases are **ONLY** those pursuant to:
  - ▣ Annual General Adjustment (Section 1808.)
  - ▣ Petitions for Upward Adjustment (Sections 1813 and 1814.)

# RENT STABILIZATION, CONT'D.

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- Other aspects of rent stabilization include:
  - ▣ No more than one Rent increase per 12-month period (Section 1808(b).)
  - ▣ At least 30 days' written notice required before implementing a rent increase (Section 1808(c).)
  - ▣ No “banking” of rent increase permitted (i.e., if AGA not taken by September 30, then lost) (Section 1808(a)(4).)
  - ▣ No rent increases permitted if Landlord noncompliant (Section 1808(e).)
  - ▣ Petitions for Downward Adjustment (Sections 1813 and 1814)

# ANNUAL GENERAL ADJUSTMENT

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- “The Annual General Adjustment is the percentage by which the Rent for existing tenancies in Covered Rental Units may be increased each year, subject to the limitations of” the Charter Amendment. (Section 1808(a).)
- The Rental Board shall:
  - ▣ “Set allowable Rent increases at fair and equitable levels to achieve the purposes of” the Charter Amendment. (Section 1811(e)(1).)
  - ▣ “Determine and publicize the Annual General Adjustment pursuant to” the Charter Amendment. (Section 1811(e)(3).)

# DETERMINATION OF INITIAL AGA

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- Charter Amendment provides that the initial AGA will be established September 1, 2022 and go into effect October 1, 2022
  - ▣ **BUT, effective date of Charter Amendment is December 22, 2022**
- Initial AGA is broken up as follows:
  - ▣ **Tenancies commencing before May 17, 2021** – 75% of Consumer Price Index (CPI) percentage increase from May 2021 through May 2022
  - ▣ **Tenancies commencing after May 17, 2021** – 75% of CPI percentage increase from month of initial tenancy through May 2022
    - E.g., if tenancy started on September 1, 2021, then AGA is calculated as 75% of CPI increase from September 2021 through May 2022

# INITIAL AGA FOR TENANCIES BEFORE 5/17/21

Table A. Los Angeles-Long Beach-Anaheim, CA, CPI-U 1-month and 12-month percent changes, all items index, not seasonally adjusted

Month	2019		2020		2021		2022		2023	
	1-month	12-month	1-month	12-month	1-month	12-month	1-month	12-month	1-month	12-month
January	0.7	3.2	0.8	3.1	0.2	0.9	1.1	7.5	1.9	5.8
February	0.1	2.5	0.3	3.4	0.4	1.0	0.3	7.4	-0.3	5.1
March	0.6	2.7	0.7	1.9	0.5	2.2	1.5	8.5	0.1	3.7
April	1.0	3.3	-0.3	0.7	1.1	3.6	0.5	7.9	0.7	3.8
May	0.2	3.1	0.4	0.9	0.6	3.9	0.8	8.0	0.1	3.2
June	0.0	3.3	0.5	1.4	0.6	4.0	1.1	8.6		
July	0.1	3.3	0.6	1.9	0.6	3.9	-0.2	7.7		
August	0.0	3.0	0.1	2.0	0.2	4.0	0.1	7.6		
September	0.5	3.0	-0.3	1.2	0.3	4.6	0.5	7.8		
October	0.7	3.2	0.2	0.7	0.9	5.4	0.6	7.5		
November	-0.3	3.2	0.1	1.0	0.6	6.0	-0.8	6.0		
December	-0.6	3.0	-0.2	1.5	0.4	6.6	-0.6	4.9		

- Initial AGA = 75% of 8% = **6%**
- Applicable from December 22, 2022 through September 30, 2023



# INITIAL AGA FOR TENANCIES AFTER 5/17/21

**First Allowed Rent Adjustment Under Measure H (valid through September 30, 2023)**

Move in Date	CPI	$0.75 * \left( \frac{\text{May 2022 CPI} - \text{Move In Date CPI}}{\text{Move In Date CPI}} + 100 \right)$	Rounded to nearest 0.25 %
Before May 2021	(use May 2021) 287.620	6.005	6.00
June 2021	289.218	5.557	5.50
July 2021	290.89	5.094	5.00
August 2021	291.333	4.973	5.00
September 2021	292.209	4.733	4.75
October 2021	294.961	3.989	4.00
November 2021	296.79	3.502	3.50
December 2021	297.925	3.203	3.25
January 2022	301.205	2.352	2.25
February 2022	302.164	2.106	2.00
March 2022	306.679	0.971	1.00
April 2022	308.302	0.571	0.50
May 2022	310.649	0	0

SOURCE: Pasadena Tenants' Union

# DETERMINATION OF SUBSEQUENT AGAS

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- Subsequent AGAs are to be calculated as 75% of CPI percentage increase over 12-month period from March to March
  - ▣ If CPI increase is negative, then the AGA is 0%
- Applicable regardless of when tenancy commenced
- Must be adopted by Board by September 1 annually
- May be imposed by Landlords starting October 1 through September 20 of following year
  - ▣ No “banking” permitted: If not taken by September 30, the AGA increase cannot be imposed in later years

# 2023 AGA

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- CPI percentage increase from March 2022 - 2023 was 3.7%
- 75% of 3.7% = **2.8%**
- Once adopted, Landlords may impose this AGA beginning October 1, 2023 through September 30, 2024
- Must provide adequate written notice
- May not impose until 12 months have passed since last rent increase
  - ▣ If initial AGA is taken, then will have to wait to impose 2023 AGA

# CALCULATING LAWFUL RENT INCREASES

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- The AGA may be lawfully applied to the Base Rent for a tenancy
  - ▣ **Base Rent for Tenancies Commencing on or before May 17, 2021:** The Rent in effect on May 17, 2021.
  - ▣ **Base Rent for Tenancies Commencing after May 17, 2021:** The rental rate paid by the Tenant upon initial occupancy.

# RENT “ROLLBACK”

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- “Upon the effective date of this Article [December 22, 2022], no Landlord shall charge Rent for a Covered Rental Unit in an amount that exceeds the sum of the Base Rent plus any lawful Rent increase actually implemented pursuant to this Article.” (Section 1807(a).)
- Any rent increases imposed for a Covered Unit after May 17, 2021 are invalid.
- If rent increases were imposed since May 17, 2021, landlord must rollback rent to either (i) rent in effect on May 17, 2021 or (i) rent paid by Tenant during initial term of tenancy.
- Landlords may be liable to Tenants for overpayment of rent

# EXAMPLE NO. 1

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Tenancy commenced February 1, 2021 at rental rate of \$1,600.  
Landlord increased rent to \$1,700 beginning August 1, 2022.

1. What is the Base Rent?
2. What is the first AGA for the Covered Unit? What would rent be?
3. When can landlord impose first AGA?
4. Assuming Board adopts initial AGA and landlord lawfully implements the increase starting August 1, 2023 when can the landlord impose the subsequent AGA? And how much?

# EXAMPLE NO. 2

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Tenancy commenced on September 1, 2021 at rental rate of \$2,500.  
Landlord increased rent by 6% to \$2,650 beginning January 1, 2023.

1. What is the Base Rent?
2. What is the next AGA the Landlord can implement?
3. When can the Landlord first implement the next AGA?
4. How much would the lawful Rent be?

# QUESTIONS?