

Communication from Public

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Council File No: 21-0042-S3
Comments for Public Posting: The Keep LA Housed Coalition submits this letter regarding the 10% rent increase for additional occupants under the Los Angeles Rent Stabilization Ordinance (LARSO). Attached to that letter is the Keep LA Housed's letter on annual allowable increases under LARSO originally submitted 1/26/24.



April 11, 2024

Honorable Members of the City Council
Los Angeles City Council
200 North Spring Street
Los Angeles, CA 90012

RE: Los Angeles Rent Stabilization Ordinance Annual Rent Increase Formula (CF 21-0042-S3; CF 23-1134; CF 20-0407-S1)

Dear Councilmembers:

The Keep LA Housed Coalition submits this supplement to our January 26, 2024 letter regarding allowable rent increases under the Los Angeles Rent Stabilization Ordinance (“LARSO”). As recommended in that letter (attached), the City must update the current LARSO formula to better protect tenants from displacement while balancing the interests of landlords. We are proposing a formula that sets the annual allowable rent increase at 60% of the change in the Consumer Price Index (CPI) or 3%, whichever is lower (“3%/60% CPI formula”), with no utility pass through or exemptions for small landlords. **Additionally, as the City is reevaluating permissible rent increases in LARSO, we further urge the City to remove the 10% increase currently allowed when an additional tenant joins a rental unit.**

Currently, LARSO allows a one-time 10% rent increase for each additional tenant joining a rental unit.¹ Such a large rent increase can create hardship for already rent burdened families during challenging times. For example, a family may not be able to take in an ailing parent or struggling adult child, because they will not be able to afford the rent increase. And if they have no choice but to take in that additional member, the increase could lead to the family potentially facing eviction and displacement if they fall behind on rent. Furthermore, the current rule allows for increases even when children are born into a family. While the first child born into a household does not trigger a 10% increase,² each subsequent child triggers the 10% increase, illustrating the unreasonableness of the rule and impacting families in an untenable way.

The 10% additional occupant increase undermines the purpose of LARSO by allowing staggering double-digit increases for rent stabilized units. For example, under the currently allowed 4-6% increase, some tenants have received 14-16% increases because they had to take in family members during the pandemic. This level of increase is higher than what the state Tenant Protection Act³ allows and is higher than what would be considered price gouging under California Penal Code

¹ L.A. Mun. Code §151.06(G).

² L.A. Mun. Code §151.06(G)(a)(iii).

³ CA Civ. Code § 1947.12.

Section 396.⁴ LARSO’s legislative purpose to ensure tenants have “decent, safe and sanitary housing at affordable rent levels” is undermined by this provision.⁵

In addition to creating hardship for already rent burdened tenants, a 10% flat increase in rent for additional tenants cannot be justified by increased costs to a landlord from that additional tenant. Considering landlords typically address any wear and tear at the end of a tenancy by painting, repairing, and updating before the next tenant moves in, any potential extra wear and tear from an additional tenant would be addressed at that time and not drive up a landlord’s ongoing operating costs. If an additional tenant were to damage the unit beyond what the original tenant(s) would have, it can be paid for out of the security deposit, which already exists to cover those costs. Furthermore, if a landlord provides utilities, the cost of providing utilities to an additional tenant residing in the unit does not correlate with a 10% rent increase. Notably, in 2009, the Economic Roundtable found that even a 1-2% rent increase for utilities is not justified.⁶

Finally, the 10% increase for additional tenants in LARSO is also out of step with other rent stabilization ordinances, which rarely allow for such an additional increase. Of the 13 other jurisdictions in LA County that have rent control, 11 do not include any additional rent increase for additional occupants.⁷ West Hollywood and Unincorporated LA County explicitly disallow rent increases for additional occupants.⁸ The City of Los Angeles should align itself with other rent control cities in LA County and remove additional tenant rent increases.

Sincerely,

The Keep LA Housed Coalition

Keep LA Housed Steering Committee:

Alliance of Californians for Community Empowerment (ACCE)
Coalition for Humane Immigrant Rights Los Angeles (CHIRLA)
Community Power Collective (CPC)
Eastside LEADS
Ground Game LA
InnerCity Struggle
Inner City Law Center
Legal Aid Foundation of Los Angeles (LAFLA)
POWER LA
Public Counsel
Strategic Actions for a Just Economy (SAJE)
Tenants Together

⁴ Cal. Penal Code § 396.

⁵ L.A. Mun. Code § 151.01.

⁶ Flaming, Daniel, et al. “Economic Study of the Rent Stabilization Ordinance and the Los Angeles Housing Market.” *Economic Roundtable*, 1 Aug. 2009, p. 259, papers.ssrn.com/sol3/papers.cfm?abstract_id=2772233.

⁷ The jurisdictions include: Baldwin Park, Bell Gardens, Commerce, Cudahy, Culver City, Maywood, Pasadena, Pomona, Santa Monica, Unincorporated LA County, West Hollywood.

⁸ West Hollywood Mun. Code § 17.32.040; Los Angeles County Code §8.52.050(K).

Attachment: January 26, 2024 Keep LA Housed Coalition's LARSO Formula Letter



January 26, 2024

Honorable Members of the City Council
Los Angeles City Council
200 North Spring Street
Los Angeles, CA 90012

RE: Los Angeles Rent Stabilization Ordinance Annual Rent Increase Formula (CF 21-0042-S3; CF 23-1134; CF 20-0407-S1)

Dear Councilmembers:

The Keep LA Housed Coalition and Public Interest Law Project submit this letter regarding the formula for annual rental increases under the Los Angeles Rent Stabilization Ordinance (LARSO). Keep LA Housed is a coalition of tenants, tenant rights organizations, and public interest lawyers who are committed to preventing the displacement of communities and ensuring that tenants across Los Angeles have affordable, secure, and habitable housing free from harassment and discrimination.¹ Public Interest Law Project is a statewide support center for California legal services programs working to advance racial and economic justice in lower income communities and communities of color in California. PILP's expertise is in law and policy issues related to housing, public benefits, homelessness, anti-displacement, fair housing, and other civil and economic rights.²

The City of Los Angeles must update the current LARSO formula to better protect tenants from displacement, balance the interests of landlords, and ensure LARSO's intended purpose is achieved. **We propose a formula that sets the annual allowable rent increase at 60% of the change in the Consumer Price Index (CPI) or 3%, whichever is lower (3%/60% CPI formula), with no utility pass through and no exemptions for small landlords.** As detailed below, this formula makes policy sense and is within constitutional bounds. In addition, other California cities, including cities in Los Angeles County, have the same or similar formulas to the one we are proposing to protect their renters.

I. Background on housing instability facing Los Angeles tenants.

Los Angeles renters are extremely rent burdened. In LA, approximately 63% of households are renters.³ More than half of renters are rent burdened, meaning they pay 30% or more of their

¹ Keep LA Housed, <https://www.keeplahoused.org/>.

² Public Interest Law Project, <https://www.pilpca.org/>.

³ "Pre-Certified Local Housing Data for the City of Los Angeles." *Southern California Association of Governments*, Apr. 2021, p.4, <https://scag.ca.gov/sites/main/files/file-attachments/los-angeles-he-0421.pdf>.

income to rent.⁴ A 2021 study showed that a staggering 80% of extremely low income Los Angeles residents (those who earn less than 30% of the Area Median Income) are severely rent burdened, paying more than 50% of their income to rent.⁵ Every month, many tenants in Los Angeles often have to choose between making their rent or paying for food, medical expenses, and other necessities. These local realities also bear out nationally. A Federal Reserve survey found that more than one third of adults reported that they could not afford an unexpected \$400 expense or would have to borrow money or sell something to afford it.⁶ A recent report from Harvard also shows that half of all renters are rent burdened while homelessness is at a record breaking all-time high.⁷

The pandemic greatly exacerbated the housing and homelessness crisis Angelenos were already facing. Tenants who were already rent burdened found themselves unable to work at all during the economic shutdowns, accruing thousands of dollars in pandemic-related debt. The state Emergency Rental Assistance Program (ERAP) and other temporary safety net programs, along with state and local eviction protections, helped tenants cover some rent debt and avoid eviction. But as those ended, low-income renters became vulnerable to displacement again. Many continue to carry large amounts of rent and consumer debt, and evictions have returned to pre-pandemic levels. There were 71,429 notices to terminate tenancy filed with the Los Angeles Housing Department (LAHD) between February and November 2023, 91% of which came with a 3-day notice and 96% of which were due to “non-payment of rent.”⁸ In addition, Los Angeles City tenants have requested rental assistance for more than \$470 million in back rent from the City’s Measure ULA rental assistance program,⁹ which only has \$30 million in funding allocated in year 1. The rent freeze for rent stabilized units during the pandemic kept tenants from receiving rent increases they could not afford, but as the City Council decided to sunset the rent freeze in February 2024, Los Angeles tenants will once again see their rents rise, right at a time when they are worse off financially. Further, inflation has hit tenants hard over the past several years, with the highest rates of inflation in decades and resulting increases in the cost of living.¹⁰

For thousands of rent burdened and debt-saddled tenants, an unaffordable rent increase could be the difference between having shelter or sleeping on the street. Housing affordability is directly linked to homelessness rates: the US Government Accountability Office found that a \$100 increase in median rent was associated with a 9% increase in the estimated homelessness rate.¹¹ This dramatic increase in homelessness was associated with higher rental costs alone – even when factors like

⁴ “The State of the Nation’s Housing.” *Joint Center For Housing Studies of Harvard University*, 2023, pp. 37-38, https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard_JCHS_The_State_of_the_Nations_Housing_2023.pdf.

⁵ “The Hard Facts: La Homelessness and Housing by the Numbers-- 2023.” *The Angeleno Project*, p. 3, 2023, <https://theangelenoproject.org/wp-content/uploads/2023/11/TheHardFacts2023.110223.pdf>.

⁶ “Report on the Economic Well-Being of U.S. Households in 2022 - May 2023.” *Board of Governors of the Federal Reserve*, 2 Jun. 2023, <https://www.federalreserve.gov/publications/2023-economic-well-being-of-us-households-in-2022-expenses.htm>.

⁷ “New Report Shows Rent Is Unaffordable for Half of Renters as Cost Burdens Surge to Record Levels,” *Joint Center For Housing Studies of Harvard University*, 25 Jan. 2024, https://www.jchs.harvard.edu/sites/default/files/interactive-item/files/Harvard_JCHS_Americas_Rental_Housing_2024_Press_Release.pdf.

⁸ Mejia, Kenneth. “Eviction Notices (February - November 2023).” *Kenneth Mejia LA City Controller*, Dec. 2023, <https://controller.lacity.gov/landings/evictions>.

⁹ “ULA ERAP.” *Los Angeles Housing Department*, <https://housing2.lacity.org/ula-erap>.

¹⁰ Inflation as measured by the Consumer Price Index.

¹¹ “How COVID-19 Could Aggravate the Homelessness Crisis?.” *U.S. Government Accountability Office*, 25 Aug., 2020, <https://www.gao.gov/blog/how-covid-19-could-aggravate-homelessness-crisis>.

wages, unemployment rate, and poverty were controlled for in the study.¹² As Los Angeles is already the epicenter of California’s homelessness crisis, with more than 46,000 people living unhoused on any given night, the City must take urgent steps to prevent more people from falling into homelessness.¹³ The City can and should ensure that the LARSO annual rent increase formula strongly protects tenants from displacement-level increases, while balancing landlords’ legal rights.

II. A 3%/60% CPI formula protects vulnerable tenants while balancing the needs of landlords.

The LARSO annual rent increase formula – which has not been updated since it was adopted in 1979 – is 100% of the change in CPI, with a maximum of 8% and a minimum floor of 3%, even if CPI is less than 3%.¹⁴ In other words, the formula always allows a rent increase of at least 3% *even if* inflation is lower than that. That has happened in 23 of the last 30 years, during which LARSO tenants have had to pay rent increases that were *higher* than inflation while LARSO landlords received an unintended windfall.¹⁵ In addition, the formula allows landlords to charge a flat 1% more if they provide gas and 1% if they provide electricity, regardless of the actual cost of providing such utilities.

This formula is out of date and does not reflect current conditions and needs of renters in Los Angeles. As described above, the majority of renters in Los Angeles are already rent burdened. Any allowable rent increases must take current rent burden into account. Every additional percent allowed could be the difference between someone making rent or facing eviction and homelessness. Setting a 3%/60% CPI formula guarantees landlords a fair return on their property while sparing tenants from prohibitively high increases in their housing cost, allowing them some level of relief from the heavy financial burdens that they already face. Keeping Angelenos housed must be a top priority for the city, and adopting the 3%/60% CPI formula would make the difference between thousands of people staying in their homes or being out on the streets.

A. Other cities in Los Angeles County (and beyond) have adopted the same or similar formulas.

The City would not stand alone in adopting a 3%/60% CPI formula. Several cities in Los Angeles County and across the state have recently adopted annual rent increase formulas consistent with our proposal. Oakland, for example, uses the same 3%/60% CPI formula that we are proposing.¹⁶ Santa Monica, Cudahy, and West Hollywood all have 3% rent increase ceilings.¹⁷

According to 2021 census data, the City of Los Angeles has a similar or higher rate of poverty than these cities and similar or lower median household income.¹⁸ It also has a 3% higher

¹² Id.

¹³ Kendall, Marisa. “L.A.’s new homeless solution clears camps but struggles to house people.” *CalMatters*, July 24, 2023, <https://calmatters.org/housing/homelessness/2023/07/los-angeles-homeless-encampments/>.

¹⁴ L.A. Mun. Code §151.07(A)6.

¹⁵ “Historical Inflation Rates: 1914-2024.” *US Inflation Calculator*, 11 Jan. 2024, www.usinflationcalculator.com/inflation/historical-inflation-rates/.

¹⁶ Oakland Mun. Code § 8.22.070.

¹⁷ Santa Monica Mun. Code § 1805; Cudahy Mun. Code §5.13.050; West Hollywood Mun. Code §17.36.020.

¹⁸ “QuickFacts: Baldwin Park city, California; Pomona city, California; West Hollywood city, California; Santa Monica city, California; Cudahy city, California; Los Angeles city, California.” *U.S. Census Bureau*,

poverty rate than Oakland. As of 2022, 56% of Angelenos were rent burdened, compared to 48% in Oakland and 44% in Santa Monica.¹⁹ Thus, the City of Los Angeles should adopt the 3%/60% CPI formula to protect its tenants to the same degree these other cities do.

B. A standard utility allowance is unnecessary and not rooted in actual costs.

The LARSO formula should not allow for an additional increase in rent if landlords provide utilities. Under the current LARSO formula, landlords providing gas and/or electricity can increase their rent by 1% for each utility provided, allowing up to an additional 2% bump.²⁰ This 2% increase is consequential for tenants. For example, a 2% increase on a fair market rate 2-bedroom apartment would cost a tenant an additional \$600 a year – a staggering expense considering more than one-third of adults cannot afford an unexpected \$400 expense.²¹

Despite the impact on tenants, the current utility allowance is not rooted in the actual costs of providing utilities. In 2009, the Economic Roundtable reviewed LARSO and found that there was no connection between the cost of providing utilities and the additional allowed rent increases.²² It further found that the 1-2% supplemental increase “substantially exceeded the actual cost increase” of providing the utilities.²³ Additionally, the general allowable annual rent increase is based on the rent a landlord sets, and landlords typically consider the cost of providing utilities when they set rent (i.e. a landlord will charge more rent if utilities are included). Thus, the general rent adjustment *already* captures the cost of providing utilities because the cost is included in the initial rent.

Furthermore, three of the four cities referenced above do not allow higher annual rent increases for landlords who provide utilities.²⁴ In those jurisdictions, utilities are a factor in the consideration of individual petitions by landlords or tenants for rent adjustments.²⁵ LARSO also considers utilities as a factor in petitions for individual rent adjustments,²⁶ which is sufficient due process. LARSO should not further allow a blanket 1-2% increase for landlords who provide utilities. Every percentage point could make the difference between an Angeleno being able to stay in their home or face eviction. In 2024, permitting additional rent increases for landlords who provide utilities is both unnecessary and dangerous.

<https://www.census.gov/quickfacts/fact/table/baldwinparkcitycalifornia.pomonacitycalifornia.westhollywoodcitycalifornia.santamoniacitycalifornia.cudahycitycalifornia.losangelescitycalifornia/LFE305221>.

¹⁹ “Table B25070: Gross Rent as a Percentage of Household Income in the Past 12 Months.” *Us Census Bureau*, <https://data.census.gov/table/ACSDT5Y2022.B25070?q=B25070:%20Gross%20Rent%20as%20a%20Percentage%20of%20Household%20Income%20in%20the%20Past%2012%20Months&g=160XX00US0644000.0653000.067000&tid=ACSDT1Y2022.B25070>.

²⁰ L.A. Mun. Code §151.06(D).

²¹ As calculated using HUD FMR rates:

https://www.huduser.gov/portal/datasets/fmr/fmrs/FY2024_code/2024summary.odn.

²² Flaming, Daniel, et al. “Economic Study of the Rent Stabilization Ordinance and the Los Angeles Housing Market.” *Economic Roundtable*, 1 Aug. 2009, p. 259, papers.ssrn.com/sol3/papers.cfm?abstract_id=2772233.

²³ *Id.* at p. 297.

²⁴ Cudahy Mun. Code §5.13.070; Oakland Mun. Code § 8.22.070; Santa Monica Mun. Code § 1805.

²⁵ Cudahy Mun. Code §5.13.070; Oakland Mun. Code § 8.22.070; Santa Monica Mun. Code § 1805.

²⁶ L.A. Mun. Code §151.07(B)(1)(d).

C. There is no basis to make the formula different for small landlords.

The LARSO annual rent increase formula should not be different for small landlords.²⁷ Tenants with small landlords are no less vulnerable to displacement than those with larger landlords. In fact, a study found that renters in multifamily homes with fewer units are more likely to be people of color, tend to have lower incomes, and are in industries that experienced greater threats of exposure to COVID-19.²⁸ Allowing a different formula for small landlords would mean that some tenants, regardless of their income level or ability to pay, would face higher rent increases simply because of their landlord's portfolio size. For the same reason, small landlords should not be allowed to bank rent increases²⁹ for use later. Rent banking would penalize the unlucky tenants who happen to have a smaller landlord and would significantly undermine the very purpose of rent stabilization – to keep rent increases predictable and manageable so that renters can remain in their homes.

Further, treating small landlords differently is difficult to enforce and significantly increases the burden of administering LARSO. As LAHD noted at the November 14, 2023 City Council meeting, there is no current system that can confirm whether a landlord is truly a small landlord because of the way landlords structure their ownership.³⁰ The City does not have this data, and tenants do not have it, as there is currently no way for a tenant to verify a landlord's alleged status as a small landlord. Our current system thus sets up many tenants for unlawful rent increases that are difficult for them to dispute.

Despite threats to the contrary, renter protections do not drive small landlords out of the market. In a recent case study in Washington, researchers examined the likelihood of small landlords selling off their properties in response to tenant protections enacted in Seattle that received harsh backlash from landlords.³¹ The researchers defined small landlords as those with four or fewer rental units. By comparing housing trends in Seattle, before and after the passage of the tenant protections, to housing trends in the rest of the county, researchers found that there was no increase of small rental properties sales in the wake of new tenant protections.³²

Rather than allow different treatment of tenants in the RSO formula based on their type of landlord, the City should independently support landlords who are truly at risk of losing their properties in ways that do not place the burden on tenants. For example, the City could consider a property maintenance fund to support small landlords or offer a mortgage relief program for small landlords struggling to pay their mortgage, like the County is offering for small landlords who

²⁷ There has been debate in City Council meetings recently over who constitutes a small landlord. The Los Angeles Municipal Code defines a small landlord as a natural person who owns no more than four units of residential property and a single-family home on a separate lot. See L.A. Mun. Code 151.30.E; 165.06.A (6).

²⁸ Choi, Jung Hyun, and Caitlin Young. "Owners and Renters of 6.2 Million Units in Small Buildings Are Particularly Vulnerable during the Pandemic." *Urban Institute*, 10 Aug. 2020, www.urban.org/urban-wire/owners-and-renters-62-million-units-small-buildings-are-particularly-vulnerable-during-pandemic.

²⁹ "Rent banking" refers to a landlord not increasing a tenant's rent in a certain year and then adding the amount they would have increased the rent to the rent increase in a later year. "Banked Rent Increases." *City and County of San Francisco*, 25 Jan 2023, <https://www.sf.gov/information/banked-rent-increases#:~:text=If%20a%20landlord%20does%20not,Learn%20how%20the%20process%20works>.

³⁰ "Regular City Council - 11/14/23." *YouTube*, 14 Nov. 2023, <https://www.youtube.com/watch?v=2o9JliTQSFA>

³¹ Reosti, Anna, et al. "'Mom-and-Pop' Landlords and Regulatory Backlash: A Seattle Case Study." *SocArXiv Papers*, 17 Nov. 2023, p.3, <https://doi.org/10.31235/osf.io/x7pq8>.

³² *Id.* at p. 36.

experienced financial distress during the pandemic.³³ Small landlords could be given priority in rental assistance programs like the Measure ULA rental assistance program.³⁴ LAHD could also prioritize and/or expedite administrative processing for small landlords. Finally, small landlords are already able to take advantage of the existing mechanisms in LARSO (as detailed below) to ensure a just and reasonable return, protecting their ability to draw an above expense income for their properties in every case.

III. A 3%/60% CPI formula is constitutional.

Rent stabilization ordinances like LARSO, and the provisions therein, have been consistently upheld as constitutional so long as they are reasonably related to a legitimate governmental purpose.³⁵ LARSO was enacted for the purpose of safeguarding tenants from excessive rent increases while also providing landlords with just and reasonable returns.³⁶ Our proposed formula furthers that purpose; under the 3%/60% CPI formula, tenants are protected from excessive rent increases and landlords receive fair returns on their property.

Courts recognize that complex price-setting regulations, like rent stabilization ordinances, should be left to legislative bodies to determine unless such a regulation produces confiscatory results.³⁷ Courts determine whether rent stabilization laws produce confiscatory results by applying the takings and due process clauses of the US and California constitutions. In their analyses, courts rarely find that rent stabilization laws constitute confiscatory “takings” and overall give deference to legislative bodies, centering the constitutional analysis on due process and whether a rent stabilization law arbitrarily regulates property owners’ rights.³⁸

A. Changing the formula would not constitute a taking.

Under the federal and California constitutions, a taking refers to the appropriation of private property for public use, which requires just compensation to be paid.³⁹ California courts have traditionally upheld rent stabilization schemes against takings challenges.⁴⁰ Regulations like rent stabilization have been held to be constitutional despite ancillary impacts on property values, and in the context of takings, even a “significant diminution” in value does not constitute a taking. To constitute a taking, the regulation must substantially deprive a property owner of all reasonable use of the property.⁴¹ Therefore, a minor change in the current LARSO formula would not render the ordinance an unconstitutional taking, especially when existing mechanisms allow for landlords to petition for a fair return on a case-by-case basis.

³³ “Mortgage Relief for Landlords with 1-4 Units.” *Los Angeles County Consumer & Business Affairs*, https://dcba.lacounty.gov/mortgagerelief/?utm_content=&utm_medium=email&utm_name=&utm_source=govdelivery&utm_term=.

³⁴ “ULA ERAP Landlord Flyer.” *Los Angeles Housing Department*, https://housing.lacity.org/file/ULA_ERAP_Landlord_Flyer_English.pdf.

³⁵ *Birkenfeld v. City of Berkeley*, 17 Cal. 3d 129, 165 (1976).

³⁶ L.A. Mun. Code §151.01.

³⁷ *Santa Monica Beach, Ltd. v. Superior Ct.*, 19 Cal. 4th 952, 974 (1999).

³⁸ *Id.* at 967.

³⁹ U. S. Const. amend. V; CA Const. art I § 19.

⁴⁰ *Montclair Parkowners Ass'n v. City of Montclair*, 76 Cal. App. 4th 784, 794 (1999).

⁴¹ *Fisher v. City of Berkeley*, 37 Cal. 3d 644, 685, 693 (1984).

B. Changing the formula would not violate due process.

The heart of California courts' analyses on whether a rent stabilization law produces confiscatory results lies in the due process clause. Under the federal and California constitutions, people cannot be deprived of property without the due process of law.⁴² Generally, due process guarantees procedural protection and places some substantive limits on laws – legislation may not be arbitrary, discriminatory, or lack a reasonable relation to a proper legislative purpose. In the context of rent stabilization, courts will find regulations are reasonably related to a proper legislative purpose so long as the law does not deprive landlords of a fair return.⁴³

California courts of appeal and the California Supreme Court have consistently recognized that government entities have wide discretion in setting their rent cap formulas and look to the guidelines articulated in *Birkenfeld v. City of Berkeley* when considering the constitutionality of a rent stabilization ordinance.⁴⁴ The court in *Birkenfeld*⁴⁵ stated that rent stabilization laws are within a city's police power if "they are reasonably calculated to eliminate excessive rents and at the same time provide landlords with a just and reasonable return on their property."⁴⁶ As long as landlords receive a fair and just return under a rent stabilization ordinance, the means of setting general annual increases and rent ceilings can take a variety of forms.⁴⁷ There is no specific formula or number that determines whether a rent ceiling denies a landlord a just and reasonable return; the California Supreme Court has affirmed a wide range of formulas are within the bounds of the California constitution.⁴⁸ Nonetheless, the California Supreme Court has recommended that rent stabilization laws include two basic features to ensure that landlords receive due process: an individual petition process that is not unduly burdensome and general adjustments for all or any class of rental units based on generally applicable factors.⁴⁹ LARSO has both of these features, and would continue to have both of these features if the council adopts the 3%/60% CPI formula.

LARSO contains several provisions that ensure adequate due process. It already grants the Rent Adjustment Commission (RAC) general authority to increase rent for classes of rental units "based on such common characteristics as the Commission may determine, including size, age, construction, rent, or geographic area."⁵⁰ Additionally, the automatic annual increase in LARSO applies to all landlords covered by the statute.⁵¹ LARSO also contains two routes for landlords to seek an individual adjustment. If a landlord improves their property with rehabilitation work, primary renovation work, capital improvements, or seismic retrofit work, they can be granted an adjustment on application alone, and if they request a hearing, a decision must be made within 45 days of that request. If a landlord seeks an adjustment otherwise because they feel they did not get a fair rate of return from the annual adjustment, they can submit an application and the RAC will hold a hearing

⁴² U. S. Const. amend. V; CA Const. art I § 7.

⁴³ *Kavanau v. Santa Monica Rent Control Bd.*, 16 Cal. 4th 761, 771 (1997).

⁴⁴ *Palos Verdes Shores Mobile Ests., Ltd. v. City of Los Angeles*, 142 Cal. App. 3d 362, 368 (1983).

⁴⁵ In *Birkenfeld*, a city charter amendment implemented a 0% rent ceiling with an extremely cumbersome individual petition process as the only way to seek a rent increase. The court found the combination of these factors so extreme that they were not reasonably related to the purpose of preventing excessive rents, and thus found the amendment unconstitutional. *Birkenfeld v. City of Berkeley*, 17 Cal. 3d 129 (1976).

⁴⁶ *Id.* at 165.

⁴⁷ *Carson Mobilehome Park Owners' Assn. v. City of Carson*, 35 Cal. 3d 184, 191 (1983).

⁴⁸ *Id.*

⁴⁹ *Kavanau v. Santa Monica Rent Control Bd.*, 16 Cal. 4th 761, 772-73 (1997).

⁵⁰ L.A. Mun. Code §151.08(A).

⁵¹ L.A. Mun. Code §151.06.

and issue a decision within 75 days of submission of the application.⁵² The RAC bases its review on a landlord's net operating income, subtracting operating expenses such as maintenance costs, the cost of utilities, and taxes from the property's total gross income.⁵³ These mechanisms shield LARSO and its provisions from constitutional challenge on the basis of fair return. Adjusting the permanent annual rent increase formula to be a 3%/60% CPI formula would not change these procedural rights. Thus, our proposed formula, insulated by the existing mechanisms in LARSO, is firmly within constitutional bounds.

IV. Conclusion

Tenants in Los Angeles are facing a major rent burden crisis. Many are already making the choice between paying rent and paying for other basic necessities. Each additional percentage in the LARSO annual rent increase formula could make a difference between a tenant being able to afford to stay in their homes or being displaced. The existing formula is nearly half a century old and in sore need of an update. The City of Los Angeles must take great care in choosing a formula that prevents displacement, while ensuring constitutional safeguards for landlords. The 3%/60% CPI formula would protect tenants from that harsh reality while allowing reasonable returns for landlords. As a matter of good policy, this formula would help protect our city's tenants from steep rent increases during high inflation years and be in line with other cities in California.

Sincerely,

The Keep LA Housed Coalition
Public Interest Law Project

Keep LA Housed Steering Committee:
Alliance of Californians for Community Empowerment (ACCE)
Community Power Collective (CPC)
Eastside LEADS
Ground Game LA
InnerCity Struggle
Inner City Law Center
Legal Aid Foundation of Los Angeles (LAFLA)
POWER LA
Public Counsel
Strategic Actions for a Just Economy (SAJE)
Tenants Together

⁵² L.A. Mun. Code §151.07. In *Carson Mobilehome Park Owners' Association v. City of Carson*, the California Supreme Court held that an individual petition procedure that took a maximum of 105 days was not excessive and upheld its constitutionality, suggesting that the 45 and 75 day processes in LARSO do not cause landlords an undue delay and thus satisfy the requirements of due process. *Carson Mobilehome Park Owners' Assn. v. City of Carson*, 35 Cal. 3d 184, 193 (1983).

⁵³ Everything the RAC considers when reviewing a landlord's petition can be found at: "Just and Reasonable Guidelines." *Los Angeles Housing + Community Investment Department*, 1 Sept. 2005, pp. 4-5, [/https://housing2.lacity.org/wp-content/uploads/2020/05/RAC%20240%20-%20Just%20and%20Reasonable.pdf](https://housing2.lacity.org/wp-content/uploads/2020/05/RAC%20240%20-%20Just%20and%20Reasonable.pdf)