



Los Angeles Housing Department

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Economic Study &  
Recommendations to Amend the  
Rent Stabilization Ordinance  
Annual Allowable Rent Increase  
Formula

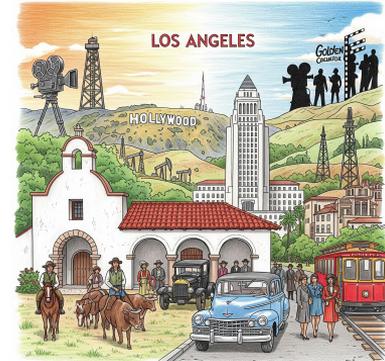
[https://cityclerk.lacity.org/onlinedocs/2023/23-1134\\_rpt\\_hci\\_11-1-24.pdf](https://cityclerk.lacity.org/onlinedocs/2023/23-1134_rpt_hci_11-1-24.pdf)



October 1, 2025  
C.F. 23-1134

# Background/History of RSO Annual Allowable Adjustment

- 1979 - RSO adopted w/ flat 7% AARI\* until 1985
- 1980 – 1% + 1% for master-metered gas/electricity
- 1985 – CPI formula 3% - 8%
- 2020 – 2024 rent increase moratorium
- February 1, 2024 – 4% (7% CPI)
- July 1, 2024 – Resume RSO formula based on CPI (4%)
- July 1, 2025 – 3% based on CPI



# Major Findings of the Study

## Los Angeles Housing Inventory

- 1.5 million housing units for 3.8 million residents
- 64% renters
- 42% residents live in RSO units
- RSO units are older & concentrated in L.A. urban core + S.E. San Fernando Valley
- Non-RSO units are newer and concentrated in areas built-out more recently.



# Major Findings of the Study

## Los Angeles Renters

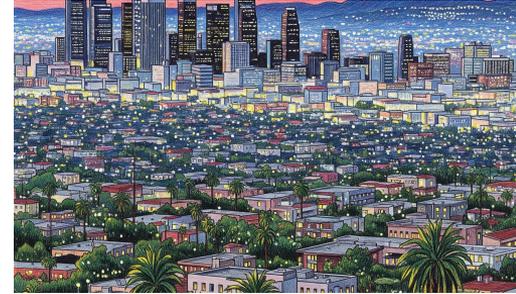
- Non-RSO renters are more likely to have recently moved.
- Average income of non-RSO households is 22% higher, but similar rent burden due to higher non-RSO rents.
- Rents increased similarly for RSO & Non-RSO units (but higher average income for non-RSO).
- 20% of renters meet federal poverty standard.



# Major Findings of the Study

## Savings for RSO Tenants

- Average non-RSO rent is 25% higher (1990-2022)
- Differences in size of RSO & non-RSO units
  - ~ Non-RSO typically bigger
  - ~ Non-RSO average 2.1 bedrooms
  - ~ RSO average 1.5 bedrooms
- There are multiple different rental markets within the City.
- Average rent paid by RSO renters is 19% less when considering size of rental unit.



# Major Findings of the Study

## Rent Increases and Homelessness

- 25% of renters have incomes of \$25K or less.
- Increases in income inequality drive up the cost of housing and the percent of low-income renters who cannot afford that housing.
- L.A. has a high rate of homelessness due to the high cost of housing and high rate of working poverty.
- L.A. has higher income inequality & homelessness compared to U.S.
- The primary driver of evictions is the rising cost of housing.
- The L.A. eviction moratorium, rental assistance & fiscal stimulus programs were successful in preventing a more severe rise in homelessness.



# Major Findings of the Study

## Small Landlords

- Buildings owned by small landlords (1-4 units) typically have more bedrooms.
- Units in buildings owned by small landlords rent for 20% higher than RSO overall inventory.
- Length of tenancy 5+ years:
  - ~ 47% all RSO units
  - ~ 57% for 1- 4 unit buildings
- Small landlords have the lowest vacancy rate & less tenant turnover.
- No evidence of greater financial stress.



# Major Findings of the Study

## Rent Regulation

- Rents for RSO units are determined by market rents at commencement of a tenancy plus annual allowable rent increases during the tenancy.
- Due to turnover (about 50% within 4 years), housing/rental market is a central determinant of RSO rents.
- Overall, move-in year is a central determinant of current allowable RSO rent.



# Major Findings of the Study

## Operating Costs

- Largest expenses are:
  - Capital expenditures, vacancies, salaries, taxes, contracts
- Fastest growing expense: insurance but insurance comprises a small portion (4.6% -8.6%) of total operating costs.
- Total utility costs are less than 10% of rent.
- In L.A., operating expenses average 35% of rental income.
- Net operating income is 65% of rental income, available for debt service & cash flow.
- Operating expenses outpaced inflation 67% to 38% CPI (2010 - 2022)
- Until 2019, RSO rent increases kept up with increases in operating expenses, but lagged after the onset of the pandemic.



# Major Findings of the Study

## Returns from Rental Properties

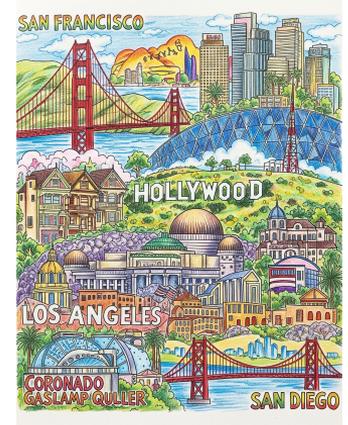
- Average value of RSO units have doubled over 10 years ( - \$300,000).
- Apartments with paid off mortgages are highly profitable.
- Purchase date of RSO units:
  - ~ 74% purchased before 2015
  - ~ 38% purchased before 2000
- Net operating income has grown faster than CPI (3.9% v. 2.6%)
- Although operating expenses have outpaced the CPI, there has been substantial growth in NOI of RSO rental units.



# Major Findings of the Study

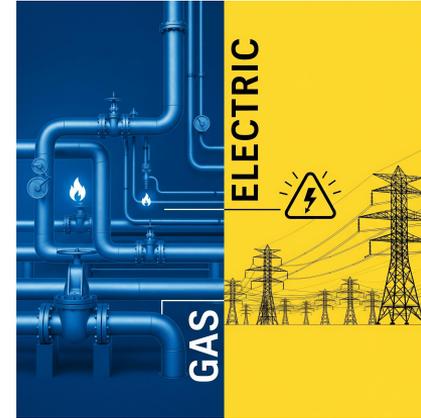
## California Rent Stabilization Laws

- Most tie annual allowable rent increase to CPI & place a ceiling.
- 15 of 33 jurisdictions (45%) use less than 100% of CPI.
- 22 of 33 (67%) have ceiling of 3% - 5% or use fixed 4% or 5%.
- LARSO current annual allowable rent increase is higher than a majority of other jurisdictions.



# Findings of the Study – Gas & Electric Utilities

Service	Percent of Master-Metered Units
Gas & Electricity	7%
Gas, but not Electricity	11%
Electricity, but not gas	1.4%



## Gas and/or Electricity

- L.A. is the only jurisdiction that allows additional 1% - 2% for utilities.
- L.A.'s allowance is disproportionate to actual cost increases in utilities.



# Recommendations

## Policies and RSO Annual Adjustment

- Impact of RSO differs based on tenant turnover.
- Recommend use of the *All-Items Less Shelter Index* to eliminate redundancy of using the cost of housing to set the rent level.
- A disadvantage of greater rent increases for small landlords is that tenants would have higher rent increase than other tenants, even though no difference in services and rents.



# RSO Policy Issues for Council

1. CPI Index
2. Percentage of CPI
3. Maximum/ceiling for annual allowable rent increase
4. Utilities



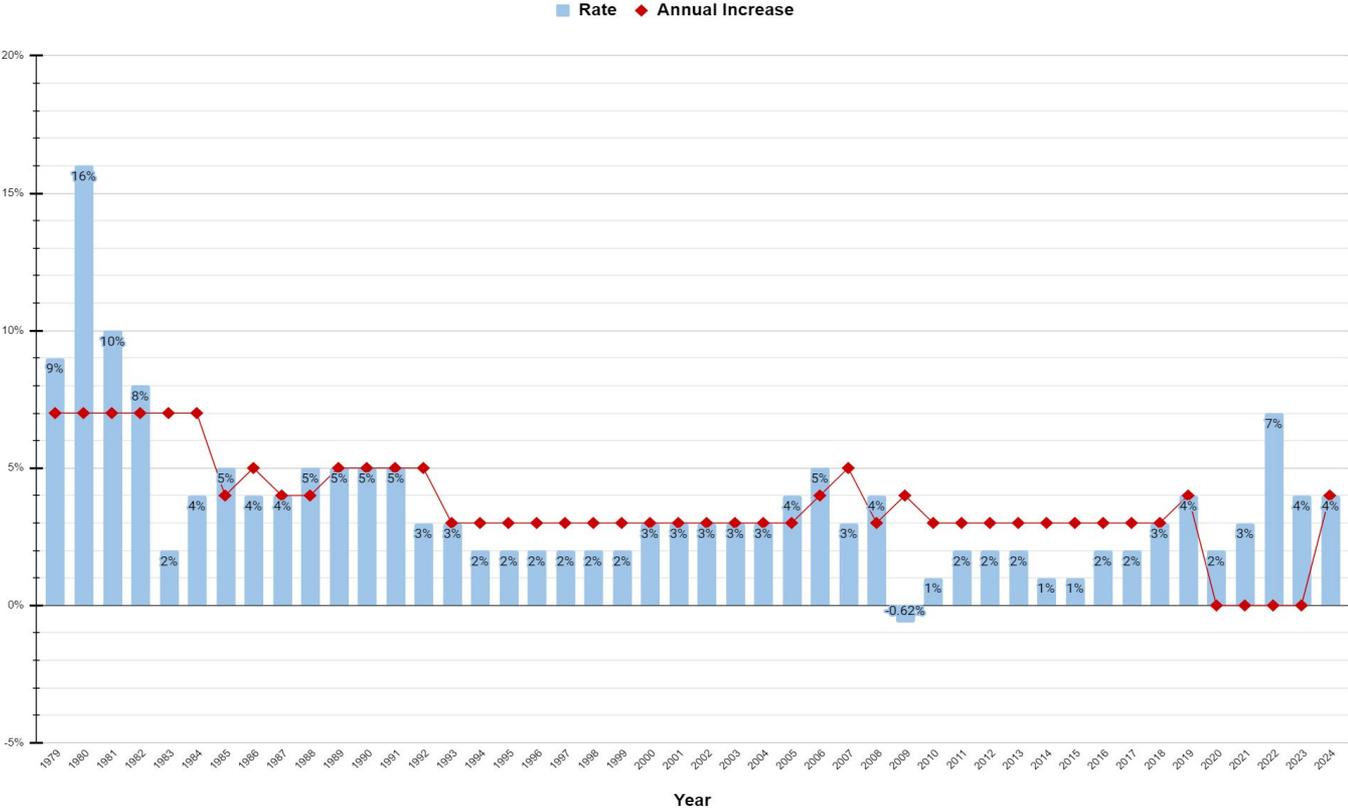
# LAHD Recommendations

<b>RSO ANNUAL ALLOWABLE RENT INCREASE FORMULA COMPARISON CURRENT RSO PROVISIONS – PROPOSED AMENDMENTS</b>		
<b>Formula Indicators</b>	<b>Current RSO Provisions</b>	<b>Proposed RSO Amendments</b>
CPI Index	Consumer All-Items	Consumer All-Items Less Shelter
% CPI Allowed	100%	100%
Ceiling	8%-10%	5%
Floor	3%	2%
Rent Banking	“Use It, or Lose It”	Allowed per LAHD Authorization/Publication
Utilities	+ 1% - 2%	0
FY 2025-26 Projected %	3%	2%

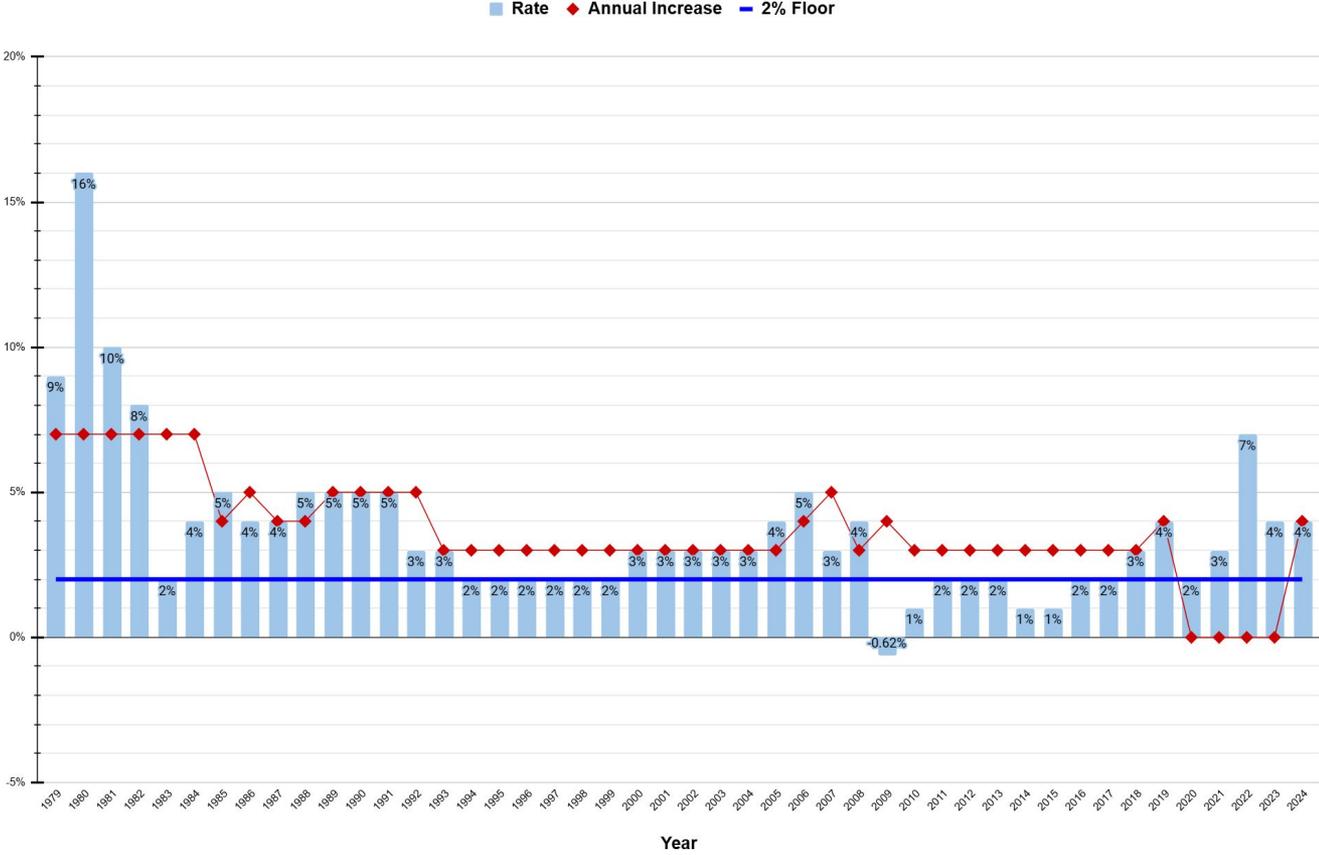


# CPI Percentage Increase Over Prior Year

CPI Percentage Increase Over Prior Year



# CPI Percentage Increase Over Prior Year



# LAHD Summary - RSO Policy Issues - Considerations

- City must encourage preservation of RSO housing stock, which is older housing (47+ years).
- In addition to operating expenses, rental revenue must address mortgage and capital expenditures as well as replacement of major building systems, reserves, and debt service. LAHD's recommendations comport with the majority of California rent-control jurisdictions:
  - ~ 53% allow 100% of CPI, except when CPI exceeds 4 - 5%
  - ~ Only 45% allow less than full CPI (15 jurisdictions)
  - ~ 65% allow maximum of 3% - 5% (22 of 34 jurisdictions)
- 2% floor would match CPI in vast majority (91%) of years.
- Recommendations lower RSO maximum annual allowable increase from **10%** to **5%**.



# Recommendations

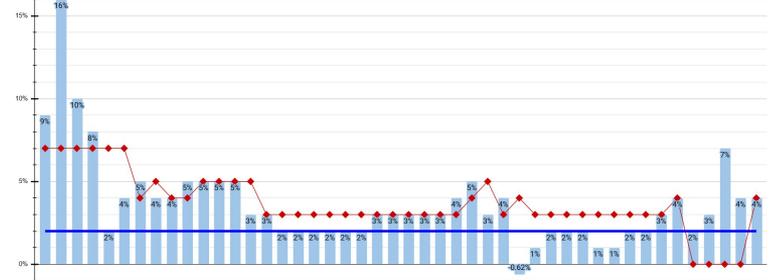


- a. Replace *Consumer Price Index All-Items for All Urban Consumers* with the *All-Items Less Shelter Index*.
- b. Establish a floor of 2% for annual RSO rent increases.
- c. Establish a maximum ceiling of 5% for annual RSO rent increases.
- d. Calculated percent above 5% shall be added (rolled over) to future year.
- e. Delete the 1% - 2% increase for gas and/or electricity.



# RSO Policy Issues – Rent “Banking”

- If approved maximum AARI decreasing from 10% - 5%
- To balance and stabilize annual rent increases in years when CPI exceeds 5%, LAHD recommends that % that exceeds 5% be rolled over to future year(s) per LAHD tracking & publication of allowable rent increase.
- Different from rent banking in other jurisdictions where individual landlords determine when & how much to “bank.”



- Example in 2022: 7% would have 1% rolled over to 2023 and 1% to 2024.
- Annual allowable amount would never exceed 5%.





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