



MEMORANDUM

CSFRA, Community Development Department

DATE: March 25, 2019

TO: Rental Housing Committee

FROM: Patricia Black, Administrative Analyst
Anky van Deursen, CSFRA Program Manager

SUBJECT: Quarterly Review of Consumer Price Indices for Fair Return Calculations of Petitions for Upward Adjustment

RECOMMENDATION

To receive an informational quarterly review of the Consumer Price Indices for Fair Return Calculations of Petitions for Upward Adjustment of Rent.

BACKGROUND

Sections 1710 and 1711 of the CSFRA charge the Rental Housing Committee (RHC) with promulgating regulations to clarify the petition process and ensure rents are set to allow for a landlord's fair return. Petitions are heard and decided by hearing officers and may be appealed to the RHC.

In its meetings on May 22, June 8, and June 19, 2017, the RHC had the opportunity to discuss the concept of a fair return standard, hear input from the community, and also receive input solicited from stakeholders. On June 19, 2017, the RHC directed staff to draft a fair return standard regulation that maintains the net operating income received from a property in the years prior to adoption of the CSFRA by increasing the net operating income in accordance with changes to the CPI. During the July 24, 2017 RHC meeting, staff presented options for the fair return methodologies:

1. **Index for the Fair Return Standard (Sections B and C(4))** - Staff presented two Consumer Price Indices (CPI) for the RHC's consideration: CPI – All Urban Consumers (CPI – U) and the CPI – Housing, both for the San Francisco-Oakland-San Jose metropolitan area. Staff recommended the CPI – All Items based on best practices of other jurisdictions as well as for consistency with the CPI index utilized in the calculations of the Annual General Adjustment.

- 2. **Percentage of Index for the Fair Return Standard (Section B)** – Staff presented the RHC with options regarding the percentage of the change to the preferred index to be used for the Fair Return Regulations. Staff requested the RHC to consider whether to allow for 100 percent of the CPI be used to adjust a landlord’s Net Operating Income from the base year to the petition year or a portion thereof. Staff recommended a 100 percent allocation for the CPI.

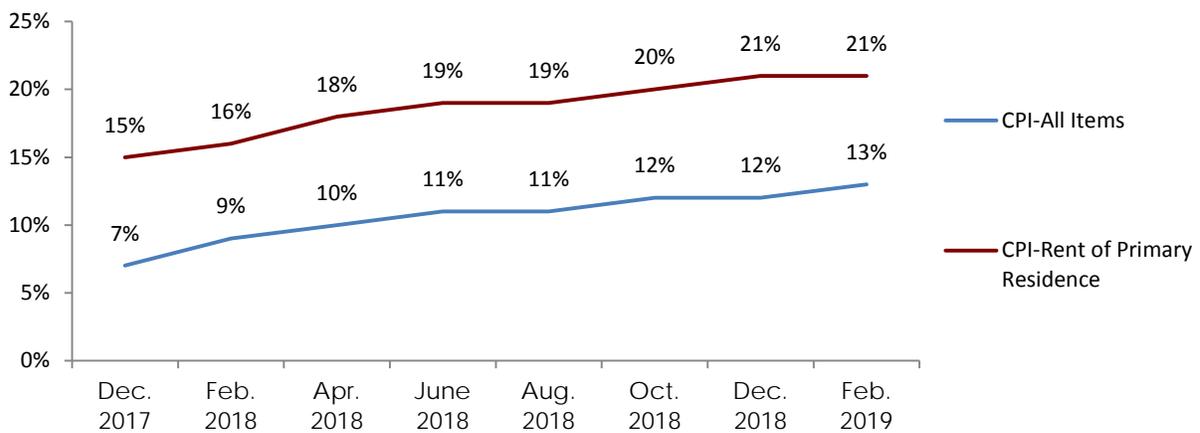
After deliberation, RHC directed staff to revise the draft recommendations for the Fair Return Standard to utilize the CPI – Rent of Primary Residence for the San Francisco-Oakland-San Jose metropolitan area at 100 percent of CPI.

The Bureau of Labor Statistics redefined the geographical area for statistical analysis in January 2018 which caused the RHC to adopt an updated CPI Index for Petitions of Upward Adjustment of Rent. Staff presented index options to the RHC on March 26, 2018 and the RHC adopted the CPI – Rent of Primary Residence for the San Francisco-Oakland-Hayward metropolitan area.

ANALYSIS

It is within the RHC’s purview to review and revise regulations as necessary based on experiences during implementation of the petition process. On November 26, 2018 Chair Ortiz requested staff update the monthly status report to include a graphical representation of the CPI percentages for the fair return standard of both indices and provide quarterly presentations of the differences between the two indices when calculating a fair return in Upward Adjustment of Rent Petitions.

CPI Percentages for the Fair Return Standard





Differences between Maintenance of Net Operating Income (MNOI) Calculations for Finalized Petitions of Upward Adjustment of Rent

The Maintenance of Net Operating Income (MNOI) calculation is used in Petitions of Upward Adjustment of Rent to determine whether the Annual General Adjustment of rent allowed under the CSFRA maintains a property’s net operating income from year-to-year adjusted by an inflation rate percentage. The equation utilizes the Consumer Price Index to adjust a petition’s 2015 base year net operating income by an inflation rate percentage. The petition year’s net operating income is then subtracted by the adjusted net operating income of the base year. If the subsequent number is negative, it indicates that the property may be subject to an increase greater than the AGA in order to maintain net operating income and receive a fair rate of return.

The following tables show the calculations for the MNOI for finalized Petitions for Upward Adjustment of Rent decisions as received by the City. Each petition represented below utilizes the net operating income for the base year and the petition year as approved by the hearing officer responsible for the adjudication of the petition. The MNOI is calculated for both CPI indices, divided by 12 and then divided by the number of units on the property to indicate the potential increase for each unit per month. If an MNOI calculation is positive, no increase is allowed.

**Table 1: MNOI Calculations for Petitions for Upward Adjustment of Rent:
CPI - All Items All Urban Consumers**

Petition	Petition Year	Number of Units	CPI All Items	Decision NOI Base Year	Decision NOI Petition Year	MNOI-CPI All	Per Month Increase (CPI All)	Per Unit Increase (CPI All)
1977 Plymouth St.	Oct-17	10	7%	\$134,689	\$75,758	-\$68,359	\$5,697	\$570
141 Del Medio Ave.*	Oct-17	104	7%	\$1,154,256	\$1,291,321	\$56,267	\$0	\$0
365 Chiquita Ave.	Dec-17	13	7%	\$192,160	\$236,356	\$30,745	\$0	\$0
1600 Villa St.*	Dec-17	248	7%	\$6,686,801	\$7,193,198	\$38,322	\$0	\$0
184 Centre St.	Dec-17	11	7%	\$148,374	\$149,738	-\$9,022	\$752	\$68
1824 California St.	Nov-17	8	7%	\$138,870	\$100,120	-\$48,471	\$4,039	\$505
864 Park Dr.**	Jan-18	5	7%	NA	NA	NA	NA	NA
236 Higdon Ave.	Dec-17	4	7%	\$47,724	\$38,938	-\$12,127	\$1,011	\$253
324 Camille Ct.	Dec-17	7	7%	\$91,651	\$84,639	-\$13,427	\$1,119	\$160
647 Victor Way	Apr-18	4	10%	\$81,545	\$84,679	-\$5,020	\$418	\$105
231 Jessie Lane	May-18	4	10%	\$59,510	\$69,346	\$3,885	\$0	\$0

**Table 2: MNOI Calculations for Petitions for Upward Adjustment of Rent:
CPI – Rent of Primary Residence**

Petition	Petition Year	Number of Units	CPI Rent	Decision NOI Base Year	Decision NOI Petition Year	MNOI CPI Rent	Per Month Increase (CPI Rent)	Per Unit Increase (CPI Rent)
1977 Plymouth St.	Oct-17	10	14%	\$134,689	\$75,758	-\$77,787	\$6,482	\$648
141 Del Medio Ave.*	Oct-17	104	14%	\$1,154,256	\$1,291,321	-\$24,530	\$2,044	\$20
365 Chiquita Ave.	Dec-17	13	15%	\$192,160	\$236,356	\$0	\$0	\$0
1600 Villa St.*	Dec-17	248	15%	\$6,686,801	\$7,193,198	-\$496,623	\$41,385	\$167
184 Centre St.	Dec-17	11	15%	\$148,374	\$149,738	-\$20,892	\$1,741	\$158
1824 California St.	Nov-17	8	14%	\$138,870	\$100,120	-\$58,192	\$4,849	\$606
864 Park Dr.**	Jan-18	5	16%	NA	NA	NA	NA	NA
236 Higdon Ave.	Dec-17	4	15%	\$47,724	\$38,938	-\$15,944	\$1,329	\$332
324 Camille Ct.	Dec-17	7	15%	\$91,651	\$84,639	-\$20,759	\$1,730	\$247
647 Victor Way	Apr-18	4	18%	\$81,545	\$84,679	-\$11,544	\$962	\$240
231 Jessie Lane	May-18	4	18%	\$59,510	\$69,346	-\$875	\$73	\$18

Table 3: Difference between CPI MNOI Calculations for Petitions for Upward Adjustment of Rent

Petition	Petition Year	Number of Units	Per Unit Increase (CPI All)	Per Unit Increase (CPI Rent)	Difference Per Unit Per Month
1977 Plymouth St.	Oct-17	10	\$570	\$648	\$79
141 Del Medio Ave.*	Oct-17	104	\$0	\$20	\$20
365 Chiquita Ave.	Dec-17	13	\$0	\$0	\$0
1600 Villa St.*	Dec-17	248	\$0	\$167	\$167
184 Centre St.	Dec-17	11	\$68	\$158	\$90
1824 California St.	Nov-17	8	\$505	\$606	\$101
864 Park Dr.**	Jan-18	5	NA	NA	NA
236 Higdon Ave.	Dec-17	4	\$253	\$332	\$80
324 Camille Ct.	Dec-17	7	\$160	\$247	\$87
647 Victor Way	Apr-18	4	\$105	\$240	\$136
231 Jessie Lane	May-18	4	\$0	\$18	\$18

PUBLIC NOTICING – Agenda posting.

ATTACHMENTS

1. CPI Indices
2. CSFRA Program’s CPI – Rent of Primary Residence Percentage for a Fair Return Calculation Instruction Sheet
3. Staff Report from July 10, 2017 – Draft Regulations for Petition and Hearing Process, Fair Return Standard