

**Attachment to RHC Memo regarding draft regulations for Specified Capital Improvement
Upward Adjustment Petitions Study Session**

Cost-Recovery Mechanisms in Rent Stabilized Jurisdictions

Table 1. Types of Standard for Cost-Recovery

	Fair Return Standard	Capital Improvement Cost Recovery Standard
Alameda	✓	✓
Berkeley	✓	✓
Hayward	✓	✓
Los Angeles	✓	✓
Oakland	✓	✓
San Francisco	✓	✓
San Jose	✓	✓
Santa Monica	✓	
West Hollywood	✓	

Table 2. Expense Qualifications

	Expense Qualifications - Capital Improvement Cost Recovery Standard
Alameda	<p>Substantial rehabilitation that:</p> <ul style="list-style-type: none"> • Materially adds value to the property • Appreciably prolongs the useful life or adapts the property to a new use • Has a useful life of more than one year and is required to be amortized over the useful life of the improvement • Has a documented cost that is not less than the product of eight times the amount of the rent (as averaged over the past 12 months) multiplied by the number of rental units to be improved
Berkeley	<ul style="list-style-type: none"> • Materially adds to the value of a rental property • Appreciably prolongs its useful life or adapts it to a new use • Has a useful life of more than one year • Direct cost of \$200.00 or more per unit affected, or \$1500.00 per property, whichever is less • Be necessary to bring the unit or property into compliance with applicable new code requirements • Be intended primarily to significantly improve the rental property's seismic safety or increase its energy efficiency • Be provided by the landlord in good faith to primarily benefit the tenant • Or qualify as a major repair
Los Angeles	<ul style="list-style-type: none"> • Primarily benefit the tenant rather than the landlord • Have a life expectancy of five years or more • Be permanently affixed in place or be relatively immobile • Have been completed within the 12 months preceding the date of application • Not be normal routine maintenance and repair work to the rental unit and/or the building
Oakland	<ul style="list-style-type: none"> • Materially add to the value of the property • Appreciably prolong its useful life or adapt it to new building codes • Primarily benefit the tenant rather than the owner. <p>Do not include:</p> <ul style="list-style-type: none"> • Correction of serious code violations not created by the tenant; • Improvements or repairs required because of deferred maintenance; • Improvements that are greater in character or quality than existing improvements • Improvements that bring the unit up to current building or housing codes (mandatory retrofit excluded) • Cost of a substantially equivalent replacement; or costs for which a landlord is reimbursed

	Expense Qualifications - Capital Improvement Cost Recovery Standard
San Francisco	<ul style="list-style-type: none"> • Materially adds to the value of the property • Appreciably prolongs its useful life, or adapts it to new uses • Costs may be amortized over the useful life of the improvement of the building • Cost of capital improvement work that was required to correct a code violation for which a notice of violation was issued and remained unabated for 90 or more days will not be certified for pass through to the tenants unless the landlord made timely good faith efforts to do the work within that 90-day period
San Jose	<p>Addition or modification to the property, building, or unit, that:</p> <ul style="list-style-type: none"> • Replaces or enhances an existing physical feature of the Rent Stabilized Unit or of a building containing a Rent Stabilized Unit, or • Provides new Housing Services to the Tenants <p>Must do at least one (1) of the following</p> <ul style="list-style-type: none"> • Increase the safety (including ADA accessibility), sustainability (water or energy conservation), or seismic readiness of the Rent Stabilized Unit (or of a building containing a Rent Stabilized Unit); and/or • Provide new Housing Services or enhance Housing Service functionality

Table3. Expense Categories

	Expense Categories (Types of Approved Repairs)- Capital Improvement Cost Recovery Standard
Alameda	<ul style="list-style-type: none"> • New roof covering all or substantially all of a building or a structurally independent portion of a building • Significant upgrade of the foundation of all or substantially all of a building or a structurally independent portion of a building, including seismic retrofits • New or substantially new plumbing, electrical or heating, ventilation and air conditioning (HVAC) system for all or substantially all of a building • Exterior painting or replacement of siding on all or substantially all of a building • Repairs reasonably related to correcting and/or preventing the spread of defects which are noted as findings in a Wood Destroying Pest and Organisms Inspection Report • Installation of water conservation devices intended to reduce the use of water or energy efficient devices, such as solar roof systems • Improvements or upgrades to the Rental Unit or the building/complex that meet or exceed disability/accessibility standards as required by law
Berkeley	<ul style="list-style-type: none"> • New roof covering all or substantially all of a building or a structurally independent portion of a building • Significant upgrade of the foundation of all or substantially all of a building or a structurally independent portion of a building • New or substantially new plumbing, electrical or heating system for all or substantially all of a building • Exterior painting or replacement of siding on all or substantially all of a building • Repairs reasonably related to correcting and/or preventing the spread of defects which are noted as findings in a Wood Destroying Pest and Organisms Inspection Report
Los Angeles	<p><i>Capital Improvement Rent Surcharges:</i></p> <ul style="list-style-type: none"> • Roofing • Carpeting • Draperies • Stuccoing the outside of a building • Air conditioning • Security gates • Swimming pool • Sauna or hot tub • Fencing • Garbage disposal • Washing machine or clothes dryer • Dishwasher • Children’s play equipment permanently installed on the premises <p><i>Capital Improvement Primary Renovation:</i></p> <ul style="list-style-type: none"> • Replacement or substantial modification of any structural, electrical, plumbing or mechanical system that requires a permit under the Los Angeles Municipal Code • Abatement of hazardous materials, such as lead-based paint and asbestos, in accordance with applicable federal, state and local laws

	Expense Categories (Types of Approved Repairs)- Capital Improvement Cost Recovery Standard	
	<ul style="list-style-type: none"> • Complete exterior painting of a building • Smoke detectors • Other similar improvements as determined by the Commission 	
Oakland	<ul style="list-style-type: none"> • Air Conditioning • Appliances • Cabinets • Carpentry • Counters • Doors • Earthquake Expenses • Electrical Wiring • Elevator Repair • Fencing and Security • Fire Alarm and/or Sprinkler Systems • Fire Escapes • Flooring • Fumigation • Furniture (Permanent) Heating • Insulation • Landscaping • Lighting 	<ul style="list-style-type: none"> • Locks • Mailboxes • Meters • Plumbing • Painting • Paving • Plastering • Pumps for Water Intrusion • Railing • Roofing • Security Systems • Stairs • Structural Repairs and Retrofitting • Stucco • Tilework • Wallpaper • Window Coverings
San Francisco	<ul style="list-style-type: none"> • Appliances • Fixtures • Locks • Light fixtures • Water heaters and blankets • Shower heads • Time clocks • Hot water pumps • Carpeting, linoleum, and exterior and interior painting of common areas • New foundation • New floor structure • New ceiling or walls • New sheetrock • New plumbing (new fixtures, or piping) • Weather stripping • Ceiling insulation • Seals and caulking • New furnaces and heaters • Refrigerators 	<ul style="list-style-type: none"> • New electrical wiring • New stairs • New roof structure • New roof cover • New window • Fire escapes • Central smoke detection system • New wood or tile floor cover • New sprinkler system • Boiler replacement • Air conditioning-central system • Exterior siding or stucco • Elevator rebuild • Elevator cables • Additions such as patios or decks • Central security system • New doors • New mail boxes • New kitchen or bathroom cabinets and sinks.
San Jose	<ul style="list-style-type: none"> • ADA Driveway Egress • Insulation • ADA Ramps • Structural Iron or Steel Work • Air Conditioning • Masonry-Chimney Repair • Drought Tolerant Landscape • Security System (including security gates and fencing) • Elevators • Shear Wall Installation 	<ul style="list-style-type: none"> • Fire Alarm System • Soft Story Retrofit • Fire Escape • Solar power panels • Fire Sprinklers/Retardant System • Sub metering • Foundation Bolting • Windows • Foundation Repair • Foundation Replacement

Table 4. Share of Expense Costs

Jurisdictions that allow housing providers to file expedited petitions place limits on the total costs of capital improvements that can be petitioned for. Restrictions vary by jurisdiction and often are also limited by amortization schedules, percent caps allowed under the rent stabilization laws, sunset provisions and/or income of tenants.

	Share of Expense Costs - Capital Improvement Cost Recovery Standard
Alameda	[Total cost of repairs + interest] / amortization period / # of units improved
Berkeley	[(Out of pocket cost + self-labor cost) x calculation rate] / # of units affected
Hayward	50% of costs; total annual increase cannot exceed 10% (including AGA) or 30% in 5 years
Los Angeles	<i>Capital Improvement Rent Surcharges:</i> 60% of capital improvement expenditures <i>Capital Improvement Primary Renovation:</i> Permanent 10% increase per unit split over two years plus any regular annual rent increase or Primary Renovation Cost/amortization/number of units (+ interest)
Oakland	70% of actual costs and financing, increase cannot exceed 10% of rent
San Francisco	<i>Properties with 1 to 5 Units:</i> 100% of actual costs; tenants can apply for hardship; maximum amount of \$30 per year or 5% of tenant’s base rent <ul style="list-style-type: none"> Energy conservation work: 100% of certified costs can be passed through, regardless of number of units; no annual limit <i>Properties with 6 or more units:</i> 50% of actual costs; tenants can apply for hardship; maximum amount of \$30 per year or 10% of tenant’s base rent OR 100% of actual costs; tenants can apply for hardship; maximum amount of 5% of tenant’s base rent with limit of 15% of tenant’s base rent <ul style="list-style-type: none"> Energy conservation work: 100% of certified costs can be passed through, regardless of number of units; no annual limit
San Jose	Capped at 3% of monthly rent at the time of filing; not considered a rent increase; does not increase with rent increases

Table 5. Amortization and Sunset Periods

Capital improvement costs are often amortized, or spread out, over a specified timeframe. Amortization schedules specify the length of time for each type of allowed cost. Once the amortization period is complete, the increases sunset and can no longer be applied to monthly rent charges.

	Amortization Period	Increase Sunset Period
Alameda	15 years	Determined by amortization period
Berkeley	None	None
Hayward	5 years (or longer if 5 years would push the increase above 10% annually with AGA)	
Los Angeles	<i>Capital Improvement Rent Surcharges:</i> 60 months <i>Capital Improvement Primary Renovation:</i> 180 months	<i>Capital Improvement Rent Surcharges:</i> 60 to 72 months <i>Capital Improvement Primary Renovation:</i> None
Oakland	Amortized based on detailed schedule (5 to 20 years)	Determined by amortization period
San Francisco	<i>Properties with 1 to 5 units:</i> Amortized based on detailed schedule (10 to 20 years) <i>Properties with 6 or more units:</i> Amortized based on detailed schedule (7 to 10 years)	Determined by amortization period; sunset period may be extended to allow all costs to be recovered
San Jose	Amortized based on detailed schedule(5 to 20 years)	Determined by amortization period