

**Objective Analysis of a Ballot Measure, Titled
“The Pasadena Fair and Equitable Housing
Charter Amendment”**

Prepared for the City of Pasadena

August 2022

**Management
Partners**





August 3, 2022

Mr. David Reyes
Acting Assistant City Manager
City of Pasadena
175 Garfield Avenue
Pasadena, CA 91101

Dear Mr. Reyes:

Management Partners is pleased to transmit this report on the impacts of “The Pasadena Fair and Equitable Housing Charter Amendment” which has qualified for the November 8, 2022, ballot. This report refers to the proposed voter initiative as the “Amendment.”

The stated purpose of the proposed Amendment is to promote neighborhood and community stability by regulating rent increases and preventing arbitrary evictions. The Amendment would apply to a total of 31,316, or 83.5% of rental housing units in Pasadena. The remaining 16.5% of units are not tenant occupied.

Rental units built after 1995 are not subject to rent regulations pursuant to the Costa-Hawkins Rental Housing Act (Costa-Hawkins). Accordingly, our analysis showed the rent stabilization and just cause eviction provisions would apply to 24,852 units in Pasadena’s multi-unit housing stock which were built before 1995. Rental units built after 1995 would still be subject to the Amendment’s just cause eviction provisions. These include 6,464 units in the multi-unit housing stock which were built after 1995.

Under Costa-Hawkins, landlords would set the initial rent amounts when new tenants move in a unit. Future rent increases of that unit would be regulated under the proposed Amendment. The amount of these increases would be tied to the Consumer Price Index, and only one increase would be allowed each year. The base rent for existing tenants would be established as of May 17, 2021, or the initial rent they paid when they moved into the unit after May 17, 2021.

The Amendment also contains provisions allowing a landlord to request an upward adjustment (rent increase) to ensure landlords receive a “fair return.” Tenants could also request a “downward adjustment” (rent decrease) in cases where a landlord failed to properly maintain a unit in compliance with various state laws, or beyond ordinary wear and tear.

Evictions would be limited under the proposed Amendment to specific circumstances where a landlord has a just cause to require a tenant to move. Relocation benefits would be available to tenants in certain types of eviction cases. These benefits, where applicable, would be paid by landlords.

The proposed Amendment would create an 11-member Rental Housing Board which would be appointed by the City Council to oversee the various rent stabilization and eviction regulations, adopt rules and regulations, provide policy direction, and hear petitions for rent adjustments. The proposed Amendment would also require the Board to enact a Rental Housing Fee for each rental unit. This fee would be paid annually by landlords, and it could not be passed on to tenants. The purpose of the annual fee is to provide funding for the rent stabilization and eviction protection programs.

We reviewed a variety of literature including studies provided to us by the City. The proposed Amendment is consistent with what the literature considers to be “second-generation regulations” which are typically set at the local level and are generally more moderate. This means that the regulations cap the amount rents may be increased each year if rents fall below an established target level.

Research studying the impacts of these more moderate, second-generation regulations shows a mix of outcomes, largely determined by the specific regulations and rental markets. Differences in the details of rent stabilization programs can produce varied results.

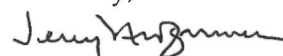
Studying the impacts of rent regulations and tenant protection measures is complicated. Our conclusions from the literature review suggest that the real-world impacts of rent stabilization are limited and less dramatic than rhetoric around this issue would suggest. Most studies conclude rent stabilization programs reduce rent increases relative to market rents, though stronger regulations have shown more success at preventing larger price increases.

Management Partners compiled data regarding rent stabilization programs in five other communities. These are small- to mid-size communities, including Berkeley, Beverly Hills, Richmond, Santa Monica, and West Hollywood. Our analysis later focused on staffing and budget data from the programs in Berkeley and Santa Monica because they are more comparable to Pasadena.

We estimated the staffing requirements using the comparison data and calculated the costs of implementing the proposed Amendment using financial information provided by various City departments. This analysis showed the overall program would require 26 staff positions and cost approximately \$5.8 million to operate during the first year. To offset the program costs identified in the Amendment, the Rental Housing Fee would be approximately \$184 per unit in the first year.

Thank you for the opportunity to assist you and the City of Pasadena.

Sincerely,



Jerry Newfarmer
President and CEO



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Executive Summary

The City of Pasadena engaged Management Partners to prepare a report that analyzes the impacts of a proposed voter initiative (The Pasadena Fair and Equitable Housing Charter Amendment) that will be on the November 8, 2022, ballot for consideration by Pasadena voters. The term "Amendment" will be used to refer to the voter initiative throughout this report.

This report contains Management Partners' analysis and identifies the resulting impacts if the proposed measure is approved by the voters. This report does not provide legal advice, and it does not make any representation about legal interpretations of the proposed measure.

Although this report was commissioned by the City of Pasadena, nothing in the report should be construed as an expression of support or opposition on the part of the City of Pasadena or Management Partners. The official name of the voter initiative is "The Pasadena Fair and Equitable Housing Charter Amendment." The City of Pasadena is not the sponsor of the Amendment. The measure was prepared and qualified for the ballot by private individuals. The City was not involved in these efforts.

A draft of this report was shared with the City to ensure factual accuracy, but the content of the document and its analysis were not altered or influenced by the City of Pasadena.

Proposed Amendment

The proposed Amendment would add Article 18 to the City Charter by including provisions for regulating rents and evictions. It would also establish a Pasadena Rental Housing Board with authority to implement and administer the overall program. The Amendment's provisions would apply to 83.5% (31,316) of multi-unit rentals in Pasadena. The remaining 16.5% of units are not tenant occupied.

The stated purpose of the proposed Amendment is to promote neighborhood and community stability by regulating rent increases and preventing arbitrary evictions. The Amendment also prohibits harassment or retaliation against tenants, especially if it is intended to encourage tenants to move.

Certain rental units would be fully exempt from all provisions in the proposed Amendment. Examples would include units in hotels, motels, hospitals, and convents. Rental units would also be fully exempt if they are owned, operated, or managed by a government agency, or by not-for-profit organization which used tax credits to assist with project financing.

Certain temporary tenancies in single-family homes, and situations where a tenant shares a bathroom or kitchen with a homeowner, would also be fully exempt under the proposed Amendment.

Other rental units would be partially exempt from the Amendment. This partial exemption would apply to rental units which are exempted under the Costa-Hawkins Rental Housing Act (Costa-Hawkins), and units governed by City of Pasadena provisions for inclusionary housing, density bonuses, waivers, and incentives. The Amendment's provisions regarding evictions would still apply.

Under the proposed Amendment, the amount of annual rent increases would be tied to the Consumer Price Index. Additionally, landlords and tenants could petition the Rental Housing Board for special rent increases or rent decreases when special circumstances exist.

Costa-Hawkins prohibits rent regulations for units built after 1995 and on single family homes that can be sold separately from any other units. For this reason, multi-unit rentals built after 1995 in Pasadena would only be subject to the just-cause regulations in the Amendment.

The proposed Amendment would allow a tenant to be evicted in certain circumstances including, for example, failing to pay rent, or violating the lease agreement. A tenant could also be evicted in cases where the landlord needed to make substantial repairs or improvements to a unit. In some situations, a landlord would be required to provide financial relocation assistance to tenants who are being evicted.

The Amendment would generally prohibit evictions of elderly or disabled tenants. There are also eviction protections for families in cases, for example, where another member of the family moves into the unit.

The proposed Amendment would create an 11-member Rental Housing Board, appointed by the City Council. The Rental Housing Board would oversee the rent stabilization and eviction regulations, hire the staff, provide policy direction, and conduct public meetings, among other duties. The Board would be separate and independent from the City Council.

Board members would be compensated on an hourly basis, for up to 20 hours per week. The Board would also be responsible for enacting a Rental Housing Fee applicable to landlords. The purpose of the fee would be to provide funding for the various programs identified in the proposed Amendment. No part of the Rental Housing Fee could be passed on to tenants.

Literature Review

The City asked that Management Partners review and summarize various academic studies to inform our analysis. The literature we reviewed offered a variety of perspectives but no consensus on key questions pertaining to rent stabilization. The following list provides an overview of our literature review:

- The “free market” conceptualized in most economic theory does not align perfectly with real world circumstances related to rent stabilization regulations, real estate development, property ownership, property maintenance and tenancy.
- The impacts of rent regulations and tenant protections are dependent on the unique features of the rent stabilization program and the characteristics of the local housing market. At a minimum, this necessitates a case-by-case evaluation but even then, may be speculative. Overall, however, research suggests that moderate rent stabilization regulations have less deleterious effects than is often imagined.
- Research on second generation rent regulations, which are generally more moderate, also show mixed results. This suggests, in part, that effective rent stabilization measures are part of a broader set of housing programs and land use policies that discourage conversion of rent-controlled housing to

condominiums or short-term rentals and deter real estate speculation.

- Our conclusions from the literature review suggest that the real-world impacts are limited and less dramatic than rhetoric around this issue would suggest. Most studies conclude rent stabilization programs reduce rent increases relative to market rents, with stronger regulations having more success preventing larger price increases.
- The long-term impacts of second generation rent regulations were not addressed in the literature reviewed.

Program Costs

Management Partners compiled and analyzed comparative data from five rent stabilization programs in small- to mid-size cities in California. These communities include:

- Berkeley,
- Beverly Hills,
- Richmond,
- Santa Monica, and
- West Hollywood.

Our team analyzed the five communities in terms of the housing stock which is subject to rent stabilization, and then compared this information to the housing stock in Pasadena. We also evaluated the personnel and program costs in the five communities to identify potential costs in Pasadena. Lastly, Management Partners assessed the position classifications and the number of full-time-equivalent (FTE) positions authorized in the respective budgets.

We concluded that the rent stabilization programs in Berkeley and Santa Monica were the most relevant comparisons to Pasadena. The communities are diverse, have similarly sized populations, and the number of units affected by their rent stabilization programs is similar to the number of units in Pasadena. Additionally, the rent-related programs in these two communities are well established. They are mature organizations that have “worked out the bugs” in terms of operations, staffing, and budgets.

Our analysis showed that the proposed rent stabilization program in Pasadena would require 26 FTE based on our review of the proposed Amendment and the comparison of data points in the other communities. We also estimated the compensation cost for the proposed Rental

Housing Board, cost of additional office space, expenses for information technology, and other miscellaneous costs. The one-time startup costs and the ongoing annual costs total about \$5.8 million, as shown in Table 1.

Table 1. Estimated Program Budget

Program Components	One-time Startup Costs	Ongoing Annual Cost	TOTAL
Personnel costs		\$4,171,260 ¹	\$4,171,260
Rental Housing Board compensation		\$530,200 ²	\$530,200
Office space and furnishings for rent stabilization staff	\$90,000	\$252,000	\$342,000
DoIT startup and annual technology support	\$220,000	\$350,000 ³	\$570,000
Other		\$150,000 ⁴	\$150,000
TOTAL	\$310,000	\$5,453,460	\$5,763,460

¹ Personnel costs for a 26-member staff includes additional inspection staff (2.0 FTE) and DoIT staff (2.0 FTE). The cost estimate includes the maximum base salary, health, and CalPERS retirement benefits.

² Rental Housing Board compensation includes the maximum hourly rate for 11 Board members, plus workers' compensation and general liability insurance coverage, benefits, and Medicare. These positions would be classified under the City's Elective Officer category, which are exempt from CalPERS.

³ This number differs from the total shown in Table 11 because the cost of additional DoIT staff is included under personnel costs in Table 10.

⁴ This is the average cost of "other expenses" reported by Berkeley and Santa Monica, prorated to Pasadena. It would account for materials, contracts, training, and similar expenses.

The proposed Amendment says that the program costs will be financed through the collection of a Rental Housing Fee from landlords for each unit. The fee would be collected from landlords and could not be passed on to tenants.

The amount of the Rental Housing Fee would be approximately \$184 per year, based on the \$5.8 million program costs in the first year. The costs are estimated to decrease to \$5.5 million in the second year, and this could lower the fee slightly.

The remainder of this report addresses the various areas discussed in the Executive Summary. A high-level overview of the proposed Amendment is provided in Attachment A.

This report is organized into eight sections as listed below.

- Executive Summary
- Project Approach
- Background
- Overview of Proposed Amendment
- Literature Review
- Cost of Implementing the Proposed Amendment
- Conclusion
- Attachment

Project Approach

There were several key steps in our review of the proposed Amendment, as outlined below.

Review of Information

Management Partners reviewed a variety of information from various sources. We were provided with a copy of the proposed Amendment, together with a variety of demographic data and information concerning the housing stock in Pasadena.

Literature Review

The City also transmitted copies of various studies pertaining to rent stabilization, including studies provided by proponents of the proposed Amendment, and asked that we review and summarize key findings from the literature. The purpose of the literature review was to establish a context for rent stabilization issues in Pasadena.

Review of Housing Data

We requested a variety of information and data from City staff regarding Pasadena’s housing stock (e.g., number of units, housing tenure, unit type) to determine the applicability of the proposed Amendment in Pasadena.

Analysis of Financial Data

We compiled and analyzed financial data related to potential staff positions that would be required and administrative expenses to operate the proposed programs. This provided a baseline for estimating the total cost of implementing the proposed Amendment, and for estimating the fees that would be necessary to cover the costs.

Review of Comparable Rent Stabilization Programs

Management Partners reviewed information concerning rent stabilization programs in other cities, which was used in our comparative analysis of staffing and program costs.

Consultation with City Staff

We met with City of Pasadena staff via Zoom and teleconference on several occasions to clarify information provided to us, and to request additional data where necessary. While information and data were provided by the City of Pasadena, the analysis in this report was performed by Management Partners.

Preparation of Report and Amendment Overview

Management Partners prepared this report to summarize our review of the proposed Amendment and the estimated financial costs of implementing its various requirements.

We also prepared a high-level, topical overview of the proposed Amendment to assist individuals as they consider the proposed ballot measure. The overview is provided in Attachment A.

Background

Pasadena Housing Information

The tables below provide a breakdown of the housing units in Pasadena by building size and number of units. Table 2 estimates the number of rental units that were built before 1995, and Table 3 estimates the number of units built after 1995.

These timeframes are significant because Costa-Hawkins (1995) restricts California cities from imposing rent controls on units constructed after the legislation was adopted. In other words, rent regulations can only apply to pre-1995 units. However, the law does not preclude cities from imposing just cause eviction limitations on rental units built after 1995. The proposed Amendment follows this approach. It applies eviction regulations to post-1995 units.

The eviction provisions could also require creating an escrow program for tenant relocation costs and for interest earned on security deposits paid by tenants and held for more than one year.

Table 2. Estimated Number of Rental Units Built Before 1995

Unit Type	Number of Housing Complexes	Number of Units	Estimated Number of Tenant Occupied Units	Percent of Units that are Tenant Occupied
Condos	N/A	6,814	3,680	54%
Duplex	1,760	3,520	2,499	71%
Triplex	595	1,785	1,464	82%
Quadplex	464	1,856	1,559	84%
Multi-family	1,163	15,650	15,650	100%
TOTAL	N/A	29,625	24,852	83.9%

Source: City of Pasadena, Planning and Community Development Department

Table 3. Estimated Number of Rental Units Built After 1995

Unit Type	Number of Housing Complexes	Number of Units	Estimated Number of Tenant Occupied Units	Percent of Units that are Tenant Occupied
Condos	N/A	3,029	1,636	54%
Duplex	21	42	30	71%
Triplex	3	9	7	82%
Quadplex	2	8	7	84%
Multi-family	61	4,784	4,784	N/A
TOTAL	N/A	7,872	6,464	82.1%

Source: City of Pasadena, Planning and Community Development Department

State Limitations on Rent Stabilization and Tenant Protections

As of May 2022, approximately 26 of 482 municipalities in California have rent stabilization ordinances that regulate rents, and which may provide other types of tenant protections.

Courts have ruled that such regulations, properly tailored, are a lawful exercise of municipal police powers. These types of regulations first appeared in California in the 1970s and 1980s and have expanded slowly in response to concerns about access to affordable housing, most recently in the period since 2016.

In response to the coronavirus pandemic, over 150 cities and counties enacted emergency eviction moratoria. Some of these included temporary bans on rent increases such as those in the cities of Alameda and Los Angeles. In addition, the California Legislature imposed a statewide moratorium that included rental assistance. For the purposes of our analysis, we focused on broader legislation, and not on temporary measures adopted in response to the pandemic.

As noted previously, the State of California sets limits on the authority of local governments to regulate rents. In addition to limiting rent stabilization to units whose certificates of occupancy were issued before February 1, 1995, Costa-Hawkins exempted single-family homes and condominiums from regulation. It also allowed property owners to reset rental rates when a unit vacancy occurs or when the last rent-stabilized tenant no longer permanently resides at the unit. This is known as “vacancy decontrol.”

Other legislation affecting rental units includes the Tenant Protection Act (AB 1482), which became law on January 1, 2020. Its focus was on preventing "egregious" rent hikes. The law will expire on January 1, 2030. The Tenant Protection Act generally:

- Creates an annual statewide rent cap of 5% plus the increase in the Consumer Price Index (CPI) or 10%, whichever is lower, on all multifamily rental housing, with specified exemptions.
- Allows a maximum of two rent increases in any 12-month period, subject to the rent cap.
- Exempts units already subject to a local rent stabilization ordinance that is more restrictive (i.e., restricts annual rent increases to an amount less than 5% plus CPI).
- Requires "just cause" for a landlord to evict a tenant and relocation assistance (generally one month's rent) for no-fault evictions.
- Prohibits a tenant from waiving their rights to these protections. Any agreement to do so by the tenant is considered void as contrary to public policy.

There are several exemptions to the Tenant Protection Act, as summarized in Table 4.

Table 4. Tenant Protection Act (AB 1482) Exemptions Summary

Regulation/Limitation	Units Exempt
"Just Cause" Regulations and Limitations on Rent Caps	<ul style="list-style-type: none">• Units constructed within the last 15 years, applied on a rolling basis (i.e., a unit constructed on January 1, 2006, is not covered as of January 1, 2020.• Units restricted by deed or other recorded document limiting affordability to low or moderate-income households.• Single family homes and condominiums where landlord notifies the tenant in writing that the tenancy is not subject to the rent cap and "just cause" limitations except for those properties owned by a real estate investment trust (REIT), a corporation, or an LLC with at least one corporate member.• The exemption for single family homes does not apply where there is more than one dwelling unit on the same lot, or a second residential unit in the building that cannot be sold separately from the subject unit such as an in-law unit.• Certain dormitories.

Regulation/Limitation	Units Exempt
	<ul style="list-style-type: none"> Duplexes and other two-unit properties if one unit is occupied by the owner for the entire period of the tenancy.
"Just Cause" Regulations	<ul style="list-style-type: none"> Units that are already subject to a local ordinance that requires "just cause" to terminate a tenancy which is more protective than state law. Ordinances adopted after September 1, 2019, must include a finding that the ordinance is more protective than the provisions of AB 1482. Single family, owner-occupied residences where the owner rents no more than two bedrooms or units, including accessory dwelling units and junior accessory dwelling units. Housing accommodations in which the tenant shares bathroom or kitchen facilities with the owner if the owner lives at the property as their principal residence. Housing provided by a nonprofit hospital, church, extended care facility, licensed extended care facility for the elderly, or an adult residential facility. Transient and tourist hotel occupancy as defined by Civil Code Section 1940(b).
Rent Cap Limitations	<ul style="list-style-type: none"> Units already subject to a local rent stabilization ordinance that restricts annual rent increases to an amount less than 5% plus CPI.

Overview of the Proposed Amendment

If approved by Pasadena voters on November 8, 2022, the “Pasadena Fair and Equitable Housing Charter Amendment” would add a new article (Article 18) to the City Charter, establishing measures intended to stabilize rents on rental units in Pasadena, except those that are fully or partially exempt as specified in the Amendment. The Amendment would establish “just cause” provisions pertaining to evictions and create the Pasadena Rental Housing Board to adopt, administer and enforce rules and administrative regulations.

This section outlines the key provisions of the proposed Amendment to the extent they would present cost or administrative requirements for the Rental Housing Board. The outline is not intended to reference every provision of the proposed Amendment.

Exemptions

Certain rental units would be fully exempt from all provisions in the proposed Amendment. Examples of these units include those in hotels, motels, hospitals, and convents. Rental units would also be fully exempt if they are owned, operated, or managed by a government agency, or by not-for-profit organization which used tax credits to assist with project financing.

Certain temporary tenancies in single-family homes, and situations where a tenant shares a bathroom or kitchen with a homeowner, would also be fully exempt under the proposed Amendment.

Other rental units would be partially exempt from the Amendment. This partial exemption would apply to rental units which are exempted under the Costa-Hawkins Rental Housing Act (Costa-Hawkins) which includes units that received a certificate of occupancy after February 1, 1995, single family homes, and units governed by City of Pasadena provisions for inclusionary housing, density bonuses, waivers, and incentives.

Partially exempt units would not have to comply with the Amendment's provisions pertaining to stabilizing rents, annual general adjustments, initial rents for new tenants, and petitions/procedures for individual rent adjustments. The Amendment's provisions regarding evictions would still apply.

Rental Housing Board

An eleven-member Rental Housing Board, appointed by the City Council, would implement, and administer the program. The composition of the Board would include seven tenants who do not have a material interest in rental property as defined in the Amendment.

One member would be appointed from each of Pasadena's seven districts. Four additional "at-large" members would be appointed, and they may reside in any district in the city. These four at-large members may be tenants, and they may have a material interest in rental property.

Two alternate members would also be appointed. One of these alternates would represent the group of seven tenant members, and they too must be a tenant and must not have a material interest in rental property. The other alternate would represent the group of four at-large members, and they may reside in any district, may or may not be a tenant, and may have a material interest in rental property.

Appointment and Terms of Rental Housing Board Members

Members would serve four-year terms, except for some members on the initial Board who would serve two-year terms. Members would be prohibited from serving for more than eight consecutive years.

Prospective members would apply for appointment. As part of the application package, applicants would be required to provide proof of residency and signatures of 25 residents in the district who endorse their appointment. The Amendment contains restrictions on appointment of tenants to the Rental Housing Board who reside in properties in which a City Council member has an ownership interest.

The City Council would be authorized to appoint members to the Rental Housing Board, but the Council would have no control over or authority regarding the exercise of the proposed Amendment's provisions.

Compensation of Rental Housing Board Members

The proposed Amendment specifies that Rental Housing Board members would be compensated for the time they commit to Rental Housing Board meetings. Members would be paid by the hour for each meeting they attend, up to a maximum of 20 hours per week, at a rate which is equal to 2.5 times the Pasadena minimum wage. We estimate the total cost of this compensation later in this report.

Duties of the Rental Housing Board

If the Amendment is approved by voters, the duties of the Rental Housing Board would include:

- Setting rent increases,
- Establishing rules and regulations for the administration and enforcement of this Article,
- Determining and publicizing the annual general rate adjustment,
- Appointing hearing officers to conduct hearings on individual rental rate adjustments,
- Serving as the appellate body to hear appeals of hearing officer decisions,
- Establishing procedures and timelines for hearings,
- Establishing the annual budget and hiring necessary staff,
- Maintaining an online rental registry,
- Administering the withdrawal process,
- Establishing procedures and timelines for withholding rent in the event excessive rents are paid,
- Conducting studies,
- Establishing penalties for noncompliance,
- Enforcing regulations,
- Developing notices and translations,
- Intervening in litigation related to rental units regulated by this Article,
- Publicizing information,
- Making quarterly reports to the City Council on the status of rental units, and
- Any other duties necessary to administer the provisions of the Amendment.

Establishing Rental Rates

As referenced previously, the proposed rent stabilization regulations would apply to 24,852 of 29,625 units, according to City data.

The Amendment provides that landlords would set the initial rental rates for new tenants. Subsequent increases in rent would be governed by the Rental Housing Board. For instance, the Amendment would require the Board to determine the amount of the annual general adjustment (rent increase) and announce it no later than September 1 of each year. The adjustment would be effective as of October 1 of that year.

The base rent for existing tenants would be set at the rent amount in effect on May 17, 2021, or the rate the tenant paid upon initial occupancy if they moved in after May 17, 2021.

The Amendment provides that the amount of the annual general adjustment (rent increase) would be equal to 75% of the increase in the Consumer Price Index (CPI) – All Items, All Urban Consumers in the Los Angeles-Riverside-Orange County region. In the event the change in the Consumer Price increase is negative, the annual general rate adjustment would be zero percent,

Petitions for Individual Rent Adjustments

Landlords may request an upward adjustment (rent increase) if needed to ensure a fair return, as defined, and calculated using formulas in the Amendment.

A landlord would not be eligible for an annual general adjustment, or an individual rent adjustment if they failed to maintain the unit pursuant to California Civil Code and Health and Safety Code provisions.

Tenants may also petition for downward adjustments if a landlord fails to maintain the premises in a habitable condition pursuant to California Civil Code and Health and Safety Code provisions. A petition for a downward adjustment may also be approved by the Rental Housing Board if the landlord decreases the level of housing services or maintenance, or if the landlord charges unlawful rent as defined in the Amendment.

Evictions

The Amendment would establish “just cause” eviction provisions which would apply to 31,316 of multi-unit rentals in Pasadena. These units include condos, duplexes, triplexes, quadplexes, and multi-units. The Amendment’s eviction provisions would prohibit landlords from evicting a tenant or recovering possession of a rental unit, or taking any actions in

furtherance thereof, except in specified circumstances. The circumstances under which evictions would be permitted include:

- Tenant fails to pay rent.
- Tenant breaches provisions of the lease.
- Tenant is committing, or expressly permitting, a nuisance.
- Tenant is engaging in, or permitting, illegal activities.
- Tenant refuses to execute new lease agreement after expiration of the prior agreement.
- Tenant fails to give access to the unit for landlord repairs and improvements, or inspections permitted by law.
- A subtenant, who has not been approved by the landlord, has sole possession of the unit.
- The unit must be temporarily vacated to allow for necessary and substantial repairs.
- Property owner takes possession of the unit to become the primary residence of the landlord, their spouse, domestic partner, children, grandchildren, parents, or grandparents.
- The property owner has determined to permanently remove the unit from the rental market.
- The unit must be vacated due to a government order resulting from a violation of the Pasadena Municipal Code or any other provision of law.

Other Related Provisions

Under the Amendment, tenants could not be evicted in instances where they add a child, parent, grandchild, grandparent, or other family member, if the total number of occupants do not exceed the maximum number set in the Uniform Housing Code or California Health and Safety Code.

Additionally, elderly, or disabled tenants who have resided in the unit for at least 5 years and are either 60 years of age or older, disabled, or certified as terminally ill could not be evicted for an owner-move-in eviction except where the landlord or relative, who also meets the criteria for this exemption, would occupy the unit and no other units are available.

Relocation Assistance

Tenants who are displaced because they are unable to pay a rent increase greater than five percent plus the most recently announced annual general adjustment in any 12-month period would be entitled to relocation assistance. The amount of this assistance would be set by the

Rental Housing Board. If it determines that a lower threshold is necessary to further the purposes of the Amendment, the Rental Housing Board may reduce the threshold that triggers Relocation Assistance below the standard of five percent plus the most recently announced Annual General Adjustment in any 12-month period. Relocation assistance would also be provided where necessary and substantial repairs require temporary vacancy of the unit, in cases where the owner is moving into the unit, in situations where the unit is being withdrawn from the rental market, or in cases where a government order causes the unit to be vacated.

Funding and Authority of the Rental Housing Board

The Amendment requires that the City provide start-up funding and ongoing internal support as it would with any other City department. The Amendment also provides that the City can be reimbursed for the start-up funding if it so requests.

The Rental Housing Board would be an integral part of the City government, but it “shall exercise its powers and duties...independent from the City Council, City Manager, and City Attorney, except by request of the Rental Board.”

Rental Housing Fee

The Amendment requires the Rental Housing Board to establish fees charged to landlords which would be sufficient to offset the cost of operating the program. However, landlords would be precluded from passing this fee on to tenants. The amount of this fee is discussed later in this report.

Comparison of Proposed Amendment with Existing Provisions in State Law

A summary of major elements of the proposed Amendment compared with rent stabilization and tenant protection legislation adopted by the State is provided in Table 5.

Table 5. Comparison of Major Elements of Rent Stabilization Legislation

Legislation Elements	Pasadena Fair and Equitable Housing Charter Amendment	Costa-Hawkins	Tenant Protection Act (AB 1482)
Rent Stabilization/Price Caps	Annual general rate adjustment equal to 75% of CPI, announced September 1 and effective October 1. Individual adjustments may be granted to achieve “fair return” as defined. Rent increases are limited to one per year.	Local government may enact rent stabilization, with specified restrictions and exemptions including single family homes or properties with title that is separate from any other dwelling unit such as condominium units with some exceptions.	Limits annual rent increases to 5% plus CPI, or 10%, whichever is less on all rental units. Units are exempt if a local rent stabilization ordinance restricts annual rent increases to an amount less than 5% plus CPI. Where there is an existing rent stabilization ordinance at the local level, Costa-Hawkins restrictions still apply.
“Just Cause” Evictions	Requires landlords to have just cause as defined in the Amendment to evict tenants.	No provisions.	Requires landlords to have just cause as defined in the law to evict tenants that have occupied the rental for at least one year.
Vacancy Decontrol	Units may return to market rate when tenant moves out to the extent permitted by State law.	Units may return to market rate when tenant moves out.	Units may return to market rate when tenant moves out.
Single Family Homes and Condos	Single-family homes are exempt from rent regulations and are also exempt from just cause evictions if the homeowner is the primary resident, and the unit is a temporary tenancy not	Exempt.	Exempt if the property is not owned by a real estate trust, a corporation, or an LLC with at least one corporate member and certain tenant notifications are made.

Legislation Elements	Pasadena Fair and Equitable Housing Charter Amendment	Costa-Hawkins	Tenant Protection Act (AB 1482)
	exceeding 12 months in any 36- month period or the tenant shares a bathroom or kitchen with the homeowner.		
New Construction	Not addressed.	Homes built after 1995 are exempt.	Rolling 15-year exemption.

Unique Provisions in the Proposed Amendment

More than 20 communities in California have adopted comprehensive rent regulation and tenant protection programs. Many of these programs are similar to provisions in the proposed Amendment, yet they are different in other important ways, as outlined below.

1. **No explicit exclusion of condominiums.** While single family homes are excluded from regulation under defined circumstances, the proposed Amendment does not specifically exclude condominiums. Most of the other rent stabilization ordinances we reviewed specifically exclude both single-family homes and condominiums from rent regulations.
2. **Vacancy decontrol.** Most of the recent rent stabilization ordinances in California include provisions for “vacancy decontrol.” Vacancy decontrol allows a landlord to set the rent without restriction for new tenancies. As noted earlier, this is a provision in Costa-Hawkins.

Section 1809 of the proposed Amendment states that “to the extent required by state law, Landlords may set the initial rent for new tenants without regulation by this Article.” Section 1809 further provides, “to the maximum extent permitted by state law, the initial Rent for new tenancies shall be subject to the restrictions of this Article.” These provisions would provide the Rental Housing Board with latitude in the event there are changes to the state law to issue rules and regulations governing restrictions on the initial Rent for new tenancies.

3. ***Units built after 1995 are exempt.*** While the Tenant Protection Act exempts from regulation units constructed after 1995 on a rolling basis, including those in Pasadena, the proposed Amendment does not provide an exemption for post-1995 construction.

4. ***"Just Cause" for eviction does not distinguish no-fault eviction.*** The Amendment identifies "just cause" evictions. Just cause includes evictions needed for necessary or substantial repairs, where the owner moved into the rental unit, or the owner considered removing the unit from the rental market then returned it to the market.

While not explicitly articulating these as evictions occurring through no fault of the tenant ("no-fault evictions"), the proposed Amendment does require the payment of relocation assistance, in an amount to be set by the Rental Board. In these cases, tenants shall also have either the first right of refusal to return at the rent paid at the time of termination or relocation assistance.

5. ***Potential conflicts with the Pasadena City Charter and Municipal Code.*** The Amendment would add a new section (Article 18) to the City Charter, pertaining to rental housing.

Some of the powers and duties of the Rental Housing Board appear to conflict with elements of the City Charter and Pasadena Municipal Code. For instance, some provisions appear to limit the authority of the City Council in certain areas, as well as the administrative role of the City Manager.

Section 1811 (m) of the proposed Charter Amendment states, "the Rental Board shall be an integral part of the government of the City but shall exercise its powers and duties under this Article independent from the City Council, City Manager, and City Attorney, except by request of the Rental Board."

So, while the Rental Housing Board will be a part of the City government, the Amendment also grants the Board autonomy related to administrative and financial matters. This may be inconsistent with the City's form of government and the City's responsibility for fiscal management and oversight.

Conflicting provisions of the Pasadena Municipal Codes related to rents, evictions, and relocation assistance would be superseded with voter approval of the Amendment pursuant to Section 1820 (a). However, the Amendment does not restrict the authority of the City Council to enact complementary or non-conflicting ordinances or take other such actions to further the terms or purposes of the Amendment.

Conflicting Charter provisions are addressed in Section 1821 of the proposed Amendment which provides, "To the extent that any of the provisions of this Article conflict with other provisions of the Pasadena City Charter, the provisions of this Article shall govern."

This language appears to clarify that the section applies to Charter provisions related to the authority of the Rental Housing Board to exercise its authority and fulfill its responsibilities. Our concern is that this language may be broadly construed as contrary to existing Charter provisions related to the general powers of the City, its form of government, the personnel system including employment rules, regulations, compensation, and fiscal administration and reporting. There is also the possibility of potential overlap in responsibilities that could be argued to be exercised by either the City or the Rental Housing Board.

Management Partners believes several provisions in the proposed Amendment, and other potential inconsistencies relating to the City Charter and Pasadena Municipal Code, will need to be reviewed by legal counsel as the issues arise. Examples of issues that could be reviewed further include: the responsibility for enforcing the Pasadena Municipal Code sections related to public nuisances, building and safety provisions, property maintenance requirements, investigation and eviction for drug activity; existing

tenant protection measures; zoning and other regulations related
to inclusionary units and accessory dwelling units.

Literature Review

In this section, Management Partners reviews academic literature and studies related to policy and economic impacts of rent regulation in the context of the proposed Amendment.

Relevant Literature Informed this Report

We reviewed a range of academic studies and literature including studies and literature provided by the City of Pasadena and proponents of the proposed Amendment. These studies are listed below.

- Autor, David H., Christopher J. Palmer, and Parag A. Pathak. 2012. “Housing Market Spillovers: Evidence from the End of Rent Control in Cambridge Massachusetts. Working Paper 18125. National Bureau of Economic Research.
- Barton, Stephen. January/February 2019. “The Economics of Residential Rent Control, A Not-So-Simple Matter of Supply and Demand”. *Dollars & Sense*.
- Diamond, Rebecca, Tim McQuade, and Franklin Qian. 2018. “The Effects of Rent Control Expansion on Tenants, Landlords, and Inequality: Evidence from San Francisco.” Working Paper 24181. National Bureau of Economic Research Working Paper Series.
- Gandhi, Sahil, University of Manchester, Richard K. Green, University of Southern California, and Shaonlee Patranabis, London School of Economics. May 7, 2022. “Insecure property rights and the housing market: Explaining India’s housing vacancy paradox.”
- Goetz, Edward, Anthony Dimiano, Peter Hendee Brown, Patrick Alcorn, and Jeff Matson. 2021. “Minneapolis Rent Stabilization Study.” Center for Urban and Regional Affairs at the University of Minnesota.
- Pastor, Manual, Vanessa Carter and Maya Abood. October 2018. “Rent Matters: What Are the Impacts of Rent Stabilization Measures?”. University of Southern California Dornsife Program for Environmental and Regional Equity.
- Preston, Dean, Shanti Singh. March 2018. “Rent Control Works, A Response to Business School Professors’ Misguided Attack on Rent

Control.” <https://actionnetwork.org/groups/tenants-together/files/21464/download>

- Sims, David P. 2007. “Out of Control: What Can We Learn from the End of Massachusetts Rent Control?” *Journal of Urban Economics* 61(1):129-51

Summary of the Literature Review

Much of the early research related to the effects of rent regulation was generated by economists focused on regulations that placed a ceiling on rents, often referred to as first generation regulations. These studies led to views that rent stabilization would produce adverse impacts to local housing markets including a decline in the maintenance of units and reduced production of new housing units.

In our analysis of the academic studies and literature, we focused on recent literature and studies related to rent stabilization and tenant protection programs implemented after the 1970s, often referred to in the literature as second-generation regulations.

Second-generation regulations are typically set at the local level and are generally more moderate, meaning that they cap the amount rents may be increased year-by-year if the rent remains below some target level. These regulations also typically offer decontrol if the unit is vacated, exempt new units, and seek to stabilize housing through other mechanisms such as restrictions on evictions.¹

Second generation regulations, which are similar to the provisions included in the proposed Amendment, are the more common form of rent stabilization today. Research studying the impacts of these more moderate, second-generation regulations shows a mix of outcomes, largely determined by the specific regulations and rental markets. Differences in the details of rent stabilization programs can produce varied results.² Overall, however, research suggests more moderate rent

¹Pastor, Carter and Abood; *Rent Matters: What Are the Impacts of Rent Stabilization Measures?* University of Southern California Dornsife Program for Environmental and Regional Equity; October 2018, page 4.

²Goetz, Dimiano, Brown, Alcorn, Matson; “Minneapolis Rent Stabilization Study”; Center for Urban and Regional Affairs at the University of Minnesota; 2021, page 20.

stabilization regulations have less deleterious effects than is often imagined.³

The impacts of rent regulation and tenant protection measures are complex, and the literature does not address the potential long-term impacts. Conclusions from extensive review of academic literature suggest the impacts are limited and less dramatic than rhetoric around this issue would suggest.

Elements of Rent Regulations

Second generation rent regulations differ in how they are structured. These variations generally occur across five elements as summarized in Table 6.

Table 6. Elements of Rent Stabilization Regulations

Choice of Cap	Exceptions	Exemptions	Decontrol	Compliance and Education
<ul style="list-style-type: none"> ▪ Percent of Consumer Price Index (CPI), ▪ Equal to CPI, or ▪ CPI plus percent 	<ul style="list-style-type: none"> ▪ “Reasonable return” ▪ Pass-through maintenance costs, utilities, taxes ▪ Banked increases 	<ul style="list-style-type: none"> ▪ Owner-occupied ▪ Single-family homes ▪ Small buildings (two to four units) ▪ New construction 	<ul style="list-style-type: none"> ▪ Vacancy decontrol ▪ Luxury decontrol 	<ul style="list-style-type: none"> ▪ Fees to support implementation ▪ Tenant or petition driven ▪ Public information ▪ Monitoring

Source: Minneapolis Rent Stabilization Study 2021 (modified)

Recent rent regulations in California have generally incorporated two major elements, both of which are included in the Tenant Protection Act and in the proposed Amendment:

- A maximum annual rent increase, which is typically based on some relationship to the Consumer Price Index.
- “Just cause” eviction requirements, including relocation costs for no-fault evictions.

³ Pastor, Carter and Abood; *Rent Matters: What Are the Impacts of Rent Stabilization Measures?* University of Southern California Dornsife Program for Environmental and Regional Equity; October 2018, page 5.

Impacts on Housing Costs

Empirical research indicates rent regulations have been effective at achieving two of their primary goals: maintaining below-market rent levels for regulated units and moderating price appreciation. Most studies conclude rent stabilization programs reduce rent increases relative to market rents, with stronger regulations having more success preventing larger price increases. This is especially true when housing production is not keeping up with demand. Lower income tenants who are disproportionately rent burdened (i.e., are paying a high proportion of their income for rent) are less able to pay for rent increases⁴ and are most at risk for displacement when rents are rising faster than incomes.⁵

Rent stabilization ordinances are typically not targeted to any income group. The regulations benefit all renters regardless of their ability to pay.⁶ Some researchers are critical of programs where middle- and higher-income tenants receive the same benefits as lower-income tenants.

Impacts on Affordability in Rent-Regulated Units

Studies have shown affordability for tenants in rent-regulated units improved and long-term tenants paid substantially less than what would otherwise have been the case in the absence of rent regulations.⁷

In Boston and nearby suburbs of Cambridge and Brookline, Massachusetts, rent regulations implemented in the late 1960s and early 1970s were repealed in 1995. The immediate repeal allowed researchers to study the effects of decontrol more accurately on rents and the supply of rental housing. Researchers found the elimination of rent stabilization caused substantial increases in rents in Massachusetts towns that had

⁴Katz, Chesney, King, Vestal; “People Are Simply Unable to Pay Rent: What History Tells Us About Rent Control in Los Angeles” UCLA Luskin Center for History and Policy, page 15; and Montojo, Barton, Moore, “Opening the Door for Rent Control: Toward a Comprehensive Approach to Protecting California Renters,” 2018, Haas Institute for a Fair and Inclusive Society, page 12.

⁵“Curbing Runaway Rents: Assessing the Impact of a Rent Cap in California”; Temer Center for Housing Innovation, UC Berkeley; July 2019.

⁶Pastor, Carter and Abood; “Rent Matters: What Are the Impacts of Rent Stabilization Measures?”; University of Southern California Dornsife Program for Environmental and Regional Equity; October 2018, page 20.

⁷Ibid, page 10.

binding rent stabilization laws in 1994, and rent increases were coupled with a sharp rise in resident turnover.⁸

Significant increases in the quality of rental housing, largely due to rising rates of investment, were also reported following the repeal of the rent regulations. At the same time, researchers reported the number of available rental units increased, suggesting rent regulations had a discouraging effect on the rental housing market and incentives to supply affordable housing.⁹

While generally concurring with the findings in Sims (2007), Goetz (2021) suggests the impacts and outcomes in individual cities are dependent on the unique features of the rent regulations and the characteristics of the local housing market.¹⁰ A study of a rent-stabilized city in New Jersey in 2007 did not find a significant reduction in controlled rents relative to uncontrolled housing stock. The same study noted that, although not statistically significant, rents in uncontrolled cities were higher than in controlled cities, and rents in rent-stabilized cities in New Jersey were only slightly lower than in cities without rent stabilization, suggesting that moderate rent control programs have less significant impacts on rents but can protect tenants from extreme rent increases and price gouging.¹¹

Regulations in Los Angeles, California, in the 1980s illustrate how varying details in a rent stabilization program can change the outcomes. An initial program, implemented in 1979, guaranteed yearly rent increases of 7%, successfully stabilizing rents and providing stability to tenants. In 1984, Los Angeles adjusted the rental increase formula after a study found rents in controlled areas were increasing at the same rate as non-controlled areas, reportedly due to the combined effect of the

⁸ Sims, David P. 2007. “Out of Control: What Can We Learn from the End of Massachusetts Rent Control?” *Journal of Urban Economics* 61(1):129-51

⁹Autor, David H., Christopher J. Palmer, and Parag A. Pathak. 2012. “Housing Market Spillovers: Evidence from the End of Rent Control in Cambridge Massachusetts”; Working Paper 18125. National Bureau of Economic Research, page 8.

¹⁰Goetz, Dimiano, Brown, Alcorn, Matson; “Minneapolis Rent Stabilization Study”; Center for Urban and Regional Affairs at the University of Minnesota; 2021, page 20.

¹¹Goetz, Dimiano, Brown, Alcorn, Matson; “Minneapolis Rent Stabilization Study”; Center for Urban and Regional Affairs at the University of Minnesota; 2021, page 21.

relatively high rent increases and vacancy decontrol. The revised rental increase formula set a minimum guaranteed increase of 3% and a maximum increase of 8% based on the annual CPI adjustment. The change to a CPI-based system improved circumstances for tenants, holding rent increases significantly below prior levels.¹²

Tenant Affordability and Landlord Income in Pasadena

The Amendment uses 2021 as the base year for the purposes of calculating rent adjustments. Increases would then be limited to 75% of the CPI increase in the Los Angeles-Riverside-Orange County region, with the annual general rental rate adjustment effective as of October 1. Only one adjustment would be allowed in any 12-month period.

Overall, rental costs will remain relatively stable if a tenant remains in their unit but there could be disparities from tenant to tenant. Costa-Hawkins allows landlords to reset rents as rental units are vacated, and this could result in different rents being paid by Pasadena tenants depending upon when they moved in.

Landlord income from each property will vary widely depending on the starting rents, tenancy turnover rates, vacancies, operating costs over time, and market conditions. As a result, the financial effects on landlords from the rent stabilization regulations in the Amendment cannot be estimated.

Impacts on Affordability in Non-Controlled Units

Many economists argue affordable housing crises are a matter of supply and demand, with rental housing viewed as a commodity and the rental housing market as self-correcting so that rising rents will quickly generate additional supply and restore affordability.¹³ The reality is that housing demand, rental prices and the rental market are more complex. These factors are heavily influenced by external factors and market conditions, such as the geographic location of the property, access to employment centers and nearby public investments such as transit lines, proximity to natural and cultural resources, and amenities.

¹² Ibid, page 20.

¹³Barton, Stephen. 2019. “The Economics of Residential Rent Control, A Not-So-Simple Matter of Supply and Demand”. *Dollars & Sense*, page 15.

Studies that distinguish between controlled and non-controlled units suggest rent regulations either slightly increase rental affordability in non-controlled areas or have a modest effect on rents when controlling for other factors,¹⁴ thereby keeping rents more affordable for all renters.

Sims (2007) suggests the presence of rent controlled, or stabilized, units in proximity to non-controlled areas decreases the rents in non-controlled areas. Traditional theory suggests that a cap on rents would restrict the supply of housing resulting in a shortage of units and ultimately increased rents in non-controlled units.

Studies show the contrary may occur, with some suggesting maintenance issues and habitability concerns at rent-stabilized properties may drive down values of non-controlled units in the immediate area, pressuring landlords to offer lower rental prices than they normally would. For example, when the Massachusetts rent stabilization regulations were repealed, rents increased on both controlled and non-controlled rental units.¹⁵ This illustrates the effects rent control can have on the affordability of nearby non-controlled units.

In contrast, a 2018 study of rent regulations in San Francisco, California, found rent control induced a decrease in housing supply that led to a citywide rent increase at both controlled and non-controlled areas.¹⁶ This reduction, according to researchers, was largely due to landlords removing rental units from the market and converting them to condominiums to exempt them from regulation and gentrification of San Francisco by simultaneously bringing in higher income residents and preventing the displacement of minorities, which widened income inequality in the City.¹⁷

¹⁴Pastor, Carter and Abood; “Rent Matters: What Are the Impacts of Rent Stabilization Measures?”; University of Southern California Dornsife Program for Environmental and Regional Equity; October 2018, page 11.

¹⁵ Ibid, page 12

¹⁶ Diamond, McQuade, Qian; “The Effects of Rent Control Expansion on Tenants, Landlords, and Inequality: Evidence from San Francisco”; American Economic Review; 2019, page 3366

¹⁷Diamond, McQuade, Qian; “The Effects of Rent Control Expansion on Tenants, Landlords, and Inequality: Evidence from San Francisco”; American Economic Review; 2019, page 3366

The above study did not address other factors that may have contributed to the increases, such as surging demand for housing due to the region's employment boom in the technology sector, lack of enforcement related to short-term rentals, and real estate investment.¹⁸

Except for the San Francisco experience, which may be related to the unusual housing market and unique demand pressures, researchers have generally found that rents stayed the same or were lowered in units that are not regulated but are in proximity to rent regulated units.¹⁹

Impacts on Maintenance of Units

Deterioration and reduced maintenance of rent-regulated properties is to be expected, according to some researchers, because landlords have little incentive to undertake repairs when they cannot increase rents to market levels.²⁰

This conclusion, however, may be based on an overly simple view of regulating rents and the impacts of other factors such as the job market, geographic desirability, and community amenities. For example, a report from the Legislative Advocates Office²¹ in relation to proposed statewide rent stabilization legislation suggested that the linkage between regulating rents and a lack of property maintenance is not a given. The study concluded that "it is unclear the extent to which these effects have actually occurred in practice.

Maintenance provided by a landlord is not a direct response to the amount of rent paid but rather to the difference between the rent that can be obtained from a well-maintained rental property versus a poorly maintained one.²² In a tight rental market, prospective tenants will be

¹⁸Preston and Singh; "Rent Control Works, A Response to Business School Professors' Misguided Attack on Rent Control"; Tenants Together, California's Statewide Organization for Renters' Rights; March 2018, page 7

¹⁹ Pastor, Carter and Abood; "Rent Matters: What Are the Impacts of Rent Stabilization Measures?"; University of Southern California Dornsife Program for Environmental and Regional Equity; October 2018, page 12

²⁰ Goetz, Dimiano, Brown, Alcorn, Matson; "Minneapolis Rent Stabilization Study"; Center for Urban and Regional Affairs at the University of Minnesota; 2021, page 23

²¹ Legislative Analyst's Office; Letter to Attorney General Xavier Becerra; December 12, 2017

²² Barton, Stephen. 2019. "The Economics of Residential Rent Control, A Not-So-Simple Matter of Supply and Demand". Dollars & Sense, page 18

more likely to rent the well-maintained, more attractive rental units even at a higher cost.

An underlying assumption of rent stabilization ordinances is that when the initial rent is set by an owner, the rent provided sufficient income to address regular maintenance of the property, including set-asides for expected long-term improvements such as a new roof. Moderate rent increases applied to this base presumably provide sufficient income to be able to continually invest in the property. Regulations in some communities also offer cost pass-throughs, or individualized rent increases that may be granted to landlords to recover some of their expenses related to maintenance and capital improvements. Sims (2007) suggests that tenant affordability comes at the cost of better maintenance, with rent stabilized buildings experiencing more maintenance and habitability concerns such as holes in walls or doors, chipped or peeling paint, and loose stair railings.²³ Findings in other studies, however, are more nuanced, suggesting major capital projects keep pace while more aesthetic upkeep and general maintenance may suffer, causing some reduction in housing quality.²⁴

Our review of the literature suggests that strict application of economic theory is superficial and that the impacts of rent regulation on property maintenance tend to be ambiguous. Second generation regulations allow for yearly increases, and many authorize larger increases to cover significant maintenance and capital improvement projects. For example, Section 1813 of the proposed Amendment provides a process for landlords or tenants to request an individual rate adjustment.

The literature suggests the impact of rent control on housing maintenance is largely dependent on the features of the program itself. Programs that address changes in housing conditions, either through incentives or penalties, largely prevent declines in maintenance.²⁵

California law requires that landlords receive a fair return on their investment. Major renovations and expected repairs and maintenance are a reality of owning property. Most second generation rent regulations,

²³ Goetz, Dimiano, Brown, Alcorn, Matson; “Minneapolis Rent Stabilization Study”; Center for Urban and Regional Affairs at the University of Minnesota; 2021, page 24

²⁴ Ibid, page 1

²⁵ Ibid, page 23

like the proposed Amendment, have clauses that allow property owners to petition for rent increases beyond that permitted each year to fund these major renovations and unexpected maintenance costs.

However, a 2009 study of the Los Angeles Rent Control program found that property owners in Los Angeles were often not aware they could petition for increases to address unusual maintenance requirements or found the paperwork and process for applying for such increases to be cumbersome.²⁶ Yet the study did not find a pattern of disinvestment in rental properties due to the rent stabilization regulations.

Under the proposed Amendment, Pasadena landlords would not be eligible for annual or individual rate increases if the Rental Housing Board determined any of the following circumstances existed:

- The property is not being maintained in substantial compliance with the rental regulations including rules and regulations promulgated by the Rental Housing Board,
- There are violations of California Civil Code Sections 1941.1 et seq. (conditions making dwellings untenable), California Health and Safety Code Section 17920.3 (substandard buildings) or California Health and Safety Code Section 17920.10 (lead-based paint hazards) are present at the rental property, or
- The landlord has failed to make repairs ordered by a hearing officer, the Rental Housing Board, or the City of Pasadena.

The proposed Amendment also allows tenants to petition for a “downward adjustment” of rents in situations where landlords fail to maintain units in compliance with applicable laws, or where units have deteriorated “beyond ordinary wear and tear.”

Consistent with the studies we reviewed, provisions such as those in the proposed Amendment that condition rent adjustments on compliance with maintenance provisions may serve as an incentive for landlords to properly maintain their properties and ensure compliance with rules and regulations.

²⁶Economic Study of the Rent Stabilization Ordinance and the Los Angeles Housing Market; City of Los Angeles Housing Department, 2009

Impacts on Housing Production and Existing Rental Units

The Costa-Hawkins exemption for units built after 1995 is cited in the legislative analysis as a provision that encourages construction of new housing units in areas with growing economies where price increases will foster the development of additional housing units. It is suggested that the new units will attract tenants who can afford higher rents away from older, more established housing units. Owners of older buildings would then need to compete for tenants by either lowering rents or making improvements to command higher rents.²⁷

Rent regulations in many communities exempt new construction either for a set time or in perpetuity, like Costa-Hawkins. Much of the research reports that modern rent control measures have no discernable effect on new housing production. These findings are important since earlier studies suggested that housing production would be dampened because developers would be discouraged by rent regulations that affect profitability.²⁸ The literature we reviewed suggests that new housing production is more influenced by cycles in the local economy and other local conditions such as the availability of land and real estate values.²⁹

While the literature suggests rent regulations do not impact new housing construction, some studies suggest regulations may affect the availability of rent-controlled housing units by inducing landlords to remove controlled units from the market.³⁰ This may occur where the owner moves into one of the units and the regulations exempt owner-occupied properties, the landlord converts the rental units to condominiums, or the landlord redevelops the building.

The structure of rent regulations influences whether and how units are taken off the market.³¹ In Heskin (2000), which studied rent regulations in Los Angeles, researchers suggested vacancy control (i.e., where a rental

²⁷Barton, Stephen. 2019. “The Economics of Residential Rent Control, A Not-So-Simple Matter of Supply and Demand.” *Dollars & Sense*, page 17

²⁸ Goetz, Dimiano, Brown, Alcorn, Matson; “Minneapolis Rent Stabilization Study”; Center for Urban and Regional Affairs at the University of Minnesota; 2021, page 23

²⁹ Ibid

³⁰ Pastor, Carter and Abood; “Rent Matters: What Are the Impacts of Rent Stabilization Measures?”; University of Southern California Dornsife Program for Environmental and Regional Equity; October 2018, page 15

³¹ Ibid

unit must remain at a below market price after a tenant moves out and the unit is re-rented to the next tenant) may incentivize landlords to convert rental properties to ownership units.

The experience in Los Angeles was reaffirmed in Diamond (2019) which suggested San Francisco’s rent stabilization incentivized landlords to convert rental units into owner-occupied units or redevelop the buildings to exempt them from regulation.³² Regulations that serve to incentivize the conversion of rental units to owner-occupied units or encourage redevelopment can result in an overall decrease in the availability of rental units.

Shifts in the housing supply to less affordable types of housing which cater to higher income tenants were also reported. Diamond (2019) suggests rent regulations can lead to fewer rental units but can also result in an upgraded housing stock. However, this can also contribute to gentrification and widening income inequality.³³

The vacancy decontrol provisions in Costa-Hawkins, some studies suggest, may ease landlord anxieties about lost profits and provide a disincentive to convert their properties into condominiums or other owner-occupied units. However, California’s Ellis Act does allow landlords to evict tenants to facilitate the conversion of the units into condominiums or to redevelop the entire property.

The proposed Amendment would require the landlord to provide tenants with relocation assistance in the case of a condominium conversion or property redevelopment. While this relocation assistance might be considered a disincentive for landlords, our understanding is that the purpose of the assistance is focused on helping tenants find a new home and move. For instance, State law requires relocation assistance equal to one month’s rent. The amount of the relocation assistance provided under the proposed Amendment would be set pursuant to rules and regulations established by the Rental Housing Board.

³² Ibid

³³Diamond, McQuade, Qian; “The Effects of Rent Control Expansion on Tenants, Landlords, and Inequality: Evidence from San Francisco”; American Economic Review; 2019, page 3369

Impact on Property Values and Property Tax Revenue

Pastor (2018) found that "[w]hile it is reasonable to assume that property values are diminished by rent regulations, research on the issue is mixed."³⁴ Pastor cites one study that found property values in Cambridge, Massachusetts for formerly rent stabilized properties increased. The property values of surrounding properties also increased when rent stabilization was removed. In contrast, another study in New Jersey did not find an impact on values.

The California Legislative Analyst's Office (LAO) in its analysis of a proposed 2017 rent stabilization law (which was not adopted), states:

"The market values of properties appear to decline when they are placed under rent control. Further, some evidence suggests that the market value of non-rent-controlled properties in the vicinity of rent-controlled property also declines."

The LAO's conclusion is inconsistent with the findings of the Cambridge (2012) study. The LAO also notes that to the degree rent stabilization reduces property values it can also affect local government revenue from property taxes.³⁵

³⁴Pastor, Carter and Abood; "Rent Matters: What Are the Impacts of Rent Stabilization Measures?"; University of Southern California Dornsife Program for Environmental and Regional Equity; October 2018, page 13

³⁵ Legislative Analyst's Office; Letter to Attorney General Xavier Becerra; December 12, 2017.

Cost of Implementing the Proposed Amendment

This section of the report estimates the cost of implementing the provisions of the proposed Amendment. As discussed earlier in this report, the proposed Amendment envisions that a new government function would be added in Pasadena. The function would operate like a new department of the City organization in some respects, but it would have its own governing structure and authority; thus, in some ways, it would operate as an effectively separate entity.

To identify potential costs, Management Partners compared the operational aspects of the proposed Amendment with well-established rent stabilization programs in other communities. Our analysis assumes that new staff positions would be covered under CalPERS since this is the most common approach found in other communities with rent stabilization programs. We note, however, that the Amendment does not expressly require the new staff positions be covered under CalPERS.

Cost Recovery

The costs of providing rent stabilization and tenant-rights programs in other communities are typically covered by annual fees charged to landlords and/or tenants. The proposed Amendment allows for a similar arrangement where annual landlord fees would be established, but with a caveat. The proposed Amendment specifies that any landlord fee may not be passed on to tenants.

A small number of rent stabilization programs in California are offset by partial subsidies from a city's General Fund, but full-cost recovery through fees is more common. This report will assume a full-cost recovery approach, i.e., that implementation of the proposed Amendment would not be subsidized by the City of Pasadena.

Later in this section we will estimate the fee which would be necessary to fund the various program costs if the proposed Amendment is approved by voters.

Comparison With Other Communities

Management Partners focused primarily on mid-sized and smaller cities that operate comprehensive rent stabilization programs and share similarities with the proposed Amendment in Pasadena.

The rent stabilization programs in Los Angeles and San Francisco are not good comparisons because they have substantially larger populations, a higher number of rent-stabilized units, larger staff, and bigger budgets. This size disparity may result in greater economies of scale and efficiency, although it could also result in greater complexity. We did not use these larger cities for comparison out of a concern that doing so would skew the results.

We focused instead on communities that are like Pasadena in certain respects, or whose rent stabilization programs are like the proposed program in Pasadena. The five communities include:

- Berkeley,
- Beverly Hills,
- Richmond,
- Santa Monica, and
- West Hollywood.

Table 7 compares the population and key rent stabilization data points for these communities.

Table 7. Comparison Cities with Rent Stabilization Programs

	Pasadena	Berkeley	Beverly Hills	Richmond	Santa Monica	West Hollywood	Average
Year Rent Stabilization Program was Established	N/A	1978	2017	2017	1979	1985	N/A
Population	135,732	123,065	31,896	110,051	92,408	35,399	88,092
Number of rent-stabilized units	24,852 ¹	19,607	7,794	7,665	27,484	16,741	17,480
Number of units subject to “just cause” only	6,464 ¹	24,306	N/A	10,485	N/A	N/A ²	13,752
TOTAL UNITS	31,316	43,913	7,794	18,150	27,484	16,741	24,233

¹ These are estimates of the potential number of rent-stabilized units, and units that would be subject to the just cause provisions in the proposed Amendment. The estimates were based on data provided by the City of Pasadena.

² Most if not all residential units in West Hollywood are covered by just cause protections, whether they are rent-stabilized or not.

We also reviewed the five communities to understand the various annual rent stabilization program costs, which range from \$1.6 million in Beverly Hills to \$5.5 million in Santa Monica. The comparison of program costs is shown in Table 8.

Table 8. Comparison of Rent Stabilization Program Costs in FY 2021-22

Program Components	Berkeley	Beverly Hills	Richmond	Santa Monica	West Hollywood	Average
Personnel	\$4,037,928	\$868,424	\$2,115,192	\$4,811,426	\$1,868,466	\$2,740,287
Office and Professional Services	\$902,640	\$644,576	\$169,680	\$645,353	\$655,361	\$603,522
Other	\$506,098	\$87,000	\$60,204	\$48,400	N/A	\$175,426
TOTAL	\$5,446,666	\$1,600,000	\$2,595,497	\$5,505,179	\$2,523,827	\$3,534,234

Most Comparable Rent Stabilization Programs

Although Beverly Hills and West Hollywood are smaller than Pasadena, we reviewed their data due to proximity in Los Angeles County.

Additionally, we also reviewed Beverly Hills as well as Richmond to understand startup costs. We concluded that, while startup costs are important, they vary considerably, and this makes comparisons less reliable because they would rely on numerous assumptions.

We also concluded that small cities are not as useful as a comparison. They have a lower number of rent-stabilized units, and this may translate into staff being assigned a mix of duties that would not be comparable to the way the proposed program in Pasadena would operate.

Management Partners believes the proposed Amendment would result in a similar operational profile to the rent stabilization programs in Berkeley and Santa Monica. The three communities are closer in population and would be more similar in terms of the number of units covered under the rent stabilization regulations.

If the proposed Amendment is approved by Pasadena voters, the program will eventually need to be as sophisticated and comprehensive as the programs in Berkeley and Santa Monica. The Berkeley and Santa Monica programs were established in the 1970s and have had time to mature in terms of operations, staffing, and budgets. We believe they are

better examples of what the proposed program in Pasadena would look like after being operational for some time.

Complexity of the Proposed Amendment

The provisions outlined in the proposed Amendment would add a new and complex government function in Pasadena. As the rest of this report shows, this would translate into creating new programs and systems, hiring more staff, and adding significant governmental costs.

To illustrate this, the outline below provides a partial listing of the types of functions and tasks we envision the rent stabilization program staff would be responsible for if the proposed Amendment is approved by Pasadena voters.

- Support the Rental Housing Board in developing policies and procedures to implement the program.
- Support the Rental Housing Board during public meetings including:
 - Preparing and publishing public notices and agendas,
 - Recording and publishing minutes, and
 - Answering questions from the Rental Housing Board and public.
- Provide ongoing outreach and education.
- Administer the process for removing units from the registry.
- Provide tenant support and technical assistance to landlords in ensuring compliance with the proposed Amendment and the Rental Housing Board's policies and procedures.
- Conduct studies, audits, and perform analysis of rent stabilization and just cause provisions.
- Create and monitor a rental registry.
- Develop a comprehensive rental unit database.
- Publish the allowable rent increase rates.
- Administer tenant relocation program and escrow funds.
- Provide administrative support to hearing officers.
- Facilitate appeals and petitions from landlords and tenants.
- Monitor tenant rents.
- Mediate minor landlord-tenant issues.
- Develop and administer program budgets.
- Provide training and professional development for agency staff.
- Develop and support a system for landlord fees.
- Establish and enforce criminal and civil penalties for violation of Amendment provisions.

Another way to think about the complexity and reach of the Amendment’s proposed programs is to look at the number of households and people they would affect. Data provided by the City shows the program would apply to 31,316 housing units.

We reviewed Census Bureau data to estimate the number of people this could impact. These data show that the average household size in Pasadena from 2016 to 2020 was 2.44 persons. Based on this average, the proposed program could affect over 75,000 residents plus hundreds of landlords.

Analysis of Program Costs

Management Partners identified five categories of program costs for the rent stabilization program outlined in the proposed Amendment. These categories include:

- Cost of personnel for program administration,
- Cost of additional inspections,
- Cost of compensation for Rental Housing Board compensation,
- Cost of information technology support and equipment,
- Cost of office space, and
- Other startup considerations.

These costs are discussed in the following sections.

Cost of Personnel for Program Administration

The cost of employees would be the largest expense category for implementing the rent stabilization program identified in the proposed Amendment. Programs of this nature represent significant policy commitments that require comprehensive administrative structures to implement and sustain them.

To estimate the cost of personnel, however, we first need to identify the number and type of employee classifications that would be necessary. Table 9 provides a comparison of full-time equivalent staff positions by classification which are allocated to the rent stabilization programs in the various agencies we studied.

Table 9. Rent Stabilization Employee Classifications in Other Cities, in FTE

Employee Classification	Berkeley	Beverly Hills	Richmond	Santa Monica	West Hollywood	Maximum Number of Positions
Executive	1.0	1.0	1.0	1.0	-	1.0

Employee Classification	Berkeley	Beverly Hills	Richmond	Santa Monica	West Hollywood	Maximum Number of Positions
Line Managers	4.75	-	1.25	2.0	1.0	4.75
Technical Expert	5.8	3.0	4.5	1.0	5.0	5.8
Office Support	5.8	1.5	3.0	6.0	4.0	6.0
Hearing Officer	2.0	1.0	1.0	5.0	-	5.0
Legal	3.0	1.0	2.25	4.0	-	4.0
Information Technology	-	-	-	6.0	-	6.0
TOTAL	22.35	7.5	13.0	25.0	10.0	25.0

Management Partners used the staffing data from the other cities to estimate the number and types of classifications that would be necessary in Pasadena if the proposed Amendment is approved by voters. As we discussed previously, we believe the comparative information from Berkeley and Santa Monica are particularly relevant for Pasadena. Their programs are well-established after many years, and we believe this translates into a level of operational stability; in other words, they have “worked out the bugs.”

We reviewed the number and classifications of attorney positions provided in Berkeley and Santa Monica as a basis for estimating the legal services that would be necessary in Pasadena. Our estimate is that 3.0 FTE positions (1.0 Chief Assistant City Attorney, and 2.0 Assistant City Attorneys) would be required. Management Partners notes that outside legal counsel may be necessary in the future and that these costs will need to be estimated and budgeted by the Rental Housing Board.

There is a chance that the proposed program in Pasadena could operate with fewer staff than we estimate, especially at startup and during the early phases of implementation. We are mindful, however, that the proposed program in Pasadena is as complex as the programs in Berkeley and Santa Monica. Management Partners was asked to provide an objective estimate of the costs associated with the proposed Amendment, and our estimates focus on the costs to operate a mature program.

Cost of Additional Inspections

If the Amendment is approved by Pasadena voters, we anticipate the City will see an increase in requests for inspections based on language in the initiative as referenced below.

Section 1808 of the proposed Amendment prohibits annual rent increases if the landlord has failed to maintain the unit in compliance with relevant California Civil Code and Health and Safety Code provisions, as well as requirements ordered by a hearing officer, the Rental Housing Board, or the City of Pasadena.

Section 1813 allows a tenant to petition for a downward adjustment of rent if the landlord has failed to maintain “habitable premises” as set forth in relevant portions of the California Civil Code and Health and Safety Code.

The City has operated a Quadrennial Inspection Program for many years, which involves conducting periodic inspections of multi-family housing. The program’s inspections are handled through the Code Compliance Division of the Planning and Community Development Department.

For efficiency, and to maintain inspection continuity and quality, our analysis assumes the City and the Rental Housing Board would task code compliance staff with handling the additional inspections generated by provisions in the proposed Amendment. We anticipate a funding arrangement would need to be established where the Rental Housing Board reimburses the City for the costs of the additional inspections. We have included 2.0 FTE to support these additional inspections, which was based on an estimate provided by the Planning and Community Development Department.

In summary, Table 10 estimates the various required positions by classification or function.

Table 10. Estimated Staffing Costs to Implement the Proposed Amendment

Employee Classification	Existing Comparable Pasadena Classification	Required FTEs ¹	Estimated Annual Costs ²
Executive or Department Head	Executive Director	1.0	\$270,546
Line Managers	Housing Administrator	2.0	\$405,166
Technical Expert	Housing Assistant	6.0	\$628,378
Office Support	Office Assistant, Office Aide	6.0	\$512,752
Hearing Officer	<i>Classification to be established</i>	4.0	\$829,279 ³
Legal	Chief Assistant City Attorney (1.0), Assistant City Attorney (2.0)	3.0	\$883,837
Information Technology	IT Analyst, Senior IT Support Specialist	2.0	\$350,000 ⁴

Employee Classification	Existing Comparable Pasadena Classification	Required FTEs ¹	Estimated Annual Costs ²
Inspections	Neighborhood and Business Services Administrator (0.15 FTE), Office Assistant (0.5 FTE), Senior Code Compliance Officer (0.35 FTE), Code Compliance Officer (1.0 FTE)	2.0	\$291,302 ⁵
TOTAL		26.0	\$4,171,260

¹ Estimates of the number of required FTEs are based on an analysis of the number of staff positions in Berkeley and Santa Monica.

² Except where noted, the annual cost of positions was provided by the Pasadena Human Resources Department based on existing Pasadena classifications. This includes the maximum base salary, health, and CalPERS retirement benefits.

³ Pasadena does not have a classification for Hearing Officer, so this cost was based on a Hearing Officer classification in Santa Monica.

⁴ This estimate was provided by the Department of Information Technology.

⁵ This estimate was provided by the Planning and Community Development Department.

Cost of Compensation for Rental Housing Board

The proposed Amendment provides that the Rental Housing Board members be compensated on an hourly basis, up to 20 hours each week, at the rate of 2.5 times the Pasadena minimum wage. The 2022 minimum wage in Pasadena is \$16.11, and therefore the hourly rate would be \$40.28.

The Amendment specifies that the Rental Housing Board “shall hold regularly scheduled meetings as necessary” but it does not provide further guidance. We assume the Board would meet frequently during the implementation phase and that this phase could take many months. Board meetings are likely to follow a more typical schedule thereafter. For comparison, the rent boards in Berkeley and Santa Monica met about once per month in 2021. To be conservative, however, our cost estimate is predicated on weekly meetings because this is allowed under the Amendment.

Based on the above, the 11-member Board could be compensated for a maximum of 220 hours per week (\$8,861.60). If the Board were to meet each week (52 weeks), the base compensation would be approximately \$460,800 per year. According to the Pasadena Human Resources Department, once costs for Workers’ Compensation, general liability, benefits, and Medicare are added, the maximum total annual compensation for the 11-member Board would be approximately \$530,200.

Cost of Information Technology Support and Equipment

City staff have advised us that the Department of Information Technology (DoIT) does not have the physical space, IT technical capacity, or staff necessary to support the operations contemplated in the proposed Amendment.

The DoIT staff would need resources for the initial startup phase, and annually thereafter to provide IT support. For example, DoIT staff would need to set up office equipment including desktop computers, servers, printers, and network connections as well as configure a rent stabilization-specific module within the City's existing EnerGov land management system.

After initial set up, ongoing annual costs include 2.0 FTE information technology support staff (which are included in Table 10), plus annual technology support services such as Geographic Information Systems (GIS), network, telephone, email, service center, licensing, and security.

Table 11 provides the estimated cost to provide information technology services to support the program staff and Rental Housing Board.

Table 11. *Estimated Costs for Information Technology Support*

Information Technology Support	Cost Estimate ¹
Information Technology Startup Costs	
Initial Office Equipment & Set-up	\$100,000
Custom Rental Unit Tracking Application and Public Portal	\$120,000
Total	\$220,000
Information Technology Annual Costs	
Dedicated DoIT Staff (2.0 FTE)	\$350,000 ²
Annual Technology Support	\$350,000
Total	\$700,000

¹ Cost estimates were provided by DoIT.

² This DoIT staff cost is also reflected in Table 10 to show the complete staffing costs, but this cost is included only once in the total estimated program budget (Table 12).

Cost of Office Space

Additional office space would be necessary for the staff and to accommodate visits from and meetings with tenants, landlords and others.

We used an allowance of 150 square feet for each of the 26 FTEs listed above. We also added an allowance for a lobby, waiting area, large public counter, and two large conference rooms. In total, the proposed program would require about 6,000 square feet of office space.

City staff advised us that monthly rents for unfurnished office space in Pasadena cost approximately \$3.50 per square foot, for a total annual cost of \$252,000. We estimate a one-time expense of \$15/square foot (\$90,000) would also be necessary to equip and furnish the office space.

Other Startup Considerations

Startup of the proposed program in Pasadena will require the organization to address other practical matters, including timeframes and the need for implementation funds.

Richmond’s Rent Stabilization and Tenant Protection Program was the result of a voter initiative passed by voters in November 2016. Like the proposed Amendment in Pasadena the program in Richmond was expected to begin functioning less than two months after its passage.

Implementing a major program in such a short timeframe is unrealistic, and this will be a major challenge in Pasadena if voters approve the proposed Amendment. As shown earlier in Table 7, the program in Richmond involves substantially fewer (42%) units when compared to Pasadena. It took about nine months for Richmond’s program to become fully functional despite the City’s significant commitment to provide staffing resources.

The City of Richmond also advanced the rent stabilization program just over \$1 million in startup costs. City leaders negotiated with the rent board for a repayment of that amount over several years.

This example is important because the proposed Amendment contemplates a similar arrangement in Pasadena. Section 1811(l)(2) of the proposed Amendment would require the City to “advance all necessary funds to ensure the effective implementation” of the program. This section also provides that the “City may seek reimbursement of any advanced funds from the Rental Housing Board after the Rental Housing Fee has been collected.”

Language in the proposed Amendment also cautions that reimbursement would not take precedence over the normal and reasonable operating

costs of the Rental Housing Board. This language could allow the Rental Housing Board to shift its costs to the City of Pasadena for an indefinite period, especially if the Rental Housing Board does not enact and collect the Rental Housing Fee from landlords at the earliest opportunity.

As illustrated in Richmond, it will take considerable time for the Rental Housing Board to create the rental registry, rental housing database, and other systems necessary to implement the fee.

Estimated Total Program Budget

As a result of the above analysis regarding personnel, Rental Housing Board compensation, office space, and technology support, Management Partners estimates the annual cost of implementing the proposed Amendment would be about \$5.8 million in the first year, and about \$5.5 million in the second year, as shown in Table 12.

Table 12. Estimated Program Budget

Program Components	One-time Startup Costs	Ongoing Annual Cost	TOTAL
Personnel costs		\$4,171,260 ¹	\$4,171,260
Rental Housing Board compensation		\$530,200 ²	\$530,200
Office space and furnishings for rent stabilization staff	\$90,000	\$252,000	\$342,000
DoIT startup and annual technology support	\$220,000	\$350,000 ³	\$570,000
Other		\$150,000 ⁴	\$150,000
TOTAL	\$310,000	\$5,453,460	\$5,763,460

¹ Personnel costs for a 26-member staff includes additional inspection staff (2.0 FTE) and DoIT staff (2.0 FTE). Except where noted, all positions would be members of CalPERS and estimates include these costs.

² Rental Housing Board compensation includes the maximum hourly rate for 11 Board members, plus workers' compensation and general liability insurance coverage, benefits, and Medicare. These positions would be classified under the City's Elective Officer category, which are exempt from CalPERS.

³ This number differs from the total shown in Table 11 because the cost of additional DoIT staff is included under personnel costs in Table 10.

⁴ This is the average cost of “other expenses” reported by Berkeley and Santa Monica, prorated to Pasadena. It would account for materials, contracts, training, and similar administrative expenses.

Rental Housing Fee

Fees are invoiced to landlords on a yearly basis in many communities. Some communities allow landlords recover some portion, or the full amount, of the fees from tenants. As noted previously, landlords would not be allowed to pass on the fees to tenants under the proposed Amendment.

Section 1811(l) of the proposed Amendment specifies that the Rental Housing Board will finance its program expenses by charging an annual Rental Housing Fee to landlords.

Table 13 shows that the median rental housing fee in the comparison cities is \$226 per year. Further, the median annual fee related to just-cause provisions is \$139, although three of the five programs charge no fee at all for just cause cases.

Table 13. Rental Housing Fees in Comparison Cities

Fee Per Unit	Berkeley	Beverly Hills	Richmond	Santa Monica	West Hollywood	Median
Rent stabilization program	\$250	\$59	\$226	\$228 ¹	\$144	\$226
Just-cause program	\$150	N/A	\$127	N/A	N/A	\$139

¹ Proposed fee for FY 2022-23

The total fees (rent stabilization and just-cause) are higher in Richmond and Berkeley because of the higher number of units subject to just-cause provisions. These cases require substantial staff time to resolve and often involve negotiations by staff and hearing officers.

The circumstances in Santa Monica are just the opposite. Most of its cases fall under the rent stabilization program; thus, there are no just-cause fees.

To offset the \$5.8 million in estimated program costs, the Rental Housing Fee in Pasadena would be approximately \$184 per unit, as shown in Table 14.

Table 14. Rental Housing Fee Required to Offset Program Costs

Total Costs	Total Number of Rental Units Affected by the Amendment	Rental Housing Fee per Unit
\$5,763,460	31,316	\$184

As discussed earlier in this report, the proposed Amendment provides that the Rental Housing Fee would be an obligation of the landlord. No portion of the fee could be passed on to a tenant.

Impact on Renters and Property Owners

As discussed previously, the literature on the impacts of rent regulations on renters and property owners is mixed.

If the proposed Rental Housing Board implements the suggested fee of \$184 per unit, as an example, a property owner of a 10-unit building will incur an annual cost of just over \$1,800.

The proposed Amendment provides for annual, moderate rent adjustments based on increases in the CPI. Presumably, landlords will set the initial, or base, rents at a level that provides sufficient resources to fund ongoing repairs and maintenance while also ensuring a fair return on the investment. The annual rent adjustment would therefore enable a landlord to achieve the same standard of maintenance as costs increase. In the event the landlord experienced extraordinary repairs, maintenance or property upgrades, the proposed Amendment would allow the landlords to petition for a larger rent increase.

Literature and studies related to the impacts of rent regulation on property value are also mixed.³⁶ Some studies have shown property values increase where rent stabilization is applied, while other studies show the opposite, suggesting property value is affected by factors other than regulations.

³⁶ Pastor, Carter and Abood; “Rent Matters: What Are the Impacts of Rent Stabilization Measures?”; University of Southern California Dornsife Program for Environmental and Regional Equity; October 2018, page 13

The impact to renters of the annual Rental Housing Fee would be minimal as the proposed Amendment precludes landlords from passing on these costs.

Conclusion

The stated purpose of the proposed Amendment is to promote neighborhood and community stability by regulating rent increases and preventing arbitrary evictions.

If approved by the voters, these regulations would represent a significant policy change in Pasadena. The regulations would affect 31,316 rental units in Pasadena, over 75,000 residents, and hundreds of landlords.

The Amendment’s rent regulations would limit the year-to-year increases in rents and the eviction regulations would prohibit evictions except in specified circumstances. A Rental Housing Board would be appointed by the City Council to oversee the Amendment’s various provisions.

We estimate the Amendment would cost \$5.8 million to implement during the first year and require hiring 26 employees. The program would be paid for through annual fees charged to landlords for each rental unit. These fees could not be passed on to tenants. The annual fee amount would be approximately \$184 per unit.

Attachment A – Overview of Proposed Amendment

Overview of the ballot measure, titled ‘Pasadena Fair and Equitable Housing Charter Amendment’

This objective overview was prepared by Management Partners at the request of the City of Pasadena.

Stated Purpose of Ballot Measure	Establishes a new article in the Pasadena Charter with regulations intended to: <ol style="list-style-type: none"> 1. Stabilize rents 2. Require just cause for eviction, and 3. Establish the Pasadena Rental Housing Board 						
Voter Consideration	The proposed Amendment will be considered by Pasadena voters on the November 8, 2022, ballot.						
Effective Date	If a majority of voters approve the Amendment, it will take effect 10 days after the vote is declared by the Pasadena City Council.						
What Rental Units are Affected?	<p>All rental units in Pasadena are affected, except those which are fully or partially exempt.</p> <p>Pasadena is estimated to have a total of 37,497 multi-units. These include condos, duplexes, triplexes, quadplexes, and multi-family units.</p> <p>The proposed Amendment would apply to 83.5% of these units. The remaining 16.5% of units are not rentals.</p>						
Exemptions	<p>Below are examples of units that would be exempt:</p> <table border="1"> <thead> <tr> <th>Fully Exempt <i>(Exempt from all regulations and fees)</i></th><th>Partially Exempt <i>(Subject to just cause eviction provisions, and Rental Housing Board may require fee for each unit)</i></th></tr> </thead> <tbody> <tr> <td>Hotels, motels, inns, tourist homes, lodging, rooming and boarding houses</td><td>Units that received a certificate of occupancy after February 1, 1995, single family homes and condominiums, all of which are exempted by previous state legislation (Costa Hawkins Rental Housing Act)</td></tr> <tr> <td>Hospitals, convents, monasteries, extended medical care facilities, asylums, non-profit homes for aged,</td><td>Units built under Pasadena laws related to affordable housing, density bonuses, waivers, and City incentives</td></tr> </tbody> </table>	Fully Exempt <i>(Exempt from all regulations and fees)</i>	Partially Exempt <i>(Subject to just cause eviction provisions, and Rental Housing Board may require fee for each unit)</i>	Hotels, motels, inns, tourist homes, lodging, rooming and boarding houses	Units that received a certificate of occupancy after February 1, 1995, single family homes and condominiums, all of which are exempted by previous state legislation (Costa Hawkins Rental Housing Act)	Hospitals, convents, monasteries, extended medical care facilities, asylums, non-profit homes for aged,	Units built under Pasadena laws related to affordable housing, density bonuses, waivers, and City incentives
Fully Exempt <i>(Exempt from all regulations and fees)</i>	Partially Exempt <i>(Subject to just cause eviction provisions, and Rental Housing Board may require fee for each unit)</i>						
Hotels, motels, inns, tourist homes, lodging, rooming and boarding houses	Units that received a certificate of occupancy after February 1, 1995, single family homes and condominiums, all of which are exempted by previous state legislation (Costa Hawkins Rental Housing Act)						
Hospitals, convents, monasteries, extended medical care facilities, asylums, non-profit homes for aged,	Units built under Pasadena laws related to affordable housing, density bonuses, waivers, and City incentives						

or rooms in treatment or recovery centers	
Units owned, operated or managed by a: <ul style="list-style-type: none"> • Non-profit organization funded with tax credits • Government agency or authority, or • Units in which government-subsidized tenants reside 	
Single-family homes where the homeowner is the primary resident	

**Rental
Housing Board**

The Amendment would establish an 11-member Pasadena Rental Housing Board to operate the rent stabilization and just-cause eviction program.

Rental Housing Board members would have to be Pasadena residents and seven of the members would have to be tenants.

The Rental Housing Board would adopt, administer, and enforce rules related to the Amendment.

The Rental Housing Board would be independent from the City though it may request the services of the city attorney or retain private attorneys.

Rental Housing Board members would be compensated for a maximum of 20 hours per week for their time committed to board meetings. They would be paid at a rate that equals 2.5 times the \$16.11 minimum wage in Pasadena. This equals \$40.28 per hour.

The maximum cost of compensation for the entire Rental Housing Board is estimated at \$530,200 per year.

**Rental
Registry**

The Rental Housing Board would create an online registry of rental properties within one year of the effective date of the Amendment.

Owners of rental property would be required to complete and submit a Rental Housing Board-approved registry form for each unit within 90 days after the Rental Registry becomes operational.

The Rental Registry would specify the maximum lawful rent for each unit, the actual rent charged each month the unit was occupied, the dates of tenancies, number of bedrooms, and any other information required by the Rental Housing Board.



Estimated Cost	<p>The total cost of implementing the proposed Amendment is estimated at \$5.8 million in the first year.</p> <p>The total cost would cover hiring 26 staff, compensation for the Rental Housing Board, office space and furnishings, computers and software, and other miscellaneous costs.</p> <p>The City of Pasadena would be required to provide support and initial operating funds to assist the Rental Housing Board within implementing the Amendment.</p>
Rental Housing Fee	<p>A Rental Housing Fee would be established to fund the \$5.8 million program.</p> <p>The annual fee would be paid by landlords. Landlords would not be allowed to shift this cost to tenants.</p> <p>The annual fee is estimated at \$184 per unit.</p>
Rent Increases and Decreases	<p>The Amendment would allow landlords to increase rents once each year.</p> <p>The amount of annual rent increases would be regulated by the Rental Housing Board Rent and would be based on the rate of inflation (75% of the Consumer Price Index) in Southern California.</p> <p>The Amendment would allow landlords or tenants to ask the Rental Housing Board to approve individual rent increases or decreases.</p> <ul style="list-style-type: none"> • Rent increases might be permitted, for example, if the Rental Housing Board determined it was necessary to provide the landlord with a “fair return.” • Rent decreases might be permitted if a tenant proved to the Rental Housing Board that the landlord had not maintained the unit as required by law, had decreased the level of maintenance or care for the property, or was otherwise charging higher rent than allowed under the Amendment. <p>Landlords would be required to provide a notice to tenants 30 days before a rent increase could become effective.</p> <p>Landlords would not be allowed to increase rents if they failed to properly maintain the unit as specified by law, failed to make repairs required by the Rental Housing Board or City, or failed to substantially comply with the Amendment and the rules established by the Rental Housing Board.</p>
Eviction Protections	<p>Provisions for evictions are called “just cause” protections because they prohibit landlords from evicting tenants, except where there is a valid reason.</p>



The Amendment would prohibit evictions in cases where the tenants add a child, parent, grandchild, grandparent, or other family member, as long as the unit does not become overcrowded, as defined by law.

Evictions of families, and elderly or disabled tenants would be prohibited except in limited circumstances, if the tenants have resided in the unit for at least 5 years and are either 60 years of age or older, disabled, or certified as terminally ill.

Valid Reasons for Evictions Examples of situations where tenants could be evicted are provided below.

- Failure to pay rent.
- Violation of lease terms.
- Nuisance caused by tenant.
- Failure to provide access for repairs or improvements.
- A subtenant who was not approved by the landlord is in sole possession of the unit.
- The unit requires substantial repairs requiring temporary vacancy.
- Property owner (landlord) intends to move into the unit.
- Property owner has decided to withdraw the unit from the rental market.

Relocation Assistance Requires landlords to provide financial relocation assistance to tenants who are temporarily or permanently displaced because:

- The unit requires substantial repairs
- The landlord intends to live in the unit, or
- The unit will be removed from the rental market.

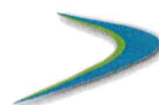
Security Deposits and Interest Landlords would not be able to increase security deposits, or other deposits, beyond what was required when the tenant moved in.

Landlords would be required to pay interest on security deposits which are held for at least 12 months. The Rental Housing Board would set the interest rate annually.

Retaliation and Harassment Prohibits landlords from threatening, harassing, or retaliating against tenants or cause tenants to involuntarily move.

Prohibits landlords from taking actions against tenants who are exercising their various rights.

Tenant Buyout Tenants may decide to voluntarily move after receiving a “buy-out” offer from landlords.



These voluntary vacancies would be regulated by the Amendment to promote fairness and ensure tenants are aware of their rights.

Tenants would have the right to cancel a buyout agreement for any reason, and without financial obligation or penalty, within 45 days of signing the agreement.

Notices

Requires landlords to post notices on the property explaining tenant protections. Must be posted in both English and Spanish, or other languages as specified by the Rental Housing Board.

**Damages and
Penalty**

Authorizes tenants to bring private action against a landlord for termination of tenancy and recover damages and a penalty of \$1,000.

