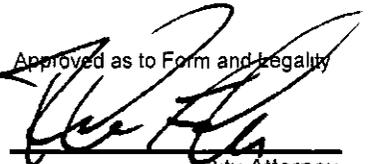


FILED  
OFFICE OF THE CITY CLERK  
OAKLAND

2014 FEB 13 PM 1:39

## OAKLAND CITY COUNCIL

Approved as to Form and Legality  
  
City Attorney

**RESOLUTION NO. 84896 C.M.S.**

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**RESOLUTION TO ADOPT AMENDMENTS TO THE RENT ADJUSTMENT REGULATIONS APPENDIX A, SECTION 10.4 TO PROVIDE FOR A GRANDPARENT CLAUSE FOR RENTAL PROPERTIES WITH A PURCHASER AT THE ENACTMENT OF ELIMINATION OF DEBT SERVICE AS A JUSTIFICATION FOR A RENT INCREASE**

**WHEREAS**, the current Rent Adjustment Ordinance and Regulations allow a recent purchaser of rental property to pass through to tenants up to 95% of new debt service after the new purchase that causes negative cash flow; and

**WHEREAS**, over the past several years the Rent Adjustment Program has seen rental property owners seek and receive substantial rent increases based on debt service, many of which had the effect of causing tenants to vacate their homes; and

**WHEREAS**, the Housing Residential Rent and Relocation Board ("Rent Board") believes that many of the debt service rent increases appear to be based on speculative values for the rental property and interest rates and other loan terms that did not appear standard in the industry; and

**WHEREAS**, in 2009, the Housing Residential Rent and Relocation Board ("Rent Board") passed a resolution recommending to the City council that debt service should be eliminated as a justification for increasing rents, city staff concurs in that recommendation, and the City Council accepts that recommendation;

**WHEREAS**, based on the information submitted by the Rent board and staff, the City Council finds that many of the debt service rent increases appear to be based on speculative values for the rental property and interest rates and other loan terms that did not appear standard in the industry; and

**WHEREAS**, the City council finds that eliminating debt service as a justification for increasing rents will offer tenants relief from exorbitant rent increases and the potential of displacement; and

**WHEREAS**, the City Council finds that rent increases for debt service are not required for a rental property owner to receive a fair return on the investment in the property; and

**WHEREAS**, the City Council finds that the elimination of debt service as a justification for a rent increase will cause the Oakland Rent Stabilization Ordinance to be aligned with the practices of many ten major rent stabilization ordinances in California; and

**WHEREAS** the City Council finds that the elimination of debt service as a rent increase justification will further the Rent Adjustment Ordinance's purpose of preventing excessive rent increases and will amend the Rent Adjustment Ordinance to eliminate debt service as a justification for a rent increase; and

**WHEREAS:** This action is exempt from the California Environmental Quality Act ("CEQA") under the following, each as a separate and independent basis, including but not limited to, the following: CEQA Guidelines §15378 (regulatory actions), § 15061(b)(3) (no significant environmental impact), and §15183 (actions consistent with the general plan and zoning);

**RESOLVED:** That the City Council hereby adopts the amendments to the Rent Adjustment Regulations (Appendix A) Section 10.4 as provided in Exhibit 4 to require that debt service rent increases for newly purchased rental property shall only apply to properties in the process of at the time the amendment to the Rent Adjustment Ordinance eliminating debt service as a justification for rent increases takes effect, and be it

**FURTHER RESOLVED:** This action is exempt from the California Environmental Quality Act ("CEQA") under the following, each as a separate and independent basis, including but not limited to, the following: CEQA Guidelines §15378 (regulatory actions), § 15061(b)(3) (no significant environmental impact), and §15183 (actions consistent with the general plan and zoning, and be it

**FURTHER RESOLVED:** If any section, subsection, sentence, clause or phrase of this Resolution is for any reason held to be invalid or unconstitutional by decision of any court of competent jurisdiction, such decision shall not affect the validity of the remaining portions of this Resolution and each section, subsection, clause or phrase thereof irrespective of the fact that one or more other sections, subsections, clauses or phrases may be declared invalid or unconstitutional, and be it

**FURTHER RESOLVED:** This Resolution shall take effect when the Ordinance considered by the City Council concurrent with this Resolution amending O.M.C. Chapter 8.22 and concerning debt service takes effect. If the Council does not adopt the corresponding Ordinance, this Resolution will become effective seven (7) days after adoption.

IN COUNCIL, OAKLAND, CALIFORNIA, MAR 18 2014 2014

**PASSED BY THE FOLLOWING VOTE;**

AYES - ~~Brooks~~, GALLO, GIBSON-MCELHANEY, KALB, KAPLAN, REID, SCHAFF and PRESIDENT KERNIGHAN - 7

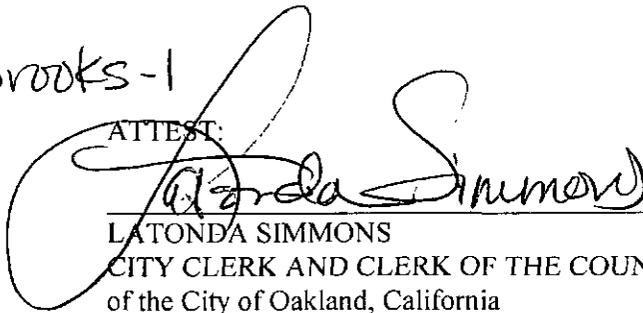
NOES - 0

ABSENT - 0

ABSTENTION - 0

Excused - Brooks - 1

ATTEST:



LATONDA SIMMONS  
CITY CLERK AND CLERK OF THE COUNCIL  
of the City of Oakland, California

## EXHIBIT 4

### Amendments to Rent Adjustment Regulations Appendix A, Section 10.4 to Adopt a Grandparent Clause as a Companion to the Rent Adjustment Ordinance Amendments

(Underlined text is added text)

10.4 Debt Service Costs: Debt Service Costs are the monthly principal and interest payments on the deed(s) of trust secured by the property. Debt service for new acquired properties has been eliminated as a justification for increasing Rents. This section 10.4 will only apply to properties on which the Owner can demonstrate that the Owner made a bona-fide, arms-length offer to purchase on or before the effective date of the amendment to the Rent Adjustment Ordinance eliminating debt service as a Rent increase justification.

10.4.1 An increase in rent based on debt service costs will only be considered in those cases where the total income is insufficient to cover the combined housing service and debt service costs after a rental increase as specified in Section 5 of the Ordinance. The maximum increase allowed under this formula shall be that increase that results in a rental income equal to the total housing service costs plus the allowable debt service costs.

10.4.2 No more than 95% of the eligible debt service can be passed on to tenants. The eligible debt service is the actual principal and interest.

10.4.3 If the property has been owned by the current landlord and the immediate previous landlord for a combined period of less than twelve (12) months, no consideration will be given for debt service.

10.4.4 If a property has changed title through probate and has been sold to a new owner, debt service will be allowed. However, if the property has changed title and is inherited by a family member, there will be no consideration for debt service unless due to hardship.

10.4.5 If the rents have been raised prior to a new landlord taking title, or if rents have been raised in excess of the percentage allowed by the Ordinance in previous 12-month periods without tenants having been notified pursuant to Section 5(d) of the Ordinance, the debt service will be calculated as follows:

1. Base rents will be considered as the rents in effect prior to the first rent increase in the immediate previous 12-month period.

2. The new landlord's housing service costs and debt service will be considered. The negative cash flow will be calculated by deducting the sum of the housing service costs plus 95% of the debt service from the adjusted operating income amount.

3. The percentage of rent increase justified will then be applied to the base rents (i.e., the rent prior to the first rent increase in the 12-month period, as allowed by Section 5 of the Ordinance).

10.4.6 Refinancing and second mortgages, except those second mortgages obtained in connection with the acquisition of the property, will not be considered as a basis for a rent increase under the debt service category. Notwithstanding this provision, such refinancing or second mortgage will be considered as basis for a rent increase when the equity derived from such refinancing or second mortgage is invested in the building under consideration in a manner which directly benefits the tenant (i.e., capital improvements or housing services such as maintenance and repairs) or if the refinancing was a requirement of the original purchase.

10.4.7 As in housing service costs, a new landlord is allowed up to 8% of the gross operating income for unspecified expenses.