The Components of a Rent Stabilization Ordinance (RSO)

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A Rent Stabilization Ordinance (we prefer to use that term, abbreviated RSO, instead of "rent control ordinance") should have five essential provisions: Annual Allowable Rent Adjustment without a hearing, Capital Improvement Pass Throughs, Vacancy Control, Fair Rate of Return Provision, and Hearing Process.

1. The **Annual Allowable Rent Adjustment** provision specifies either a fixed percentage of existing rent, or a percentage of the increase in the Consumer Price Index (usually somewhere between 75% and 100%) that is allowable for an annual rent increase without a hearing. Minimum or maximum “floor” and “ceiling” percentage amounts might also be included.

   For example, if CPI is used and the CPI increase is 4%, and the RSO dictates that the increase shall be no more than 75% of the CPI increase, then the rent increase can be no more than 3%.

2. **Capital Improvement Pass Throughs** allow the park owner to "pass through" to the residents a temporary increase due to a large capital repair project, such as resurfacing the roadways or putting a new roof on the clubhouse. The RSO should require that this amount be amortized (spread out over a number of years), so that the annual payments match the useful life of the project and will not be unfair to the residents.

   The pass-through amount must be listed as a separate item on the rent invoice, and not added to the base rent. When the cost of the improvement is paid off, the pass-through item must be removed from the monthly rent billing statement.

3. A critical part of an RSO is **Vacancy Control**. This dictates how much the rent can go up when a home changes hands, so that a homeowner’s equity in their home is protected. A typical partial vacancy control percentage is 5%-10%. This is a vital provision to include in an RSO to prevent the management from raising the rent as much as they want for the new

resident on resale. For every $100.00 that rent increases, equity value in the mobilehome decreases by about $10,000.00.

4. The RSO must also include a **Fair Rate of Return** provision in order to be constitutional, which allows the management to impose an additional increase to base rent if they can prove that they are not obtaining a fair return. They must supply proof by providing financial documents - opening their books, as it were. The best method of determining whether a park owner is obtaining a fair rate of return is a mathematical formula referred to as MNOI, or Maintenance of Net Operating Income, and the best RSOs include it. By using this formula the homeowners are protected because the management will not get the requested additional rent increase unless they can meet their burden of proving that they are entitled to it.

5. Every RSO has a **hearing process** to determine whether a fair return increase is warranted. Many jurisdictions have a Rent Review Board or Commission, or similar entity that hears the matter. Other RSOs appoint an independent hearing officer to serve as an Arbitrator. A party who is unhappy with the Board or Arbitrator decision will have a right to appeal the decision to either the City Council, or directly to the local County Superior Court.