

**REVISED LEGISLATIVE DIGEST**

(Substituted, 5/15/2018)

[Administrative Code - Landlord Operating and Maintenance Expenses]

**Ordinance amending the Administrative Code to prohibit landlords from seeking rent increases on existing tenants due to increases in debt service and property tax that have resulted from a change in ownership; and to prohibit landlords from seeking rent increases due to increased management expenses unless the expenses are reasonable and necessary.**

Existing Law

The Rent Ordinance allows a landlord to increase rents by a certain percentage each year (the “annual increase”). If the annual increase for a given year does not cover the amount by which the landlord’s operating and maintenance (“O&M”) expenses have increased that year, the landlord may file an O&M petition to increase base rents beyond the annual increase, by up to an additional 7%, in order to cover those increased costs. The Rent Ordinance lists real estate taxes, debt service, sewer service charges, janitorial service, refuse removal, security system, and elevator service as examples of allowable O&M expenses. The Rent Board has also treated building management as an allowable O&M expense.

Amendments to Current Law

The ordinance would prohibit the Rent Board from treating debt service and real estate taxes attributable to a change in ownership as O&M expenses, and would prohibit landlords from obtaining rent increases on existing tenants based on those costs, unless the landlord had already filed an O&M petition for those costs before December 11, 2017, or unless the landlord demonstrates that it purchased the property on or before April 3, 2018 and that it reasonably relied on the ability to pass through those costs at the time of the purchase.

The ordinance would provide that the Rent Board may consider building management as an O&M expense only to the extent that the expenses are reasonable and necessary, based on various factors that are specified in the ordinance.

Background Information

Separate from the annual increase and the O&M petition process, the Rent Ordinance also lets a landlord impose other types of rent increases on existing tenants, either with or without the filing of a petition, and generally lets a landlord reset the rent at market value at the start of any new tenancy. December 11, 2017 is the date that the *San Francisco Chronicle* published an article concerning O&M petitions that are based on increased debt service and real estate taxes. April 3, 2018 is the date the ordinance was introduced.

FILE NO. 180318

n:\legana\as2018\1800310\01275540.docx