

## INSTRUCTIONS FOR COMPLETION OF ENHANCED NOTICE TO TENANTS FOR CAPITAL IMPROVEMENTS FORM

- This notice must be completed for each unit.
- 70% of the total cost of the capital improvement may be passed through to tenants in the affected units.
- There is a 10% limit on all rent increases.
- There is a minimum 5 year amortization period (number of years to pass on the capital improvement costs) for capital improvement increases. If the capital improvement pass-through would exceed 10% of the current rent, the amortization period increases by year until the rent increase is not more than 10%.
- There is a 30% limit on all rent increases within a five year period (beginning 8/1/14).
- You cannot include a CPI (Consumer Price Index) rent increase with a capital improvement increase.
- Instead of using this form, an owner may file an *Owner's Petition* (for Capital Improvements) with the Rent Adjustment Program.

### EXAMPLES OF CAPITAL IMPROVEMENT CALCULATION

(This comes from the capital improvement worksheet available on the website <http://www2.oaklandnet.com/Government/o/hcd/s/LandlordResources/index.htm>)

#### Example 1

Assume you have a 4 unit building where you have done a building-wide exterior paint job for \$10,000 and hallway upgrades for \$5,000 for a total outlay of \$15,000. In this example you have done no unit-specific improvements. To give the required notice to tenants you must follow these steps.

Step 1: Enter the building-wide capital improvement costs and add them together. The total costs are \$15,000.

Step 2: Multiply the subtotal in Step 1 by 70%. (Allowable costs limited to 70% of total.) Your subtotal will equal \$10,500.

Step 3: Divide the results of Step 2 by the number of units in the building.  $\$10,500 \div 4 = \$2,625$ .

Step 4: Since there are no unit-specific increases in this example leave this section blank.

Step 5: (Same as Step 4)

Step 6: Add the building-wide and unit-specific costs together. Since here there are no unit-specific costs 6c will equal Step 2 which is \$2,625.

Step 7: Calculate the amortization period. To calculate the amortization period, you must first figure 10% of the current rent.

7a: Determine 10% of the monthly rent for the unit by entering the current rent and multiplying it by 10%. If the rent was \$1,200, the calculation would be:

$$\$1,200 \times 10\% = \$120.$$

7b: Determine the number of months it would take at 10% to recoup the allowable costs by dividing the total from 6c by 10% of the rent.

$$\$2625 \div \$120 = 21.87 \text{ months.}$$

7c: Since this number is less than 60, the amortization period is 60 months or 5 years.

Step 8: Calculate the rent increase.

8a: Since the number in 7c is less than 60, divide the allowable costs from 6c by 60.

$$\$2625 \div 60 = \$43.75.$$

Step 9: Provide the required notice to the tenant.

Fill in the rent increase amount. \$43.75

Determine the percentage increase by dividing the increase by the current rent and multiplying the result by 100.

$$\$43.75 \div \$1,200 \times 100 = \underline{3.6\%}$$

State the new rent (old rent plus rent increase).  $\$1,200 + \$43.75 = \underline{\$1,243.75}$ .

State the amortization period. 5 years.

State the date the rent increase begins and the date it will end.

## Example 2

Assume you have a two unit building where you have replaced the roof at a cost of \$10,000 and have put in a new kitchen in unit 1 at a cost of \$5,000 and new carpets in unit 2 at a cost of \$7,500. You must provide a notice for each unit.

### Unit 1

Step 1: Enter the building-wide capital improvement costs and add them together. The total costs are \$10,000.

Step 2: Multiply the subtotal in Step 1 by 70%. (Allowable costs limited to 70% of total.) Your subtotal will equal \$7,000.

Step 3: Divide the results of Step 2 by the number of units in the building.  $\$7,000 \div 2 = \$3,500$ .

Step 4: Add the unit-specific costs for this unit, which is \$5,000 for the new kitchen  
Step 5: Multiply the subtotal in Step 4 by 70%. (Allowable costs limited to 70% of total.) Your subtotal will equal \$3,500.

Step 6: Add the building-wide and unit-specific costs together. Here you will add \$3,500 for the building-wide cost and \$3,500 for the unit specific cost which equals \$7,000.

Step 7: Calculate the amortization period.

7a: Determine 10% of the monthly rent for the unit by entering the current rent and multiplying it by 10%. If the rent was \$1,200, the calculation would be:  
 $\$1,200 \times 10\% = \$120$ .

7b: Determine the number of months it would take at 10% to recoup the allowable costs by dividing the total from 6c by 10% of the rent.  
 $\$7000 \div \$120 = 58.33$  months.

7c: Since this number is less than 60, the amortization period is 60 months or 5 years.

Step 8: Calculate the rent increase.

8a: Since the number in 7c is less than 60, divide the allowable costs from 6c by 60.  
 $\$7000 \div 60 = \$116.67$ .

Step 9: Provide the required notice to the tenant.

Fill in the rent increase amount. \$116.67

Determine the percentage increase by dividing the increase by the current rent and multiplying the result by 100.

$$\$116.67 \div \$1,200 \times 100 = \underline{9.72\%}$$

State the new rent (old rent plus rent increase).  $\$1,200 + \$116.67 = \underline{\$1,316.67}$ .

State the amortization period. 5 years.

State the date the rent increase begins and the date it will end.

## Unit 2

Step 1: Enter the building-wide capital improvement costs and add them together. The total costs are \$10,000.

Step 2: Multiply the subtotal in Step 1 by 70%. (Allowable costs limited to 70% of total.) Your subtotal will equal \$7,000.

Step 3: Divide the results of Step 2 by the number of units in the building.  $\$7,000 \div 2 = \$3,500$ .

Step 4: Add the unit-specific costs for this unit, which is \$7,500 for the carpets.

Step 5: Multiply the subtotal in Step 4 by 70%. (Allowable costs limited to 70% of total.) Your subtotal will equal \$5,250.

Step 6: Add the building-wide and unit-specific costs together. Here you will add \$3,500 for the building-wide cost and \$5,250 for the unit specific cost which equals \$8,750.

Step 7: Calculate the amortization period.

7a: Determine 10% of the monthly rent for the unit by entering the current rent and multiplying it by 10%. If the rent was \$1,000, the calculation would be:  
 $\$1,000 \times 10\% = \$100$ .

7b: Determine the number of months it would take at 10% to recoup the allowable costs by dividing the total from 6c by 10% of the rent.  
 $\$8,750 \div \$100 = \underline{87.5}$  months.

7c: Since this number is more than 60, skip to 7d.

7d: To determine the allowable number of years divide 7b by 12.  $87.5 \div 12 = \underline{7.29}$

7e: Round to the next highest number which is 8. This is the number of allowable years to pass through the increase.

7f: The allowable number of months is 7e x 12; in this case it is  $8 \times 12 = \underline{96}$ .

Step 8: Calculate the rent increase.

8a: Since the number in 7c is more than 60, divide the allowable costs from 6c by the number in 7f, in this case 96.  
 $\$8,750 \div 96 = \underline{\$91.14}$ .

Step 9: Provide the required notice to the tenant.

Fill in the rent increase amount. \$91.14

Determine the percentage increase by dividing the increase by the current rent and multiplying the result by 100.

$$\$91.14 \div \$1,000 \times 100 = \underline{9.11\%}$$

State the new rent (old rent plus rent increase).  $\$1,000 + \$91.14 = \underline{\$1,091.14}$ .

State the amortization period. 8 years.

State the date the rent increase begins and the date it will end.

This information and an excel spreadsheet are also available on the Rent Adjustment Program website at

<http://www2.oaklandnet.com/Government/o/hcd/s/LandlordResources/index.htm>)