Memorandum

To: Alin Lancaster and Victor Gaitan

From: Jason Moody and Kaavya Chhatrapati

Subject: Analysis of the Impact of the Tenant Projection Act on Rental Property Investment in Redwood City; EPS #251080

Date: September 23, 2025

The City of Redwood City (City) is considering a policy that would require landlords to offer tenants the first right to return to a rental unit after a landlord has undertaken a substantial remodel. Under this proposed right to return policy, landlords would be required to re-offer the unit at the same rental rate that was in effect when the tenancy was terminated, plus any increase(s) allowed by the Tenant Protection Act of 2019 (AB 1482, "TPA") (TPA rent increase model), had the tenant continuously occupied the rental unit.

Economic & Planning Systems, Inc. (EPS) was retained by the City to evaluate how the proposed right to return policy with the TPA rent increase model affects landlords' financial incentive to reinvest in the City's rental housing stock. The intent is to assesses the degree to which the TPA's allowable rent increases, and other provisions, including the City's Relocation Assistance Ordinance, provide enough incentive for landlords to reinvest in their rental units, or if additional policy tools may be warranted. In particular, the study examines the following key questions:

- Does the maximum rent increase allowed by the TPA -- five percent (5%) per year plus CPI up to ten percent (10%) – deter landlords from making necessary investments in their property, after accounting for tenant relocation expenses and "right-to-return" provisions?
- How does the financial return from TPA compliant rent increases compare to other jurisdictions that allow landlords to recover a portion of their improvement costs with higher rents but also maintain stricter rent control provision (e.g., San Francisco, Oakland, Berkeley, Richmond)?
- How much capital investment can landlords absorb under typical scenarios and more costly building improvement scenarios?
- How do typical remodel costs based on building permit data compare to financially feasible investment scenarios modeled in this analysis?
- How might the City address outlier cases such as older buildings with low rents and significant rehabilitation needs?

Background

Redwood City's rental housing is governed by the California TPA, approved by the State legislature in 2019 to address rising housing costs exacerbated by the pandemic. The TPA permits annual rent increases of 5 percent plus the regional Consumer Price Index (CPI), capped at 10 percent. It applies to properties more than 15 years old on a rolling basis. As a result, this analysis focuses on the City's rental stock constructed prior to and including 2010. The TPA also requires that landlords provide tenants with relocation assistance in certain no-fault eviction cases, equal to one month of the tenant's rent, and the City's Relocation Assistance Ordinance requires that landlords provide additional relocation assistance of three to four months of U.S. Department of Housing and Urban Development (HUD) published Fair Market Rent (FMR), for qualifying low-income or special-circumstances households.

As mentioned, the City is considering a policy that would require landlords to offer tenants the first right to return to a rental unit after a landlord has undertaken a substantial remodel. Under this proposed policy, landlords would also be required to re-offer the unit at the same rent that was in effect when the tenancy was terminated, plus any increase(s) allowed by the TPA (TPA rent increase model), had the tenant continuously occupied the rental unit.

Unlike San Francisco, Oakland, and several other Bay Area cities, Redwood City does not operate under a local rent control ordinance. By comparison, cities like San Francisco and Oakland limit annual increases to about 60 percent of CPI (roughly 1.8 percent under current conditions) (see **Table 1).** Both cities allow landlords to petition for recovery of capital improvement costs through formal pass-through processes, usually amortized over seven (7) to 15 years. Since the City is not currently considering a capital improvement pass-through process and is instead considering the TPA rent increase model, it raises the question of whether TPA's allowed rent increases alone are enough to support reinvestment in a landlords' rental units, or whether additional provisions would be appropriate.

Table 1. Comparison of rent adjustment formulas after substantial remodels of rental units (Redwood City, San Francisco, and Oakland)

City	Rent Adjustment Formula After a Substantial Remodel	Capital Improvement Pass- Through
Redwood City (State Law AB 1482)	5% + CPI (max 10%)	No pass, through provision
San Francisco	60% of CPI	Amortized 7–10 yrs; capped ~10%; petition + hardship relief
Oakland	Min (60% of CPI, 3%)	Up to 70% of costs amortized; RAP petition; hardship exemptions

Key Findings

The maximum right to return rent increases allowed under the TPA does not appear to be a financial disincentive to Redwood City landlords seeking to reinvest in their properties. Based on building permit data over the last six years, typical improvement and rehabilitation costs for rental properties fall comfortably within levels that can be absorbed under the TPA allowable rent increases. EPS cash-flow analysis finds that a Redwood City landlord receiving the median rent for units built on or before 2010 could underwrite building improvements with costs ranging from $180 to $220 per square foot under TPA allowable rent increases. This compares to the median building permit value of $23 per square foot over the last six years.

1. **Landlords in Redwood City can absorb higher capital improvement costs than landlords in many Bay Area jurisdictions that have local rent control ordinances.** This is because the TPA permits annual rent increases of up to 5 percent plus CPI (capped at 10 percent), which provides more headroom for reinvestment compared to the stricter allowances under local rent control ordinances in many Bay Area jurisdictions (e.g., San Francisco, Oakland, Berkeley, Richmond).
2. **Outlier cases likely exist but are rare**. There may be some multi-family properties in Redwood City where rents are well below-median and with unusually high rehabilitation needs (e.g. older, historic buildings), in which TPA allowable rent increases may not be sufficient to recoup investment. However, given that these properties are likely the exception rather than the rule, it may be more appropriate to address these circumstances through capital improvement petitions or appeals process rather than broad policy changes.
3. **Real market rents in Redwood City have not consistently exceeded the 5 percent annual allowance.** Analysis of recent years shows that average rent growth has generally remained below statutory caps, suggesting landlords are not capturing additional rent growth beyond what the TPA permits. The data reinforces the conclusion that market conditions and trends represent the primary determinant of landlord investment decisions, not the TPA.
4. **Additional tax and investment benefits provide additional incentive for landlords to reinvest in their properties .** Factors such as depreciation, interest deductions, and long-term appreciation increase effective returns for long-term owners, further supporting reinvestment capacity.

Study Methodology and Key Assumptions

EPS employs a scenario-based cash flow model to evaluate the feasibility of capital improvements to rental units regulated under the TPA framework. The modeling framework is designed to reflect landlord decision making by estimating whether reinvestment projects generate positive returns over time. For each scenario, EPS calculates the maximum level of capital investment that a landlord could reasonably absorb while maintaining a positive Net Present Value (NPV) over a ten-year horizon.

The analysis considers the following two scenarios to capture the range of outcomes that a landlord will likely face when undertaking improvements:

- **No Relocation Cost Scenario:** In this scenario tenants remain in place throughout construction period and the landlord experiences no loss in rent (the landlord's only exposure is direct capital cost).
- **High Relocation Cost Scenario:** In this scenario, in addition to the direct project capital costs, the landlord also incurs both six months of lost rent and relocation assistance equal to four months of FMR, as required under the City's Relocation Assistance Ordinance when a project displaces a low-income special-circumstances tenant.[1]

In both scenarios EPS assumes rent increases consistent with the TPA (expressed in real terms) and recognizes higher property taxes from reassessment of new construction.[1] Feasibility is anchored to median market rents for covered (pre-2010) buildings, based on data reported by CoStar, while recognizing that actual properties operate above and below the median (this dispersion is reflected in the sensitivity analysis). The NPV of a ten-year cash-flow utilizes a discount rate of 5.5 percent. This reflects the opportunity cost of capital—essentially the rate of return investors might expect from alternative investments such as equities. The analysis does not incorporate additional benefits such as depreciation, interest deductions, or long-term appreciation, all of which would raise effective after-tax returns and further support reinvestment feasibility.

Rent growth is modeled in real (inflation-adjusted) terms. Both the "No Relocation Cost" and "High Relocation Cost" scenarios assume a sustained 5 percent real annual increase, with no separate inflation adjustment applied. The governing legal cap is the TPA allowance of CPI + 5 percent (capped at 10 percent).

Scenario Results and Data Analysis

As summarized in **Table 2**, the EPS cash-flow analysis suggests that a Redwood City landlord receiving the median rent for units built on or before 2010 (approximately $3.5 per square foot per month) could underwrite building improvements with costs ranging from $180 to $220 per square assuming TPA allowable rent increases. The calibrated break, even thresholds for Redwood City are $220 per square foot in the "No Relocation Cost Scenario" and $180 per square foot in the "High Relocation Cost Scenario" (six, month displacement plus four months relocation assistance at FMR). As a point of comparison, Redwood City landlords can support substantially higher improvement costs than San Francisco or Oakland, locations where local ordinances limit annual rent escalation.

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[1] *Households whose annual household income does not exceed eighty (80) of the area median income.*

[2] *An eligible low-income residential household where, at least one member is 62 years or older, at least one member qualifies as disabled, there is at least one child under 18 years old who is legally dependent, and/or a household that has occupied their rental unit as their primary residence for 5 or more consecutive years.*

[3] *Property taxes are assumed to rise proportionally with higher assessed values following capital investment, but under California's Proposition 13 framework, increases are capped at two percent annually. This means that periods of higher inflation rents can grow faster than property taxes, though other operating expenses will likely increase with inflation.*

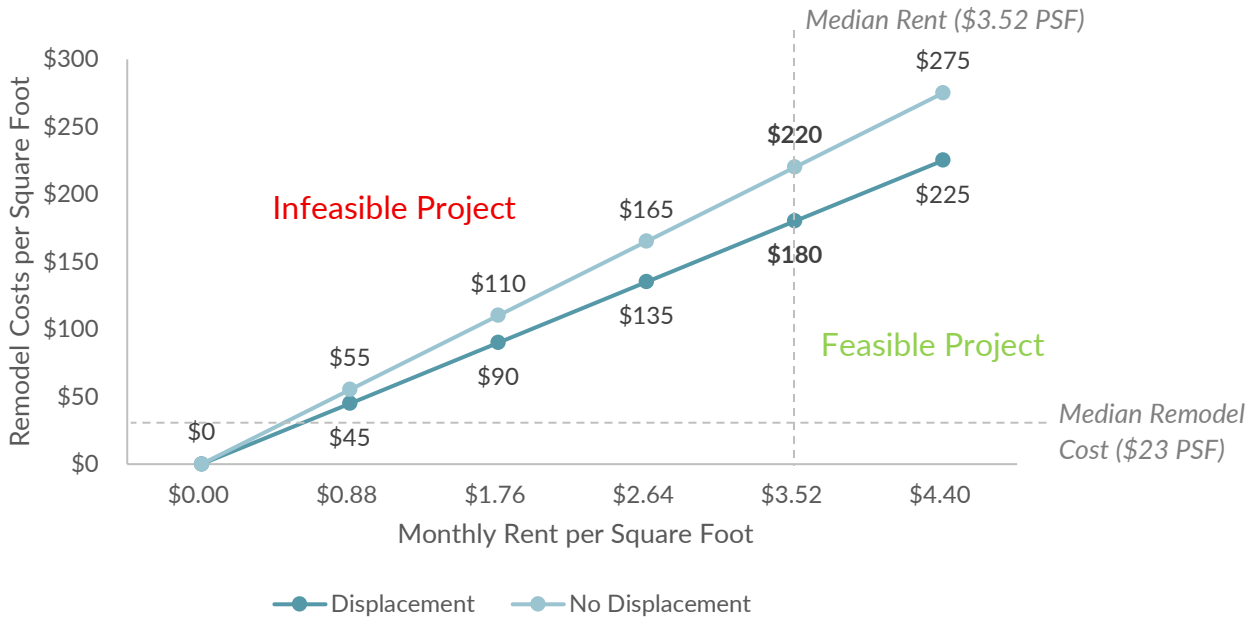
Table 2. Maximum Building Investment for Break Even (Redwood City, San Francisco, Oakland)

City	Investment Amount ($ / Building Square Foot)	
	No Displacement Cost	High Displacement Cost
Redwood City	$220	$180
San Francisco	$63	$37
Oakland	$69	$29

EPS also conducted a sensitivity analysis to account for the fact that rents for individual buildings may deviate substantially from the median rent used in the calculations above.

The line shown in Figure 3 represents the break-even threshold for remodel feasibility. Investment amounts below the line are financially feasible, while those above the line may not be feasible. In the "No Displacement" scenario, landlords can absorb higher remodel costs since they do not incur additional expenses from lost rent or relocation assistance. By contrast, the "Displacement" scenario reflects the added burden of these costs, lowering the feasible investment threshold. As illustrated, buildings with rents below the median would support proportionally lower investment costs, while higher-rent buildings could absorb more. By way of example a landlord renting a unit for $1.76 per square foot (half of the City's median rent of $3.52 per square foot) could absorb remodel costs about $90 per square foot, including tenant displacement / relocation costs, and $110 per square foot without displacement. The following section examines how these feasible cost thresholds compare with typical remodel costs in the City, as indicated by historical building permit data.

Figure 3. Feasibility Threshold for Remodel Investments



Typical Building Remodel Cost

As a point of comparison against the investment thresholds described above, EPS reviewed Redwood City building permit data for 2019 through 2024. As summarized in **Table 4**, permit records indicate a median project cost of $23 per square foot (interquartile range roughly $13 per square foot at the 25th percentile to $39 per square foot at the 75th percentile), with 75 percent of permits below $34 per square foot. At the upper end, the 99th percentile across the full period is $152 per square foot, with annual 99th-percentile values ranging from $73 to $281 per square foot.

Table 4. Distribution of Redwood City Remodel Costs per Square Foot, 2019–2024

Cost of Improvements							
	Average	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
Minimum	$7	$9	$2	$6	$8	$7	$7
25th Percentile	$13	$15	$11	$13	$18	$10	$11
Median	$23	$31	$21	$23	$23	$21	$19
75th Percentile	$39	$35	$40	$30	$36	$49	$42
99th Percentile	$152	$101	$143	$175	$281	$136	$73
Maximum	$171	$113	$156	$250	$281	$150	$75

It is important to note that permit valuation is a proxy and not a perfect measure of total project cost. While valuations technically include both hard and soft costs, they are frequently underreported by applicants. In addition, the data may obscure scope by aggregating multiple types of work into a single record. For this analysis, EPS isolated permits explicitly reported as multi-unit projects; however, it is possible that some multi- unit jobs were not coded as such, which could bias results downward. Projects also differ in scope intensity (e.g., systems, kitchens, code compliance), so dispersion is expected even when normalized by square foot.

To mitigate these issues, EPS emphasizes medians and percentiles (rather than means), reviews potential outliers, and interprets cost per square foot results in conjunction with scenario modeling and external benchmarks. Despite these imperfections, the central tendency of permits remains well below the modeled break-even thresholds, and even the 99th-percentile values are generally at or below the “No Relocation Cost” threshold ($220 per square foot) and near the “High Relocation Cost” threshold ($180 per square foot). This pattern supports the conclusion that most remodels are feasible under the TPA framework, with only occasional, atypically broad scopes approaching infeasibility.

As an additional anchor, Marshall & Swift replacement-cost benchmarks for the Peninsula indicate order-of-magnitude new-build hard costs of roughly $266/SF for townhome- style product and about $380/SF for podium multifamily (class/quality and exclusions apply). Relative to these levels, EPS’s rehab feasibility thresholds of $220/SF (no displacement) and $180/SF (with displacement and relocation) sit below typical replacement cost for new construction.

This relationship is consistent with observed practice: most economically rational rehab projects that are feasible remain well below full replacement-cost benchmarks. This context helps explain why the extreme tail of the permit distribution is sparse: very high-intensity scopes are relatively rare and, when encountered, are often more logically addressed as replacement projects.

Historic Rent Trends

As another measure of how TPA allowable rent increases might affect the investment decision of landlords, EPS gathered date on market rate rents in Redwood City from 2016 through 2025. As shown in **Table 5**, inflation, adjusted ("real") rents in Redwood City were flat or declined in six of the last ten years, yielding an average real change of – 1.3% per year. Over the same period, nominal (not inflation, adjusted) rents increased by +1.8% per year. In effect, rent movements largely mirrored inflation over the last decade rather than producing sustained real gains to landlords.

For policy context, this pattern indicates that the TPA operates in practice as a cap rather than a target: while the statute permits CPI + 5% (capped at 10%), the local market has not delivered sustained real increases approaching that level over the past decade. The empirical record should frame expectations around reinvestment and pass-through debates: realized rent growth has been modest in real terms, and legal allowances should not be interpreted as typical market outcomes.

Table 5. Historic Redwood City Market Rents—Inflation, Adjusted vs. Nominal, 2016–2025

	Inflation Adjusted		Nominal	
2025	$2,588	2%	$2,588	5%
2024	$2,494	1%	$2,494	4%
2023	$2,446	-2%	$2,446	1%
2022	$2,425	- 6%	$2,425	1%
2021	$2,384	0%	$2,384	7%
2020	$2,288	- 11%	$2,288	- 10%
2019	$2,399	1%	$2,399	3%
2018	$2,314	2%	$2,314	4%
2017	$2,239	0%	$2,239	2%
2016	$2,177	-1%	$2,177	1%
Average Growth		**- 1.3%**		**1.8%**

Additional Investment Feasibility Considerations

The cash flow modeling in this memorandum is intentionally conservative. It evaluates feasibility on a pre-tax basis, treats capital outlays as full costs, assumes a ten-year time horizon for recouping costs, and ignores the financial benefits the property investment has on asset value. In practice, long-term owners of stabilized multifamily assets realize after-tax and balance-sheet benefits that the NPV screens do not fully capture. These benefits help bridge the gap between the conservative 5.5 percent discount rate applied to the analysis, a rate that reflects the expected return from alternative investments such as equities, and the higher returns that investors may seek to compensate for the added risk of typical real estate investments.
The likely tax advantages and related financial benefits not captured in this analysis include, without limitation, the following.

- **Depreciation and selective expensing**. Most building improvements are depreciable over 27.5 years under the Modified Accelerated Cost Recovery System (MACRS), creating recurring, non-cash deductions that reduce taxable income. Some interior work may qualify for accelerated recovery/bonus depreciation or be expensed under tangible property safe harbors (where applicable), improving near-term after-tax yields.
- **Energy-efficiency incentives.** Where scopes include systems (lighting, HVAC, envelope), §179D may provide an additional deduction tied to measured efficiency, functioning as a present-value subsidy without assuming higher rents.
- **Financing flexibility and equity effects.** Post-rehab improvements tend to raise appraised value, supporting refinancing or freeing equity for future work. The pro forma records the cost but not the equity accretion or the ability to realize proceeds earlier via refinance.
- **Tax deferral at sale**. Internal Revenue Code §1031 exchanges permit owners to defer both capital gains and depreciation recapture by rolling equity into a replacement property. Remodel investments that increase depreciable basis can be carried forward through such exchanges. Although not a direct factor in project-level feasibility, the availability of tax-deferred exits can influence owner behavior, making sale and reinvestment more attractive when remodel returns are marginal.
- **Interest and depreciation elections.** Some owners may elect out of §163(j) interest-limitation rules as a real property trade or business—trading bonus depreciation for ADS lives—in exchange for more favorable interest deductibility; depending on leverage and scope, this can further optimize after-tax outcomes.

When depreciation shields, targeted expense, potential energy deductions, refinance capacity, and 1031 deferral are considered, the effective after-tax, risk-adjusted return is meaningfully higher than what is reflected in the conservative base case discounted at 5.5 percent.

Conclusions

Because Redwood City is not a rent control city, under the City's proposed right to return policy, rent increases after substantial remodels would be governed solely by the TPA. This framework provides landlords with greater capacity to absorb capital improvement costs than in cities with stricter local rent control ordinances. Permit data show that most remodel projects fall well below modeled feasibility thresholds, and historical rent data indicate that realized rent growth has not consistently exceeded inflation. While outlier cases exist, they are rare and can be addressed through capital improvement petitions.

Taken together, the analysis suggests that typical reinvestment projects remain financially viable under the TPA framework. When combined with tax advantages, equity effects, and other after-tax benefits not captured in the base modeling, the TPA allowance would appear sufficient to support ongoing reinvestment without the need for a general pass-through provision.