

LANDLORDS: KNOW YOUR RIGHTS

Rent control owes you a fair return. Make 2025 count.

Pasadena rent control (Measure H) caps your rents. It also guarantees your constitutional right to a fair return. Higher insurance costs, qualifying capital work, operating expenses, and below-market 2021 rents can support an increase above the annual cap.

Is this you?

Pasadena rent control caps annual increases but also guarantees your constitutional right to a fair return. A petition is how owners address a shortfall. Four factors to review:

- **Your insurance renewal jumped.** After the January 2025 Eaton and Palisades fires, many owners faced sharply higher premiums or nonrenewal.
- **You did capital work.** Qualifying work from 2021 through 2025 includes a roof, repiping, water heaters, windows, electrical work, or seismic upgrades. Qualifying replacements are recoverable with interest.
- **Operating costs outpaced rent increases.** Water, sewer, trash, repairs, and labor rose while rents were limited to the annual cap (3.0% for 2024–25, 2.25% for 2025–26).
- **Your 2021 rents were below HUD’s fair market rent for the property’s ZIP code.** HUD’s figure can replace actual 2021 rent in the calculation for qualifying units. Compare every Pasadena ZIP code below and see Section 3.

2021 HUD fair market rents, by Pasadena ZIP code:

ZIP	Studio	1 BR	2 BR	3 BR	4 BR
91101	\$1,800	\$2,110	\$2,700	\$3,590	\$3,910
91102	\$1,370	\$1,610	\$2,060	\$2,740	\$2,990
91103	\$1,320	\$1,540	\$1,980	\$2,630	\$2,870
91104	\$1,420	\$1,670	\$2,140	\$2,840	\$3,100
91105	\$2,050	\$2,410	\$3,090	\$4,110	\$4,480
91106	\$1,670	\$1,960	\$2,510	\$3,340	\$3,640
91107	\$1,600	\$1,870	\$2,400	\$3,190	\$3,480

Use your property’s ZIP code, not your mailing ZIP. Full calculation and process details follow.

PASADENA FAIR RETURN BRIEFING

Why December 31 matters for 2025

You can file a fair return petition at any time. The year we measure is the calendar year before the city accepts it. Acceptance in 2026 uses 2025; acceptance in 2027 uses 2026. Miss December 31? You can still file. We'll just measure 2026 instead of 2025.

- **If 2025 was your low point, use it.** Next year's comparison uses 2026 income and expenses.
- **Relief only runs forward.** An approved increase takes effect after the decision. Rent lost while you wait is not recovered.

Using 2025, in practice

Allow time for preparation, tenant service, filing, and city acceptance, which can take up to 10 business days. We aim to file by early December.

What an illustrative petition can do

12%

average rent increase
(10–14% by unit)

14%

cash flow, permanently
(net operating income)

14%

building value
at the same cap rate

Illustrative 10-unit building. Rents include temporary roof recovery; the cash-flow and value figures reflect the permanent increase. Details in Sections 5–6.

How we work and what it costs

- **A free Summary of Findings.** We analyze your records and estimate what a petition could yield before you decide whether to file.
- **A success-based fee.** Our fee is contingent on an approved increase. A small upfront fee covers hard costs, such as printing and mailing.
- **We manage the process.** We organize your records, prepare the petition, serve tenants, file with the city, and represent you at the settlement conference and hearing.

Make 2025 count. Start with a free analysis.

Call or email by Friday, November 13. Earlier contact gives us more time to prepare and support your case.

Call (888) 804-4223
Email info@pgnfr.com

Anthony Edson, Partner
Wes Nichols, Partner
Paragon Advisory Partners



Visit our website.
pgnfr.com

November 13 is our requested contact date, not the city's filing deadline.

THE DETAILS

This review explains the constitutional fair return guarantee, Pasadena's calculation, the filing process, and a fully worked illustrative example.

1. Your constitutional right to a fair return

California courts have held that rent control must allow owners a fair return on their investment (*Birkenfeld v. City of Berkeley*, 1976; *Kavanau v. Santa Monica Rent Control Board*, 1997). The guarantee protects owners under the U.S. and California Constitutions. A fair return petition is the mechanism for seeking an increase above the annual cap.

- **It keeps rent control constitutional.** Fair return is an intended part of the law, not a loophole.
- **It is a numbers test.** The standard turns on documented income and expenses, not opinions, politics, or activism.

2. Fair return is a number, not a feeling

Fair return is not based on your building's value or what the market would pay in rent. Pasadena defines it through net operating income: rent minus operating costs. The formula produces a specific dollar amount to test against your building's records.

The fair return petition uses a standard called maintenance of net operating income:

- Your building's 2021 net operating income (rent minus operating expenses) is treated as a fair return.
- That starting income grows by half the rate of inflation. For 2025, local inflation was 22.99% (CPI 280.178 in 2021 to 344.602 in 2025), so the target is 2021 net operating income plus 11.5%.
- If your 2025 net operating income fell short of that target, you are entitled to a rent increase large enough to close the gap.

The target grows at half the rate of inflation; annual rent caps use three-quarters. Cases often turn on expenses that outpaced rents or a 2021 starting point that was too low. Section 3 explains the below-market adjustment.

- **Capital work is included.** Qualifying replacements are recoverable with interest at the Freddie Mac 30-year mortgage rate plus 2%, spread over the city's schedule: roof replacement or whole-building repiping, 20 years; electrical wiring, 10 years; water heaters, windows, or flooring, 5 years. Only benefiting units are charged. This portion ends when the recovery period expires.
- **Fair return is guaranteed.** The formula is a starting point, not a limit; a Hearing Officer can grant the increase needed to provide a fair return.

3. The below-market adjustment: your most important lever

The formula assumes 2021 income was fair. Using below-market rents without adjustment could preserve a below-market return. *Vega v. City of West Hollywood* (1990) recognized this problem; Pasadena allows owners to show that 2021 income was too low.

- **The test.** Divide each unit's total 2021 rent by the number of months rent was received. If the average is below the 2021 HUD fair market rent for its ZIP code and bedroom count, the unit qualifies.¹
- **The result.** HUD's rent replaces actual 2021 rent for qualifying units. Units at or above HUD's rent remain at actual rent.
- **The burden shifts to the tenant.** Once a unit qualifies, the tenant must prove the lower rent was the unit's market rate.

Use the HUD table on page 1. For qualifying units, its amounts replace actual rents in the starting-point calculation. Match the property's ZIP code, not the owner's mailing ZIP.

Why Vega matters: every dollar added to 2021 income raises the starting point, which then grows by 11.5%. In the example, the permanent increase rises from about 1% without Vega to about 10% with it, before temporary roof recovery.

¹Vacancies don't hurt you here. The average counts only the months a unit was actually rented, and the petition compares your full rent potential (every unit, fully occupied) in both 2021 and 2025. A unit that sat empty for part of 2021 is measured on the rent it earned while it was occupied.

4. What a petition involves

4.1 Who can file

- **Owners in compliance with Pasadena's rent stabilization rules.** Required rent rollbacks must be complete; tell us if they are not so we can address them before filing.
- **Registered properties.** The property must be in the city's rental registry, with annual Rental Housing Fees paid.
- **Habitable units.** No open code violations.
- **Covered units.** Most single-family homes and condominiums are exempt from the rent caps and outside this process.
- **No filing fee.** The city does not charge a fee to file.

4.2 What counts

The petition compares your 2021 and 2025 net operating income, calculated the same way for both years.

Counted as income	Not counted as income
Rent for every unit, at full occupancy	Submetered utility charges
Other payments for the use of a unit	Trash and sewer pass-throughs
	Laundry and storage income
	Pet rent and similar add-on charges

Counted as operating expenses	Not counted
Repairs and maintenance: plumbing, electrical, painting, appliance repair, cleaning, pest control, landscaping	Mortgage principal and interest
Property management (presumed at 6% of rent)	Depreciation
Owner-paid utilities: water, sewer, trash, common-area gas and electric	Fines and penalties
Property taxes and insurance	Land lease payments
Rental Housing Fee and required licenses	Political contributions and lobbying
Legal fees for collections and evictions, and for a successful petition	Expenses reimbursed by insurance or others
Capital replacements, spread over time with interest	

Your mortgage does not count. The test measures building operations, not financing. A property losing money because of its loan may still show healthy net operating income.

4.3 Documentation

Once you engage us, we collect supporting records for the petition: rent rolls, invoices, payment records, tax bills, insurance declarations, utility bills, and capital-work documentation.

The city reviews costs line by line. Missing 2021 records can be estimated from other records, published rates, or cost data. Petition records are public, with personal information redacted.

4.4 How we build your petition

Before service or filing, we prepare:

- City forms: petition, submission notice, service proof, and authorized-representative form.
- A written brief explaining the case and rules.
- 2021 and 2025 calculations, including Vega and capital work.
- The verification folder is assembled after you engage us, not for the free review.

4.5 Timeline

Step	What happens
Build the petition	Gather records; prepare forms, brief, model, and verification folder
Serve tenants	Give each affected tenant the full petition by mail or personal delivery
File	File online with the Rent Stabilization Department
Acceptance	City acceptance notice within 10 business days
Prehearing meetings	Required settlement and prehearing conferences
Hearing	Within 60 days of acceptance or settlement conference, whichever is later
Decision	Mailed within 60 days after the hearing record closes
Appeal	Either party may appeal within 30 days

4.6 Your ruling

The decision sets current rent, increases, and allowable rent. Written tenant notice and 12 months since the last increase are required. See Section 5.

5. A WORKED EXAMPLE

One Building, Step by Step

An illustration, not a projection. Every number below is assumed; real petitions turn on real records.

THE BUILDING	DETAILS
Description and size	10-unit 1960s walk-up: four 1-bedrooms, six 2-bedrooms
2021 HUD rents (ZIP 91104)	1-bedroom \$1,670 · 2-bedroom \$2,140
2021 actual rents	1-bedroom \$1,525 · 2-bedroom \$1,800 (long-term) / \$2,150 (newer)
Capital work	Roof replaced in 2025 for \$40,000, benefiting all units
Inflation, 2021–2025	22.99%: Pasadena's target grows by half of that: 11.5%

STEP 1

Your 2021 Income at Fair Market Rents

Your 2021 numbers, with below-market units priced at HUD's fair market rent. Expenses are identical in both columns.

	2021 ACTUAL	WITH HUD RENTS
Rents: 4 × 1 BR (\$1,525 → \$1,670)	\$73,200	\$80,160
Rents: 3 × 2 BR, long-term (\$1,800 → \$2,140)	\$64,800	\$77,040
Rents: 3 × 2 BR, newer (\$2,150, above HUD)	\$77,400	\$77,400
Total rents	\$215,400	\$234,600
Property Taxes	(\$10,000)	(\$10,000)
Insurance	(\$7,000)	(\$7,000)
Water, Sewer & Trash	(\$9,500)	(\$9,500)
Common-Area Utilities	(\$2,500)	(\$2,500)
Repairs & Maintenance	(\$11,000)	(\$11,000)
Property Management (6%)	(\$12,924)	(\$12,924)
Landscaping, Pest & Other	(\$4,200)	(\$4,200)
Total operating expenses	(\$57,124)	(\$57,124)
NET OPERATING INCOME	\$158,276	\$177,476

WHAT YOU SHOULD HAVE EARNED IN 2025

$$\$177,476 + 11.5\% = \$197,886$$

2021 net operating income at HUD rents, grown by half of inflation. This is your fair return floor.

STEP 2

Your Income in 2025

The same building in 2025: rents rose only by the annual caps, while insurance and operating costs climbed.

	2025 AMOUNT	VS 2021
Rents: 4 × 1 BR (\$1,711/mo)	\$82,118	+12%
Rents: 3 × 2 BR, long-term (\$2,019/mo)	\$72,694	+12%
Rents: 3 × 2 BR, newer (\$2,412/mo)	\$86,829	+12%
Total rents	\$241,641	+12%
Property Taxes	(\$10,824)	+8%
Insurance	(\$11,000)	+57%
Water, Sewer & Trash	(\$10,000)	+5%
Common-Area Utilities	(\$3,000)	+20%
Repairs & Maintenance	(\$12,000)	+9%
Property Management (6%)	(\$14,498)	+12%
Landscaping, Pest & Other	(\$4,700)	+12%
Rental Housing Fee	(\$2,150)	new
Total operating expenses	(\$68,172)	+19%
NET OPERATING INCOME	\$173,469	+10%

Rents reflect the annual caps actually taken: 6.00% (2023), 2.75% (2024), 3.00% (2025). Expenses grew 19%; rents grew 12%.

THE EXAMPLE, DRAWN TO SCALE

What You Should Have Earned vs. What You Did

What it was: 2021 net operating income (with Vega)

\$177,476

The adjusted starting point for the fair return calculation

What you should have earned in 2025

\$197,886

2021 NOI + 11.5% (half of inflation since 2021)

What you actually earned in 2025

\$173,469

Rents limited to the annual caps; costs at 2025 levels

The difference: your annual shortfall

\$24,417

What the fair return petition seeks to recover

STEP 3

The Math

SHOULD HAVE MADE

\$197,886

2021 NOI + 11.5%

DID MAKE

\$173,469

2025 NOI

ANNUAL SHORTFALL

\$24,417

permanent increase

FROM SHORTFALL TO RENT INCREASE	AMOUNT
Annual shortfall / permanent fair return increase, per year	\$24,417
÷ 10 units ÷ 12 months = per unit, per month (permanent)	\$203.47
Plus roof recovery: \$40,000 over 20 years at 9.03% = per unit, per month (20 years)	\$36.59
TOTAL INCREASE PER UNIT, PER MONTH	\$240.07

WHAT THAT MEANS IN RENT

1-Bedroom

+\$240 / month (+14.0%)

2-Bedroom, long-term

+\$240 / month (+11.9%)

2-Bedroom, newer

+\$240 / month (+10.0%)

The fair return portion is permanent; the roof portion comes off after 20 years.

HOW THE INCREASE TAKES EFFECT

- The increase takes effect only after written notice to the tenant, and once 12 months have passed since the tenant's last increase.
- The capital replacement increase comes off the rent after 20 years, and is not counted as rent when future annual increases are calculated.
- Either party may appeal to the Rental Housing Board within 30 days.

6. Is it worth it?

The example increases rents about 12% on average, permanent cash flow (net operating income) about 14%, and building value about 14% at the same cap rate.

- **A permanent rent increase.** The fair return increase becomes part of each unit's rent. Future annual increases are calculated on that higher amount.
- **Added income.** About \$24,400 a year permanently, plus \$4,400 a year for 20 years from the roof.
- **Added building value.** At the same 5.25% cap rate, permanent net operating income and value both rise about 14%. Temporary roof recovery is excluded from value.

Measure	Without increase	With increase	% change
Net operating income (2025)	\$173,469	\$197,886	+14.1%
Value at a 5.25% cap rate	\$3,304,171	\$3,769,257	+14.1%
Value per unit	\$330,417	\$376,926	+14.1%
Added value		+\$465,086	
Added value at 4.75%–5.75% cap rates		+\$425,000 to +\$514,000	

"Without" is 2025 net operating income. "With" adds the \$24,417 permanent adjustment. Value moves one-for-one with net operating income only if the cap rate stays the same; a buyer could apply a different cap rate. Roof recovery is excluded.

Common questions

I bought the building after 2021, or didn't own it then. Can I still file?

Yes. Fair return looks at the building's numbers, not who owned it. What you paid and your loan do not enter the calculation. We help reconstruct the 2021 figures from the prior owner, the city's rental registry and other records; estimates are allowed. In Pasadena, the May 17, 2021 rollback rents are a good starting point.

I don't have all my records.

Send what you have. Missing 2021 figures can be estimated from other records, published rates and cost data.

Does my mortgage count?

No. The test measures building operations, not financing.

What does it cost, and how long does it take?

The Summary of Findings is free. If you file, our fee is contingent on an approved increase, with a small upfront fee for hard costs such as printing and mailing. From city acceptance to a decision typically takes several months; see the timeline in 4.5.

7. Your building's fair return analysis

We reconstruct your 2021 starting point, run the Vega test for each unit, calculate 2025 net operating income on the same basis, and account for capital work. The analysis shows whether a shortfall exists and its amount.

You receive a free Summary of Findings before deciding whether to file. Our fee is contingent on success, with a small upfront fee for hard costs such as printing and mailing.

To get started, email these three things to info@pgnfr.com:

- Rent rolls for 2021 and 2025, with the bedroom count for each unit
- Operating expenses for 2021 and 2025; a P&L or expense summary is fine
- Capital work from 2021 through 2025: what was done, when, what it cost, and which units benefited

That's all we need for your free Summary of Findings. Missing something? Send what you have. If you decide to file, we'll then gather the bills, invoices and proof of payment the city requires and organize them into your petition's verification folder.

Call, or email your records to info@pgnfr.com, for your free analysis.

Contact us by Friday, November 13. The sooner you contact us, the more time we have to prepare and support your case.

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Anthony Edson, Partner
Wes Nichols, Partner
Paragon Advisory Partners



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Sources

- Pasadena City Charter, Article XVIII (Pasadena Fair and Equitable Housing Charter Amendment), §§ 1801, 1803, 1804, 1808, 1811, 1813, 1814.
- Pasadena Rental Housing Board Regulations, Chapter 7: Upward Adjustment of Rent (adopted October 17, 2024), including Table 1 (2021 HUD rents) and Appendix A (amortization schedule).
- City of Pasadena Rent Stabilization Department, Landlord Petition for Upward Adjustment of Rent: instructions and declaration.
- Annual rent caps: 6.00% first adjustment for tenancies beginning on or before May 17, 2021 (valid through September 30, 2023); 2.75% (Oct. 2023–Sept. 2024); 3.0% (Oct. 2024–Sept. 2025); 2.25% (Oct. 2025–Sept. 2026).
- Inflation: U.S. Bureau of Labor Statistics, CPI-U, Los Angeles–Long Beach–Anaheim, all items, annual averages.
- Interest allowance: Freddie Mac Primary Mortgage Market Survey, 30-year fixed, 7.03% (September 24, 2026). The rate used is the one in effect when the petition is submitted.
- *Birkenfeld v. City of Berkeley* (1976) 17 Cal.3d 129; *Vega v. City of West Hollywood* (1990) 223 Cal.App.3d 1342; *Kavanau v. Santa Monica Rent Control Board* (1997) 16 Cal.4th 761.

Paragon Advisory Partners prepares and files fair return petitions for owners of rent-stabilized properties in California. We are not a law firm. This is general information, not legal, tax, or investment advice. Illustrative results depend on stated assumptions; actual outcomes and values differ. Contacting us does not guarantee an increase or acceptance before year-end.