CITY COUNCIL COMMITTEE

HOUSING & ECONOMIC DEVELOPMENT

Ron Leone, Chair
Dan Helix, Committee Member

5:30 p.m., Monday, June 27, 2016

City Council Chamber
1950 Parkside Drive, Concord

ROLL CALL

PUBLIC COMMENT PERIOD

1. **DISCUSSION** – City of Concord Educational Rental Housing Workshop. Report by John Montagh, Redevelopment/Housing Manager.

3. **ADJOURNMENT**

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MEMORANDUM

June 27, 2016

TO: Ron Leone, Chair Housing & Economic Development Committee
Dan Helix, Housing & Economic Development Committee Member

FROM: Valerie Barone, City Manager

PREPARED BY: John Montagh, Economic Development & Housing Manager

SUBJECT: **City of Concord Educational Rental Housing Workshop**

The City of Concord Housing and Economic Development Committee is hosting a Rental Housing Workshop on Monday, June 27 at 5:30 p.m. in the City Council Chamber located at 1950 Parkside Drive.

After hearing from renters that the monthly rates for their apartments have been being greatly increased, the City Council referred the issue to the Housing and Economic Development Committee in order to hold the first of two educational workshops on Concord's Rental Housing. The second workshop is to be held on Tuesday, July 26, 2016 during the City Council's regular scheduled meeting. The goal of these workshops is to educate the Housing & Economic Development Committee Members, the full City Council, community and staff on Concord's rental housing market.

To achieve the desired educational goal, staff has planned for the June 27 workshop to begin with a presentation from John Montagh, Concord's Economic Development Housing Manager. Mr. Montagh will provide an overview of Concord's rental market and existing City housing programs focused on rental housing. After staff's presentation there will be a panel of three subject matter experts: Aimee Inglis from Tenants Together, Joshua Howard from the California Apartment Association, and Ken Baar, PhD an expert on housing policy and real estate issues in California. Biographies of the panelists are presented in Attachment 1. Each panelist will have 15 minutes to provide their perspectives and related information. After which, staff anticipates that Committee members will ask questions of the panel and invite audience members to ask questions of the panel.

As background to this upcoming workshop, staff has attached relevant documents, each is briefly described below:

1. **Perspectives on Helping Low-Income Californians Afford Housing (California Legislative Analyst's Office) February 9, 2016**

   The California Legislative Analyst's Office provides fiscal and policy advice to the California Legislature for more than 70 years. It is known for its fiscal and programmatic expertise and nonpartisan analyses of the state budget. The office serves as the "eyes and ears" for the Legislature to ensure that the executive branch is implementing legislative policy in a cost efficient and effective manner. This report discusses rental housing affordability from a statewide perspective. It also presents topics concerning government programs targeted towards affordable housing, housing assistance resources and private home building.

2. **Housing Production, Filtering and Displacement: Untangling the Relationships (Institute of Governmental Studies) May 2016**

   The Institute of Governmental Studies (IGS) is California's oldest public policy research center. IGS is a research unit of University of California, Berkeley. This report discusses the importance of increasing production of subsidized and market rate housing along with investing in the preservation of housing affordability. It also discusses the impact of market rate development and the role of subsidized housing development.

3. **Frequently Asked Questions regarding Rent Review, Rent Stabilization and Limitations on Evictions (City of Alameda) April 12, 2016**

   The City of Alameda recently adopted a rent control ordinance. This attachment provides a frequently asked question (FAQ) to implementing Alameda's Rent Review, Rent Stabilization and Limitations of Eviction ordinance. The FAQ provides good information on a recent nearby rent control effort. More information is available on the City of Alameda's website.

4. **Staff report on options for increasing residential tenant protections (City of Emeryville) April 21, 2015**

   While written specifically for Emeryville, this staff report provides an overview on the options for increasing residential tenant protection and services. The staff report analyzes rent control and how it is implemented. The report also discusses other types of tenant safeguards such as eviction and harassment protection.

5. **Letter and attachments from Concord resident Blaine Carter, June 22, 2016**
   Mr. Blair is a resident and an owner of a four unit multifamily building in Concord and he provided this information to aid in the conversation at the workshop. Included are the following documents:
   - The High Cost of Rent Control (National Multifamily Housing Council)
   - The Distributional Impact of Restrictive Rent Control Programs in Berkeley and Santa Monica, CA (ST. John & Associates) June 23,1993

- How Rent Control Drives Out Affordable Housing (Cato Policy Analysis) May 21, 1997

Concord Rental Housing Workshop Panelist Biographies

Kenneth Baar has a Ph.D. in urban planning and is an attorney. He has researched and published extensively on housing policy and real estate issues. Over the past 30 years, he has served as a consultant to over forty California jurisdictions on issues related to rent stabilization. He authored analyses of rent control standards and the financial outcomes of apartment owners under rent stabilization for the cities of Los Angeles (2009) and San Jose (2016).

His articles on fair return issues have been cited in decisions of the California and New Jersey Supreme Courts and in numerous California Court of Appeal decisions.
Also, he has served as a consultant to the World Bank and U.S. AID on policy issues in East European nations undergoing economic transition and on two occasions has been a visiting Fulbright professor in East Europe.

Joshua Howard is the Senior Vice President, Local Government Affairs for the California Apartment Association. In this position, Howard directs CAA's public affairs, political action, and member engagement programs with a team of local government advocates across California.

CAA's membership includes over 20,000 property management companies, developers, real estate investment trusts, and individual property owners. These members provide homes to millions of California families.
Prior to joining CAA, Joshua served as Vice President, Public Policy for the San Jose/Silicon Valley Chamber of Commerce and as a senior aide to a former San Jose City Councilmember.

He has over ten years of experience with the regional and local rental housing market, has served on several regional and statewide committees on housing, local government finance, and economic development. He serves on numerous non-profit boards, political action committees, and has directed several local ballot measure campaigns.
He holds a Bachelor of Science degree in Political Science from Santa Clara University and a Master's in Public Administration from the University of San Francisco.

Aimee Inglis is the Acting Director for Tenants Together. She was formally trained as a community organizer through the Midwest Academy's Organizing program, and has focused professionally on starting and managing volunteer programs at non-profit organizations. She started her work with Tenants Together as a volunteer counselor on the Tenant Rights Hotline. As staff, her role at Tenants Together has been focused on building a strong Member base, which includes educating volunteers, managing the Tenant Rights Hotline, leading online organizing efforts, and engaging in state and local policy on tenants' rights. As Acting Director she plans to focus on deepening Tenants Together's coalition-building work and strengthening current campaigns to advance rent control.

Perspectives on Helping Low-Income Californians Afford Housing

MAC TAYLOR • LEGISLATIVE ANALYST • FEBRUARY 9, 2016

Summary

California has a serious housing shortage. California's housing costs, consequently, have been rising rapidly for decades. These high housing costs make it difficult for many Californians to find housing that is affordable and that meets their needs, forcing them to make serious trade-offs in order to live in California.

In our March 2015 report, *California's High Housing Costs: Causes and Consequences*, we outlined the evidence for California's housing shortage and discussed its major ramifications. We also suggested that the key remedy to California's housing challenges is a substantial increase in private home building in the state's coastal urban communities. An expansion of California's housing supply would offer widespread benefits to Californians, as well as those who wish to live in California but cannot afford to do so.

Some fear, however, that these benefits would not extend to low-income Californians. Because most new construction is targeted at higher-income households, it is often assumed that new construction does not increase the supply of lower-end housing. In addition, some worry that construction of market-rate housing in low-income neighborhoods leads to displacement of low-income households. In response, some have questioned whether efforts to increase private housing development are prudent. These observers suggest that policy makers instead focus on expanding government programs that aim to help low-income Californians afford housing.

In this follow up to *California's High Housing Costs*, we offer additional evidence that facilitating more private housing development in the state's coastal urban communities would help make housing more affordable for low-income Californians. Existing affordable housing programs assist only a small proportion of low-income Californians. Most low-income Californians receive little or no assistance. Expanding affordable housing programs to help these households likely would be extremely challenging and prohibitively expensive. It may be best to focus these programs on Californians with more specialized housing needs—such as homeless individuals and families or persons with significant physical and mental health challenges.

Encouraging additional private housing construction can help the many low-income Californians who do not receive assistance. Considerable evidence suggests that construction of market-rate housing reduces housing costs for low-income households and, consequently, helps to mitigate displacement in many cases. Bringing about more private home building, however, would be no easy task, requiring state and local policy makers to confront very challenging issues and taking many years to come to fruition. Despite these difficulties, these efforts could provide significant widespread benefits: lower housing costs for millions of Californians.

VARIOUS GOVERNMENT PROGRAMS HELP CALIFORNIANS AFFORD HOUSING

Federal, state, and local governments implement a variety of programs aimed at helping Californians, particularly low-income Californians, afford housing. These programs generally work in one of three ways: (1) increasing the supply of moderately priced housing, (2) paying a portion of households' rent costs, or (3) limiting the prices and rents property owners may charge for housing.

Various Programs Build New Moderately Priced Housing. Federal, state, and local governments provide direct financial assistance—typically tax credits, grants, or low-cost loans—to housing developers for the construction of rental housing. In exchange, developers reserve these units for lower-income households. (Until recently, local redevelopment agencies also provided this type of financial assistance.) By far the largest of these programs is the federal and state Low Income Housing Tax Credit (LIHTC), which provides tax credits to affordable housing developers to cover a portion of their building costs. The LIHTC subsidizes the new construction of around 7,000 rental units annually in the state—typically less than 10 percent of total public and private housing construction. This represents a significant majority of the affordable housing units constructed in California each year.

Vouchers Help Households Afford Housing. The federal government also makes payments to landlords—known as housing vouchers—on behalf of about 400,000 low-income households in California. These payments generally cover the portion of a rental unit's monthly cost that exceeds 30 percent of the household's income.

Some Local Governments Place Limits on Prices and Rents. Some local governments have policies that require property owners charge below-market prices and rents. In some cases, local governments limit how much landlords can increase rents each year for existing tenants. About 15 California cities have these rent controls, including Los Angeles, San Francisco, San Jose, and Oakland. In 1995, the state enacted Chapter 331 of 1995 (AB 1164, Hawkins), which prevented rent control for properties built after 1995 or properties built prior to 1995 that had not previously been subject to rent control. Assembly Bill 1164 also allowed landlords to reset rents to market rates when properties transferred from one tenant to another. In other cases, local governments require developers of market-rate housing to charge below-market prices and rents for a portion of the units they build, a policy called "inclusionary housing."

NEED FOR HOUSING ASSISTANCE OUTSTRIPS RESOURCES

Many Low-Income Households Receive No Assistance. The number of low-income Californians in need of assistance far exceeds the resources of existing federal, state, and local affordable housing programs. Currently, about 3.3 million low-income households (who earn 80 percent or less of the median income where they live) rent housing in California, including 2.3 million very-low-income households (who earn 50 percent or less of the median income where they

live). Around one-quarter (roughly 800,000) of low-income households live in subsidized affordable housing or receive housing vouchers. Most households receive no help from these programs. Those that do often find that it takes several years to get assistance. Roughly 700,000 households occupy waiting lists for housing vouchers, almost twice the number of vouchers available.

Majority of Low-Income Households Spend More Than Half of Their Income on Housing. Around 1.7 million low-income renter households in California report spending more than half of their income on housing. This is about 14 percent of all California households, a considerably higher proportion than in the rest of the country (about 8 percent).

CHALLENGES OF EXPANDING EXISTING PROGRAMS

One possible response to these affordability challenges could be to expand existing housing programs. Given the number of households struggling with high housing costs, however, this approach would require a dramatic expansion of existing government programs, necessitating funding increases orders of magnitude larger than existing program funding and far-reaching changes in existing regulations. Such a dramatic change would face several challenges and probably would have unintended consequences. Ultimately, attempting to address the state's housing affordability challenges primarily through expansion of government programs likely would be impractical. This, however, does not preclude these programs from playing a role in a broader strategy to improve California's housing affordability. Below, we discuss these issues in more detail.

Expanding Assistance Programs Would Be Very Expensive

Extending housing assistance to low-income Californians who currently do not receive it—either through subsidies for affordable units or housing vouchers—would require an annual funding commitment in the low tens of billions of dollars. This is roughly the magnitude of the state's largest General Fund expenditure outside of education (Medi-Cal).

Affordable Housing Construction Requires Large Public Subsidies. While it is difficult to estimate precisely how many units of affordable housing are needed, a reasonable starting point is the state's current population of low-income renter households that spend more than half of their income on housing—about 1.7 million households. Based on data from the LIHTC, housing built for low-income households in California's coastal urban areas requires a public subsidy of around $165,000 per unit. At this cost, building affordable housing for California's 1.7 million rent burdened low-income households would cost in excess of $250 billion. This cost could be spread out over several years (by issuing bonds or providing subsidies to builders in installments), requiring annual expenditures in the range of $15 billion to $30 billion. There is a good chance the actual cost could be higher. Affordable housing projects often receive subsidies from more than one source, meaning the public subsidy cost per unit likely is higher than $165,000. It is also possible the number of units needed could be higher if efforts to make California's housing more affordable spurred more people to move to the state. Conversely, there is some chance the cost could be lower if building some portion of the 1.7 million eased competition at the bottom end of the housing market and allowed some low-income families to find

affordable market-rate housing. Nonetheless, under any circumstances it is likely this approach would require ongoing annual funding at least in the low tens of billions of dollars.

Expanding Housing Vouchers Also Would Be Expensive. Housing vouchers would be similarly expensive. According to American Community Survey data, around 2.5 million low-income households in California spend more than 30 percent of their income on rent. These households' rents exceed 30 percent of their incomes by $625 each month on average, meaning they would require an annual subsidy of around $7,500. This suggests that providing housing vouchers to all of these households would cost around $20 billion annually. By similar logic, a less generous program that covered rent costs exceeding 50 percent of household income would cost around $10 billion annually. There is, however, good reason to believe the cost of expanding voucher programs would be significantly higher than these simple estimates suggest. As we discuss in the next section, a major increase in the number of voucher recipients likely would cause rents to rise. Higher rent costs, in turn, would increase the amount government would need to pay on behalf of low-income renters. This effect is difficult to quantify but probably would add several billion to tens of billions of dollars to the annual cost of a major expansion of vouchers.

Existing Housing Shortage Poses Problems for Some Programs

Many housing programs—vouchers, rent control, and inclusionary housing—attempt to make housing more affordable without increasing the overall supply of housing. This approach does very little to address the underlying cause of California's high housing costs: a housing shortage. Any approach that does not address the state's housing shortage faces the following problems.

Housing Shortage Has Downsides Not Addressed by Existing Housing Programs. High housing costs are not the only downside of the state's housing shortage. As we discussed in detail in *California's High Housing Costs*, California's housing shortage denies many households the opportunity to live in the state and contribute to the state's economy. This, in turn, reduces the state's economic productivity. The state's housing shortage also makes many Californians—not only low-income residents—more likely to commute longer distances, live in overcrowded housing, and delay or forgo homeownership. Housing programs such as vouchers, rent control, and inclusionary housing that do not add to the state's housing stock do little to address these issues.

Scarcity of Housing Undermines Housing Vouchers. California's tight housing markets pose several challenges for housing voucher programs which can limit their effectiveness. In competitive housing markets, landlords often are reluctant to rent to housing voucher recipients. Landlords may not be interested in navigating program requirements or may perceive voucher recipients to be less reliable tenants. One nationwide study conducted in 2001 found that only two-thirds of voucher recipients in competitive housing markets were able to secure housing. This issue likely would be amplified if the number of voucher recipients competing for housing were increased significantly. In addition, some research suggests that expanding housing vouchers in competitive housing markets results in rent increases, which either offset benefits to voucher holders or increase government costs for the program. One study looking at an unusually large increase in the federal allotment of housing vouchers in the early 2000s found that each 10 percent increase in vouchers in tight housing markets increased monthly rents by an average of $18 (about 2 percent). This suggests that extending vouchers to all of California's low-income

households (a several hundred percent increase in the supply of vouchers) could lead to substantial rent inflation. If this were to occur, the estimates in the prior section of the cost to expand vouchers to all low-income households would be significantly higher.

Housing Costs for Households Not Receiving Assistance Could Rise. Expansion of voucher programs also could aggravate housing challenges for those who do not receive assistance, particularly if assistance is extended to some, but not all low-income households. As discussed above, research suggests that housing vouchers result in rent inflation. This rent inflation not only effects voucher recipients but potentially increases rents paid by other low- and lower-middle income households that do not receive assistance.

Housing Shortage Also Creates Problems for Rent Control Policies. The state's shortage of housing also presents challenges for expanding rent control policies. Proposals to expand rent control often focus on two broad changes: (1) expanding the number of housing units covered—by applying controls to newer properties or enacting controls in locations that currently lack them—and (2) prohibiting landlords from resetting rents to market rates for new tenants. Neither of these changes would increase the supply of housing and, in fact, likely would discourage new construction. Households looking to move to California or within California would therefore continue to face stiff competition for limited housing, making it difficult for them to secure housing that they can afford. Requiring landlords to charge new tenants below-market rents would not eliminate this competition. Households would have to compete based on factors other than how much they are willing to pay. Landlords might decide between tenants based on their income, creditworthiness, or socioeconomic status, likely to the benefit of more affluent renters.

Barriers to Private Development Also Hinder Affordable Housing Programs

Local Resistance and Environmental Protection Policies Constrain Housing Development. Local community resistance and California Environmental Quality Act (CEQA) challenges limit the amount of housing—both private and subsidized—built in California. These factors present challenges for subsidized construction and inclusionary housing programs. Subsidized housing construction faces the same, in many cases more, community opposition as market-rate housing because it often is perceived as bringing negative changes to a community's quality or character. Furthermore, subsidized construction, like other housing developments, often must undergo the state's environmental review process outlined in CEQA. This can add costs and delay to these projects. Inclusionary housing programs rely on private housing development to fund construction of affordable housing. Because of this, barriers that constrain private housing development also limit the amount of affordable housing produced by inclusionary housing programs.

Home Builders Often Forced to Compete for Limited Development Opportunities. With state and local policies limiting the number of housing projects that are permitted, home builders often compete for limited opportunities. One result of this is that subsidized construction often substitutes for—or "crowds out"—market-rate development. Several studies have documented this crowd-out effect, generally finding that the construction of one subsidized housing unit reduces market-rate construction by one-half to one housing unit. These crowd-out effects can diminish the extent to which subsidized housing construction increases the state's overall supply of housing.

Other Unintended Consequences

"Lock-In" Effect. Households residing in affordable housing (built via subsidized construction or inclusionary housing) or rent-controlled housing typically pay rents well below market rates. Because of this, households may be discouraged from moving from their existing unit to market-rate housing even when it may otherwise benefit them—for example, if the market-rate housing would be closer to a new job. This lock-in effect can cause households to stay longer in a particular location than is otherwise optimal for them.

Declining Quality of Housing. By depressing rents, rent control policies reduce the income received by owners of rental housing. In response, property owners may attempt to cut back their operating costs by forgoing maintenance and repairs. Over time, this can result in a decline in the overall quality of a community's housing stock.

MORE PRIVATE HOME BUILDING COULD HELP

Most low-income Californians receive little or no assistance from existing affordable housing programs. Given the challenges of significantly expanding affordable housing programs, this is likely to persist for the foreseeable future. Many low-income households will continue to struggle to find housing that they can afford. Encouraging more private housing development seems like a reasonable approach to help these households. But would it actually help? In this section, we present evidence that construction of new, market-rate housing can lower housing costs for low-income households.

Increased Supply, Lower Costs

Lack of Supply Drives High Housing Costs. As we demonstrate in *California's High Housing Costs*, a shortage of housing results in high and rising housing costs. When the number of households seeking housing exceeds the number of units available, households must try to outbid each other, driving up prices and rents. Increasing the supply of housing can help alleviate this competition and, in turn, place downward pressure on housing costs.

Building New Housing Indirectly Adds to the Supply of Housing at the Lower End of the Market. New market-rate housing typically is targeted at higher-income households. This seems to suggest that construction of new market-rate housing does not add to the supply of lower-end housing. Building new market-rate housing, however, indirectly increases the supply of housing available to low-income households in multiple ways.

Housing Becomes Less Desirable as It Ages . . . New housing generally becomes less desirable as it ages and, as a result, becomes less expensive over time. Market-rate housing constructed now will therefore add to a community's stock of lower-cost housing in the future as these new homes age and become more affordable. Our analysis of American Housing Survey data finds evidence that housing becomes less expensive as it ages. Figure 1 (see next page) shows the average rent for housing built between 1980 and 1985 in Los Angeles and San Francisco. These housing units were relatively expensive in 1985 (rents in the top fifth of all rental units) but were considerably more affordable by 2011 (rents near the median of all rental units). Housing that likely was considered "luxury" when first built declined to the middle of the housing market within 25 years.

. . . But Lack of New Construction Can Slow This Process. When new construction is abundant, middle-income households looking to upgrade the quality of their housing often move from older, more affordable housing to new housing. As these middle-income households move out of older housing it becomes available for lower-income households. This is less likely to occur in communities where new housing construction is limited. Faced with heightened competition for scarce housing, middle-income households may live longer in aging housing. Instead of upgrading by moving to a new home, owners of aging homes may choose to remodel their existing homes. Similarly, landlords of aging rental housing may elect to update their properties so that they can continue to market them to middle-income households. As a result, less housing transitions to the lower-end of the housing market over time. One study of housing costs in the U.S. found that rental housing generally depreciated by about 2.5 percent per year between 1985 and 2011, but that this rate was considerably lower (1.8 percent per year) in regions with relatively limited housing supply.

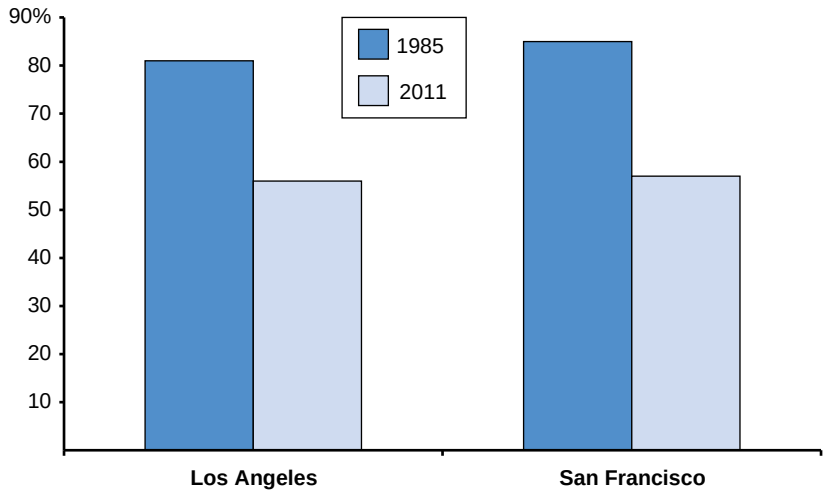
New Housing Construction Eases Competition Between Middle- and Low-Income Households. Another result of too little housing construction is that more affluent households, faced with limited housing choices, may choose to live in neighborhoods and housing units that historically have been occupied by low-income households. This reduces the amount of housing available for low-income households. Various economic studies have documented this result. One analysis of American Housing Survey data by researchers at the Federal Reserve Bank of New York found that "the more constrained the supply response for new residential units to demand shocks, the greater the probability that an affordable unit will filter up and out of the affordable stock." Other researchers have found that low-income neighborhoods are more likely to experience an influx of higher-income households when they are in close proximity to affluent neighborhoods with tight housing markets.

More Supply Places Downward Pressure on Prices and Rents. When the number of housing units available at the lower end of a community's housing market increases, growth in prices and rents slows. Evidence supporting this relationship can be found by comparing housing expenditures of low-income households living in California's slow-growing coastal communities to those living in fast-growing communities elsewhere in the country. Between 1980 and 2013, the housing stock in California's coastal urban counties (counties comprising metropolitan areas with populations greater than 500,000) grew by only 34 percent, compared to

Figure 1

Housing Becomes Less Expensive as It Ages

Percentile Rank of the Rent for Housing Built Between 1980 and 1985



99 percent in the fastest growing urban counties throughout the country (top fifth of all urban counties). As figure 2 shows, over the same time period rents paid by low-income households grew nearly three times faster in California's coastal urban counties than in the fastest growing urban counties (50 percent compared to 18 percent). As a result, the typical low-income household in California's costal urban counties now spends around 54 percent of their income on housing, compared to only 43 percent in fast growing counties. This difference—11 percentage points—is roughly equal to a typical low-income household's total spending on transportation.

Lower Costs Reduce Chances of Displacement

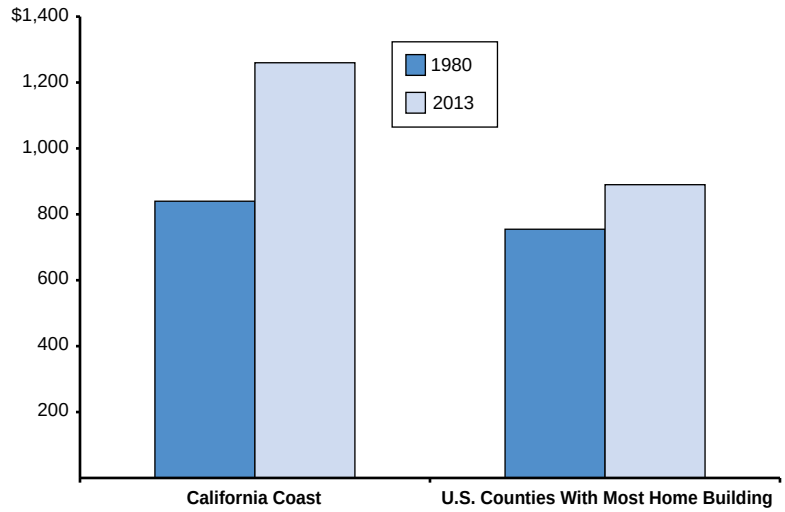
More Private Development Associated With Less Displacement. As market-rate housing construction tends to slow the growth in prices and rents, it can make it easier for low-income households to afford their existing homes. This can help to lessen the displacement of low-income households. Our analysis of low-income neighborhoods in the Bay Area suggests a link between increased construction of market-rate housing and reduced displacement. (See the technical appendix for more information on how we defined displacement for this analysis.) Between 2000 and 2013, low-income census tracts (tracts with an above-average concentration of low-income households) in the Bay Area that built the most market-rate housing experienced considerably less displacement. As Figure 3 (see next page) shows, displacement was more than twice as likely in low-income census tracts with little market-rate housing construction (bottom fifth of all tracts) than in low-income census tracts with high construction levels (top fifth of all tracts).

Results Do Not Appear to Be Driven by Inclusionary Housing Policies. One possible explanation for this finding could be that many Bay Area communities have inclusionary housing policies. In communities with inclusionary housing policies, most new market-rate construction is paired with construction of new affordable housing. It is possible that the new affordable housing units associated with increased market-rate development—and not market-rate development itself—could be mitigating displacement. Our analysis, however, finds that market-rate housing construction appears to be associated with less displacement *regardless* of a community's inclusionary housing policies. As with other Bay Area communities, in communities without inclusionary housing policies, displacement

Figure 2

Places With More Building Saw Slower Growth in Rents for Poor Households

Rents Paid by Low-Income Households in Urban Counties (In 2013 Dollars)



was more than twice as likely in low-income census tracts with limited market-rate housing construction than in low-income census tracts with high construction levels.

Relationship Remains After Accounting for Economic and Demographic Factors. Other factors play a role in determining which neighborhoods experience displacement. A neighborhood's demographics and housing characteristics probably are important. Nonetheless, we continue to find that increased market-rate housing construction is linked to reduced displacement after using common statistical techniques to account for these factors. (See the technical appendix for more details.)

CONCLUSION

Addressing California's housing crisis is one of the most difficult challenges facing the state's policy makers. The scope of the problem is massive. Millions of Californians struggle to find housing that is both affordable and suits their needs. The crisis also is a long time in the making, the culmination of decades of shortfalls in housing construction. And just as the crisis has taken decades to develop, it will take many years or decades to correct. There are no quick and easy fixes.

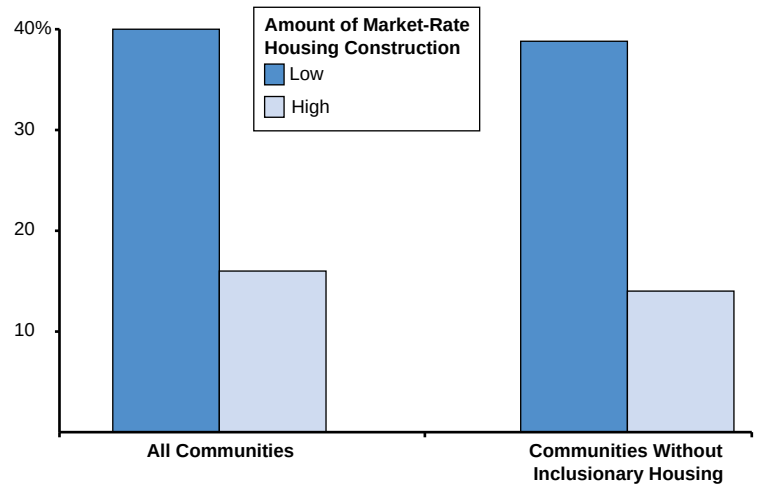
The current response to the state's housing crisis often has centered on how to improve affordable housing programs. The enormity of California's housing challenges, however, suggests that policy makers look for solutions beyond these programs. While affordable housing programs are vitally important to the households they assist, these programs help only a small fraction of the Californians that are struggling to cope with the state's high housing costs. The majority of low-income households receive little or no assistance and spend more than half of their income on housing. Practically speaking, expanding affordable housing programs to serve these households would be extremely challenging and prohibitively expensive.

In our view, encouraging more private housing development can provide some relief to low-income households that are unable to secure assistance. While the role of affordable housing programs in helping California's most disadvantaged residents remains important,

Figure 3

Building Market-Rate Housing Appears to Reduce Displacement

Percent of Low-Income Bay Area Census Tracts That Experienced Displacement Between 2000 and 2013



we suggest policy makers primarily focus on expanding efforts to encourage private housing development. Doing so will require policy makers to revisit long-standing state policies on local governance and environmental protection, as well as local planning and land use regimes.

The changes needed to bring about significant increases in housing construction undoubtedly will be difficult and will take many years to come to fruition. Policy makers should nonetheless consider these efforts worthwhile. In time, such an approach offers the greatest potential benefits to the most Californians.

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TECHNICAL APPENDIX

To examine the relationship between market-rate housing construction and displacement of low-income households we developed a simple econometric model to estimate the probability of a low-income Bay Area neighborhood experiencing displacement.

Data. We use data on Bay Area census tracts (small subdivisions of a county typically containing around 4,000 people) maintained by researchers with the University of California (UC) Berkeley Urban Displacement Project. This dataset included information on census tract demographics, housing characteristics, and housing construction levels. We focus on data for the period 2000 to 2013.

Defining Displacement. Researchers have not developed a single definition of displacement. Different studies use different measures. For our analysis, we use a straightforward yet imperfect definition of displacement which is similar to the definition used by UC Berkeley researchers. Specifically, we define a census tract as having experienced displacement if (1) its overall population increased and its population of low-income households decreased or (2) its overall population decreased and its low-income population declined faster than the overall population.

Our Model. We use probit regression analysis to evaluate how various factors affected the likelihood of a census tract experiencing displacement between 2000 and 2013. This type of model allows us to hold constant various economic and demographic factors and isolate the impact of increased market-rate construction on the likelihood of displacement. The results of our regression are show in Figure A1. Coefficient estimates from probit regressions are not easily interpreted. While the fact that the coefficient for market-rate housing construction is statistically significant and negative suggests that more construction reduces the likelihood of displacement, the magnitude of this effect is not immediately clear. To better understand these results, we used the model to compare the probability that an average census tract would experience displacement when its market-rate construction was low (0 units), average (136 units), and high (243 units). As shown in Figure A2 (see next page), with low construction levels, a census tract's probability of experiencing displacement was 47 percent, compared to 34 percent with average construction levels, and 26 percent with high construction levels.

Figure A1

Regression Results

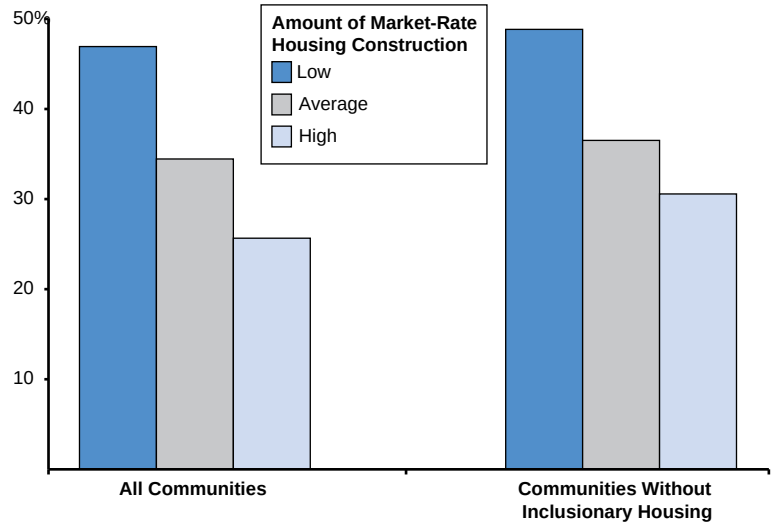
Dependent Variable: Did Displacement Occur (Yes=1 and No=0)?

Independent Variable	Coefficient	Standard Error
Number of market-rate housing units built	-0.00237	0.00043
Share of population that is low income	1.74075	0.54137
Share of population that is nonwhite	-0.61213	0.29151
Share of adults over 25 with a college degree	1.90054	0.38599
Population density	-0.00001	0.00000
Share of housing built before 1950	1.16506	0.22569
Constant	-1.45886	0.33420

Figure A2

More Housing Construction Linked to Lower Chances of Displacement

Likelihood of an Average Low-Income Bay Area Census Tract Experiencing Displacement, 2000 to 2013



LAO Publications

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BERKELEY IGS Research Brief

Housing Production, Filtering and Displacement: Untangling the Relationships

Miriam Zuk
Karen Chapple

EXECUTIVE SUMMARY:

Research Implies the Importance of Increasing Production of Subsidized and Market-Rate Housing

Debate over the relative importance of subsidized and market-rate housing production in alleviating the current housing crisis continues to preoccupy policymakers, developers, and advocates. This research brief adds to the discussion by providing a nuanced analysis of the relationship between housing production, affordability, and displacement in the San Francisco Bay Area, finding that:

- At the regional level, both market-rate and subsidized housing reduce displacement pressures, but subsidized housing has over double the impact of market-rate units.
- Market-rate production is associated with higher housing cost burden for low-income households, but lower median rents in subsequent decades.
- At the local, block group level in San Francisco, neither market-rate nor subsidized housing production has the protective power they do at the regional scale, likely due to the extreme mismatch between demand and supply.

Although more detailed analysis is needed to clarify the complex relationship between development, affordability, and displacement at the local scale, this research implies the importance of not only increasing production of subsidized and market-rate housing in California's coastal communities, but also investing in the preservation of housing affordability and stabilizing vulnerable communities.

About IGS

The Institute of Governmental Studies is California's oldest public policy research center. As an Organized Research Unit of the University of California, Berkeley, IGS expands the understanding of governmental institutions and the political process through a vigorous program of research, education, public service, and publishing.

Housing Production, Filtering, and Displacement: Untangling the Relationships

Introduction

The ongoing crisis of housing affordability in California has deepened the divide between those who believe it can be resolved by expanding the supply of market-rate housing and those who believe that market-rate construction on its own will not meet the needs of low-income households, for whom more subsidized housing needs to be built or stabilized. These arguments over the role of market-rate versus subsidized housing have plagued strong-market cities, which are engaging in political debates at the ballot box (e.g., the "Mission Moratorium," a ballot measure that would ban luxury units in San Francisco's Mission neighborhood) and in city hall (e.g., housing density bonus programs like New York City's inclusionary housing plan) over the role and impact of housing development.

In the February 2016 report "Perspectives on Helping Low-Income Californians Afford Housing" (hereafter "the LAO Report"), the California Legislative Analyst's Office (LAO) used data we posted on our Urban Displacement Project website (www.urbandisplacement.org) to argue that market-rate development would be the most effective investment to prevent low-income households from being displaced from their neighborhoods.[1]

In this research brief we present a more nuanced view to contribute to this debate. We correct for the omission of subsidized housing production from the LAO Report and find that both market-rate and subsidized housing reduce displacement at the regional level, yet subsidized housing has over double the impact of market-rate units. After evaluating the impact of market-rate and subsidized housing built in the 1990s on displacement occurring in the 2000s, to ensure that we are examining before and after relationships, we find that market-rate development has an insignificant effect on displacement. Finally, when looking at the local, neighborhood scale in San Francisco, neither market-rate nor subsidized housing production has the protective power they do at the regional scale, likely due to the extreme mismatch between demand and supply. These findings provide further support for continuing the push to ease housing pressures by producing more housing at all levels of affordability throughout strong-market regions. These findings also provide support for increasing spending on subsidized housing to ensure both neighborhood stability and income diversity into the future.

. . . we found that both market-rate and subsidized housing development can reduce displacement pressures, but subsidized housing is twice as effective as market-rate development at the regional level.

We begin this research brief by describing why the filtering process, the phenomenon in which older market-rate housing becomes more affordable as new units are added to the market, may fall short of producing affordable housing. We next revisit the question of the impact of market-rate development, looking also at the role of subsidized housing development, in mitigating displacement. After an examination of the impact of housing production on displacement over the short- and long-term, we look at why adding to housing supply in a region might not reduce housing market pressures in all neighborhoods. We conclude by suggesting next steps for research.

Filtering Is Not Enough

Using our data, the LAO report concluded that the most important solution to the housing crisis in California's coastal communities is to build more market-rate housing. The report found that new market-rate construction reduced displacement of low-income households across the region. After outlining the challenges and limited funding for subsidized units, the report argued that filtering, or the phenomenon in which older market-rate housing becomes more affordable as new units are added to the market, was the most effective way to exit the affordable-housing crisis. The report neglects the many challenges of using market-rate housing development as the main mechanism for providing housing for low-income households, in particular the timing and quality of the "filtered" housing stock.[2] The filtering process can take generations, meaning that units may not filter at a rate that meets needs at the market's peak, and the property may deteriorate too much to be habitable. Further, in many strong-market cities, changes in housing preferences have increased the desirability of older, architecturally significant property, essentially disrupting the filtering process.

Although our data is not tailored to answer questions about the speed of filtering, other researchers[3] have found that on average across the United States, rental units become occupied by lower-income households at a rate of approximately 2.2% per year. Yet in strong housing markets such as California and New England the rate is much lower and researchers find that filtering rates have an inverse relationship with housing price inflation; in other words, places that have rapidly rising housing prices have slower filtering rates.[4] Using the estimates of Rosenthal (2014) and an annual appreciation rate

of 3.3% over the last 20 years, the pace at which units filter down to lower-income households for the Bay Area's rental market is estimated at roughly 1.5% per year. Yet, Rosenthal finds that rents decline by only 0.3% per year, indicating that units become occupied by lower-income households at a faster rate than rents are falling, which could result in heightened housing cost burden. Furthermore, if we were to assume that developers are building housing for people at the median income, then it would take approximately 15 years before those units filtered down to people at 80% of the median income and closer to 50 years for households earning 50% of the median income.[5] Again, however, this does not mean that such units are actually affordable to the low-income households occupying them.

We examined the relationship between market-rate housing construction, rents, and housing cost burden (Table 1). Initial results indicate a filtering effect for units produced in the 1990s on median rents in 2013. Yet market-rate development in the 2000s is associated with higher rents, which could be expected as areas with higher rents are more lucrative places for developers to build housing. Furthermore, development in both the 1990s and 2000s is positively associated with housing cost burden for low-income households. Thus, while filtering may eventually help lower rents decades later, these units may still not be affordable to low-income households.

Developing Subsidized Units Is Even More Protective

While numerous critiques of the LAO report have circulated,[6] we believe that the omission of subsidized housing production data from the analysis has the greatest potential to skew results.[7] We have reanalyzed the data on housing production, including that of subsidized housing, and show that the path to reducing displacement is more complex than to simply rely on market-rate development and filtering. Following, we present our analysis that replicates the LAO analysis with the addition of subsidized housing data.

To examine the relationship between market-rate housing construction, subsidized housing construction, and displacement of low-income households, we developed an econometric model that estimates the probability of a low-income Bay Area neighborhood experiencing displacement. We employ the same methodology as the LAO Report, using probit regression analysis to evaluate how various factors affect the likelihood of a census tract experiencing displacement between 2000 and 2013 (see the technical appendix for definitions).

Consistent with the LAO Report, we find that new market-rate units built from 2000 to 2013 significantly predict a reduction in the displacement indicator from 2000 to 2013 (Table 2, Model 1).[8] Higher shares of nonwhite population and higher housing density also produced significant reductions in displacement. Higher shares of housing built before 1950, college-educated population in 2000, and low-income population in 2000 increased the likelihood of the census tract experiencing displacement. These results are generally consistent with previous research: existing residents in neighborhoods with historic housing stock and college-educated populations are at higher risk of displacement.[9] We also find, however, that the production of subsidized units has a protective effect, which appears to be greater than the effect of the market-rate units (Model 2). This includes units built with low-income housing tax credits and other federal and state subsidies.[10] We find the effect of subsidized units in reducing the probability of displacement to be more than double the effect of market-rate units. In other words, for every one subsidized unit, we would need to produce two or more market-rate units to have the same reduction in displacement pressure.[11]

What we find largely supports the argument that building more housing, both market-rate and subsidized, will reduce displacement. However, we find that subsidized housing will have a much greater impact on reducing displacement than market-rate housing. We agree that market-rate development is important for many reasons, including reducing housing pressures at the regional scale and housing large segments of the population. However, our analysis strongly suggests that subsidized housing production is even more important when it comes to reducing displacement of low-income households.

ABOUT THE AUTHORS

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Table 1. The Impact of Development on Median Rent and Housing Cost Burden for Low-Income Households for the SF Bay Area Census Tracts (linear model)

	Median Rent (2009-2013)	Percent of Low Income Households that are Housing Cost Burdened (2009-2013)
% of housing units built pre-1950 in 2000	-202.52***	-0.04***
% of population nonwhite in 2000	47.28	0.08***
% of adult population with college degree in 2000	445.65***	0.03*
Housing density (pop/square mile) in 2000	2.6E-04	-1.6E-07
% of households with income below 80% of county median in 2000	-1185.37***	-0.05**
Number of new market-rate units built between 1990-2000	-0.05**	2.7E-05***
Number of new market-rate units built between 2000-2013	0.07***	2.6E-05***
Proximity to rail transit station (<1/2 mile) in 2000	60.30***	0.01
Intercept	1827.80***	0.56***
n	1569	1568
R^2	0.51	0.06

***<.01 **<.05 *<.10 significance level

Table 2. The Impact of Market-Rate and Subsidized Developments on Displacement Bay Area Tracts 2000-2013

	Model 1	Model 2
% of housing units built pre-1950 in 2000	0.612***	0.481***
% of population nonwhite in 2000	-0.956***	-0.943***
% of adult population with college degree in 2000	1.775***	1.824***
Housing density (pop/square mile) in 2000	-1.04E-05***	-1.01E-05***
% of households with income below 80% of county median in 2000	2.447***	3.054***
Number of new market-rate units built between 2000-2013	-0.002***	-0.002***
Number of subsidized units built between 2000-2013	--	-0.005***
Intercept	-1.576***	-1.709***
n	1569	1569
Pseudo R^2	0.1456	0.1693

***<.01 **<.05 *<.10 significance level

Table 3. The Impact of Market-Rate and Subsidized Developments on Displacement Bay Area Tracts 1990-2000 and 2000-2013

	Model 3	Model 4	Model 5
% of housing units built pre-1950 in 2000	0.614***	0.565***	0.446**
% of population nonwhite in 2000	-1.071***	-1.090***	-0.9555***
% of adult population with college degree in 2000	1.689***	1.700***	1.820***
Housing density (pop/square mile) in 2000	-5.95E-06*	-5.09E-06	-9.73E-06**
% of households with income below 80% of county median in 2000	2.251***	2.474***	3.105***
Number of new market-rate units built between 1990-2000	-3.25E-04**	-2.91E-04**	-6.85E-05
Number of subsidized units built between 1990-2000	--	-0.004***	-0.002*
Number of new market-rate units built between 2000-2013	--	--	-0.002***
Number of subsidized units built between 2000-2013	--	--	-0.005***
Intercept	-1.613***	-1.660***	-1.699***
n	1571	1571	1569
Pseudo R^2	0.108	0.118	0.171

***<.01 **<.05 *<.10 significance level

The Effectiveness of Market-Rate Production in Mitigating Displacement Diminishes over Time

The LAO Report used data that we posted to our website for housing production numbers that were built over the same time period as our data on the change in low-income households. Yet, since both housing production and household change are occurring in a 13-year period from 2000 to 2013, it is unclear which came first: conceivably, the change in households occurred before the development, rather than vice versa, however it is also feasible that developers prefer to build in neighborhoods experiencing a decline in low-income households. This creates the potential for errors in the model. To account for this, we correct the potential error in the LAO Report by adding housing production data that precede changes in low-income households, which we use as the proxy for displacement. In other words, instead of looking at the incidence of displacement in the same decade as housing production, we evaluate the impact of market-rate and subsidized housing built in one decade (e.g., 1990s) on what happens to residents in a subsequent decade (e.g., 2000s).

We find that market-rate housing built in the 1990s significantly reduces the incidence of displacement from 2000 to 2013 (Table 3, Model 3), confirming the findings of the LAO Report. Yet, once again, subsidized housing built in the previous decade has more than double the effect of market-rate development in that decade (Model 4). When looking at housing production in both the 1990s and 2000s (Model 5), subsidized housing continues to play a greater role in mitigating displacement in 2010s, while market development in the 1990s becomes insignificant. This suggests that there are factors dictating development in the 1990s that are related to development in the 2000s as well as displacement that are not included in the model, such as housing sales prices or school quality. An alternative interpretation of the disappearance of an effect for market-rate housing built in the 1990s is that market-rate housing in and of itself, or the filtering process, has no effect on displacement. Future research will need to further analyze these relationships as well as other factors that may improve the predictive power of the models.

Regardless of when construction happens relative to displacement—before or concurrently—our analysis shows that subsidized housing has double the impact of market-rate development. Further, the effectiveness of market-rate housing in mitigating displacement seems to diminish as more market-rate housing is built in a subsequent decade. More research would be necessary to understand this phenomenon, but this result suggests that over time, the con-

struction of market-rate housing may have a catalytic effect on a neighborhood, increasing its attractiveness to upper-income residents, rather than a protective effect of filtering.

Housing Production May Not Reduce Displacement Pressure in a Neighborhood

As Rick Jacobus explains,[12] because market mechanisms work differently at different geographic scales, market-rate construction can simultaneously alleviate housing pressures across the region while also exacerbating them at the neighborhood level. At the regional scale, the interaction of supply and demand determines prices; producing more market-rate housing will result in decreased housing prices and reduce displacement pressures. At the local, neighborhood scale, however, new luxury buildings could change the perception of a neighborhood and send signals to the market that such neighborhoods are desirable and safer for wealthier residents, resulting in new demand. Given the unmet demand for real estate in certain neighborhoods, new construction could simply induce more in-moving.[13] By extension, then, one would expect market-rate development to reduce displacement at the regional scale but increase it or have no or a negative impact at the local neighborhood scale.

Here we test this hypothesis. We do this by analyzing our regional data set at the tract level[14] and comparing the results to the block group level for San Francisco,[15] where we have our most accurate data on housing production. What we find largely confirms this regional versus local argument; there is some, albeit limited evidence that at the regional level market-rate housing production is associated with reductions in the probability of displacement (Model 5), but at the block group level in San Francisco it has an insignificant effect (Table 4, Models 6). Comparing the effect of market-rate and subsidized housing at this smaller geography, we find that neither the development of market-rate nor subsidized housing has a significant impact on displacement. This suggests that indeed in San Francisco, and by extension similar strong markets, the unmet need for housing is so severe that production alone cannot solve the displacement problem.

To illustrate this point, in Figure 1 we plot on the X-axis construction of new market-rate units in the 1990s and 2000s and on the Y-axis the change in the number of low-income households from 2000 to 2013 for both tracts in the entire region and block groups in San Francisco. Although at the regional level the relationship between market-rate development and change in low-income households appears linear, the same is not true for the block group level, where no clear pattern emerges.

Table 4. The Impact of Market-Rate and Subsidized Developments on Displacement, San Francisco Block Groups, 1990-2000 and 2000-2013

	Model 6
% of housing units built pre-1950 in 2000	1.017***
% of population nonwhite in 2000	-2.306***
% of adult population with college degree in 2000	-0.427
Housing density (pop/square mile) in 2000	-1.0E-05***
% of households with income below 80% of county median in 2000	3.038***
Number of new market-rate units built between 1990-1999	-0.002
Number of subsidized units built between 1990-1999	-0.004
Number of new market-rate units built between 2000-2013	4.2E-04
Number of subsidized units built between 2000-2013	-0.001
Intercept	-0.638
n	578
Pseudo R^2	0.113
***<.01 **<.05 *<.10 significance level	

Housing Production and Neighborhood Change in SOMA, SF

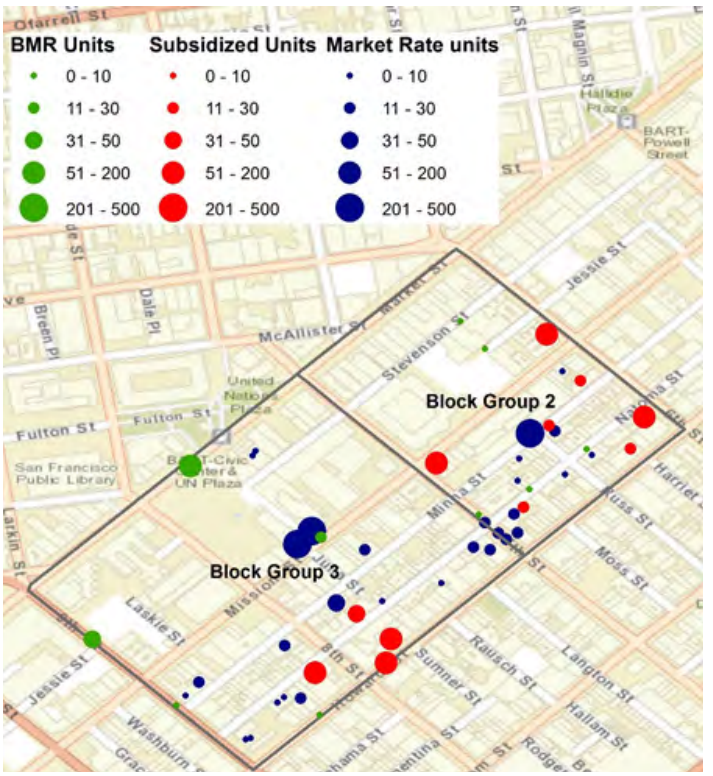
To better grasp the complicated relationship between housing development and displacement at the local block group level we selected two case study areas in San Francisco's South of Market Area (SOMA) that experienced high rates of development of both market-rate and subsidized units since the 1990s, but had divergent results when it came to changes in the income profile of their residents. We examined the dynamics of block groups 2 and 3 in Census Tract 176.01. Both witnessed among the highest levels of housing construction in San Francisco for both market-rate and subsidized units, yet from 2000 to 2013 our data show that Block Group 2 gained low-income households and Block Group 3 lost low-income households.

Block Group 2

At the heart of downtown San Francisco, this seven-block area is home to nearly 2,500 residents today, nearly doubling its population since 2000. In the 1990s, 127 market-rate units were added to the area, mostly in mid-sized

Figure 1. Housing Production (1990-2013 and Change in Low-Income Households (2000-2013)

Figure 2. Housing Developments from 1990-2013 in Two Block Groups of the SOMA Neighborhood, SF



buildings of about 30 units. During that same period, 108 subsidized units were added, including 72 units in a single room occupancy (SRO) hotel. Sales prices for condos dipped in the mid-1990s, but climbed back to nearly $400 per square foot by 1999 (in 2010 dollars, see Figure 3).

Development of market-rate units continued into the early 2000s, when the 258-unit SOMA Residences apartments were built at 1045 Mission Street in 2001. Three below-market-rate units were developed as part of the city's inclusionary housing program, but no other subsidized units were added. Sales prices increased in the area in the early 2000s, suffered from the housing crisis in the mid-2000s, but reached back up to prerecession values by 2013.

Yet the area did not witness a significant loss of low-income households during the 13-year period of 2000 to 2013, which may be in part related to the fact that nearly a thousand units in the area are in buildings regulated by rent control (nearly 60% of all rental units), which has remained relatively constant since 2000. Finally, this area is bordered by 6th Street to the east, San Francisco's "skid row," with high rates of crime and concentrated poverty which may be dampening the attractiveness of the neighborhood. When we incorporate crime rates into our model, they significant-

Figure 3. Median Condo Sales Price per Square Foot, 1991-2013 (Source: Dataquick 2014)

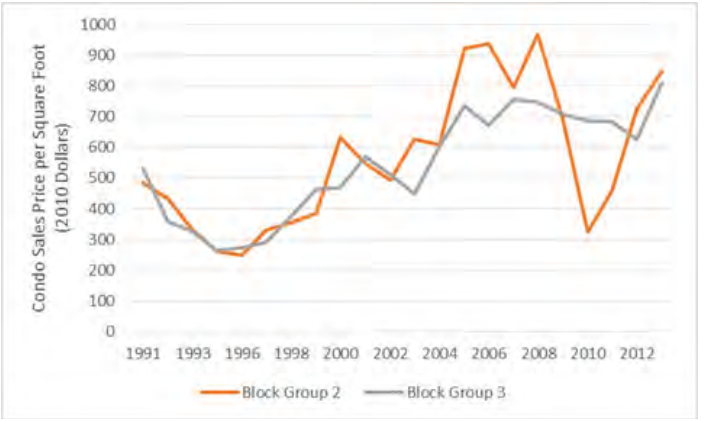


Figure 4. Canon Kip Community House Built in 1994 Houses Disabled Homeless Adults in 104 SRO Units

Figure 5. 440 Units Were Developed at Trinity Place, at 1188 Mission Street, in 2010

ly predict a reduction in displacement probability, even at the block group level, which housing production does not.

Block Group 3

Block Group 3 is an eight-block area centered to the north around the Civic Center BART station and home to over 2,100 people (Figure 2). The area gained 101 market-rate units and 104 subsidized units in the 1990s. This block group was the site of a 104-SRO-unit building for disabled homeless adults in 1994. The 101 market-rate units built in the 1990s were in smaller scale developments of 30 units or less. Development accelerated the following decade with 601 market-rate units and 315 subsidized and below-market units. In 2002, 48 units were developed at 675 Minna followed by 162 affordable units at 1188 Howard. In 2008, 244 luxury condos opened in the SOMA Grand at 1160 Mission and in 2010, following years of negotiation, the Trinity Management group opened 440 high-end furnished apartments at 1188 Mission as part of the Trinity Plaza development. The development was at the center of housing debates as it involved the demolition of 377 rent-controlled units. Ultimately the developer agreed to put 360 of its new 1,900 units under rent control.[16] In 2015, however, the management group was accused of renting out some of those rent-controlled units to tourists.[17] Overall the area lost approximately 40% of its rent-controlled housing stock since 2000 and today a little over half of the rental units are under rent control.

Despite the ongoing investments in subsidized housing in the neighborhood, the new high-end developments have contributed to the ongoing transformation of the neighborhood as characterized by the 2013 Yelp review by a SOMA Grand resident:

> I bought a place here in 2009 and absolutely love it. While the neighborhood might have a bit of grit to it there are so many great restaurants nearby, including the one right in the building. . . . This neighborhood is transforming fast too![18]

This, along with the loss of rent-controlled units, has resulted in a net loss over 150 low-income households (with median incomes between 50% and 80% of San Francisco median income) between 2000 and 2013. It is unclear, however, how much of that loss is due to the direct displacement from the Trinity development or from indirect displacement due to rising rents associated with local development or other factors affecting housing demand.

These two block groups illustrate the complex relationships between housing development and demographic change. While both neighborhoods have witnessed dramatic development in one of the fastest growing parts of San Francisco, and have similarly seen significant growth in housing prices, one may be classified as experiencing displacement of low-income households, while the other does not. The ambiguous effects of development at the local level carry over to affordability as well. In Table 5 we show the linear modeling results of housing development on median rent and housing cost burden for low-income households, finding that subsidized units built in the 2000s are associ-

Table 5. The Impact of Development on Median Rent and Housing Cost Burden for Low-Income Households for SF Block Groups (Linear Model)

	Median Rent (2009-2013)	Percent of Low Income Households that are Housing Cost Burdened (2009-2013)
% of housing units built pre-1950 in 2000	94.615	0.030
% of population nonwhite in 2000	-230.837	0.126
% of adult population with college degree in 2000	692.844**	0.113
Housing density (pop/square mile) in 2000	-5.2E-04	9.5E-08
% of households with income below 80% of county median in 2000	-616.005***	-0.109*
Number of new market-rate units built between 1990-2000	6.0E-01	-3.5E-05
Number of subsidized units built between 1990-2000	1.0E+00	2.6E-05
Number of new market-rate units built between 2000-2013	3.4E-02	1.5E-04*
Number of subsidized units built between 2000-2013	-9.1E-01**	-3.6E-04*
Intercept	1526.485***	0.590***
n	578	563
R^2	0.250	0.020

***<.01 **<.05 *<.10 significance level

ated with a decline in median rent and housing cost burden, whereas market-rate developments are associated with greater housing cost burden. Development of subsidized and market-rate units in the 1990s appears to have no significant impact on affordability in the subsequent decade at the block group level. As discussed above, housing affordability and displacement may be related to other neighborhood and regional factors, such as employment dynamics and neighborhood amenities that were not included in the models. Additional research will be needed with higher-resolution housing data along with other information about neighborhood amenities to better understand the dynamics and impact of housing production at the local scale.

Conclusions

There is no denying the desperate need for housing in California's coastal communities and similar housing markets around the U.S. Yet, while places like the Bay Area are suffering from ballooning housing prices that are affecting people at all income levels, the development of market-rate housing may not be the most effective tool to prevent the displacement of low-income residents from their neighborhoods, nor to increase affordability at the neighborhood scale.

Through our analysis, we found that both market-rate and subsidized housing development can reduce displacement pressures, but subsidized housing is twice as effective as market-rate development at the regional level. It is unclear, however, if subsidized housing production can have a protective effect on the neighborhood even for those not fortunate enough to live in the subsidized units themselves.

By looking at data from the region and drilling down to local case studies, we also see that the housing market dynamics and their impact on displacement operate differently at these different scales. Further research and more detailed data would be needed to better understand the mechanisms via which housing production affects neighborhood affordability and displacement pressures. We know that other neighborhood amenities such as parks, schools, and transit have a significant impact on housing demand and neighborhood change[19] and it will take additional research to better untangle the various processes at the local level.

In overheated markets like San Francisco, addressing the displacement crisis will require aggressive preservation strategies in addition to the development of subsidized and

market-rate housing, as building alone won't protect specific vulnerable neighborhoods and households. This does not mean that we should not continue and even accelerate building. However, to help stabilize existing communities we need to look beyond housing development alone to strategies that protect tenants and help them stay in their homes.

Technical Appendix

Data

We use the same dataset released on our website urbandisplacement.org as used in the LAO report. We add data on the production of subsidized units using data from the California Housing Partnership Corporation that compiled information from federal LIHTC and HUD subsidies, as well as California state subsidies.[20] We supplement this data with information for San Francisco on parcel level housing data and information on units produced under their Below Market-Rate (inclusionary housing) program.

Defining Displacement

For the purposes of comparison, we use the same definition of displacement as the LAO report. They defined a census tract as having experienced displacement if (1) its overall population increased and its population of low-income households decreased, or (2) its overall population decreased and the rate of low-income households declined at a faster rate than the overall population decline. The time period for change in low-income households is 2000 to 2013. We apply the same methodology for San Francisco block groups.

It's important to note the limitations of this data in proxying for displacement, as it is feasible that the change in low-income households is a result not only of people moving out and in, but also income mobility of households moving down and becoming low income or up and becoming higher income. From our analysis of data from the Panel Study on Income Dynamics we estimate that there would have been a net increase in low-income households in most places from 2000 to 2013 likely due to the Great Recession; therefore, our estimates of displacement are likely an underestimate. Ideally we would be able to more accurately proxy for displacement by using a measure of out-migration of low-income households from a tract. Future research is needed accessing mobility datasets to better capture the displacement phenomenon for the Bay Area.

Sensitivity Analysis

In their response to the LAO Report, Alex Karner and Chris Benner argued that the LAO results may be due to lumping together the major cities and low-density suburbs into the same analysis.[21] Although the inclusion of density should account for such differences, there may be additional impacts from centrality of location. When we control for location in the three major cities (San Francisco, Oakland, and San Jose), the effect of market-rate housing remains, but so too does the magnitude of the effect of subsidized housing[22] (Table 6, City Controls Model). In other words, all locations being equal, subsidized housing still has a greater impact.

It has also been suggested that the results may be driven by neighborhood distress during the foreclosure crisis where greater evictions occurred or fewer market rate units were developed. To test this hypothesis, we controlled for foreclosure rates between 2006 and 2013, finding the results to be robust (Table 6, Distressed Tracts Model).

Finally, the categorical indicator developed by the LAO could feasibly be labeling neighborhoods as experiencing displacement that are in fact a result of other issues of decline such as high rates of foreclosures. We originally attempted to control for this by excluding tracts that had experienced overall population decline, however it is feasible that gentrifying neighborhoods that witness a shift from family to smaller households could also experience population decline. For this reason, we deemed the LAO definition of displacement acceptable for the purposes of this analysis. Nevertheless, we also ran a set of tests using a modified indicator that only counted tracts that grew from 2000-2013 as potentially experiencing displacement and also ran linear regression models on the change of low income households. When we did this, the direction and implications of the results remained the same.

Notes

1. Brian Uhler, "Perspectives on Helping Low-Income Californians Afford Housing," LAO Brief (Legislative Analyst's Office, February 9, 2016). Data available at <urbandisplacement.org>.

2. Michael Smith-Heimer, "The Potential for Filtering as Public Policy," *Berkeley Planning Journal* 5, no. 1 (1990): 94–104.

3. Stuart S. Rosenthal, "Are Private Markets and Filtering a Viable Source of Low-Income Housing? Estimates from a 'Repeat Income' Model †," *American Economic Review* 104, no. 2 (February 2014): 687–706, doi:10.1257/aer.104.2.687.

4. For rentals, Rosenthal estimates that filtering rate = -0.0237 + 0.2522 x housing price appreciation.

5. Allowing for annual compounding effects assuming a constant annual filtering rate of 1.5%, the amount a unit would filter down in X years is calculated as (1-0.015) X.

6. See Emily Badger, "How to Make Expensive Cities Affordable for Everyone Again," *Washington Post* (February 19, 2016). Accessed at <https://www.washingtonpost.com/news/wonk/wp/2016/02/19/how-to-make-expensive-cities-affordable-for-everyone-again/>.

7. This is perhaps unsurprising, since we did not publish this data online.

8. Note the coefficients of Model 1 do not match identically those of Figure A1 in the LAO report. The year of the independent variables used for the LAO model were not indicated. We tried

Table 6. Sensitivity Analysis of Regional Displacement Model		
	City Controls Model	Distressed Tracts Model
% of housing units built pre-1950 in 2000	0.517**	0.517**
% of population nonwhite in 2000	-0.887***	-0.880***
% of adult population with college degree in 2000	1.840***	1.817***
Housing density (pop/square mile) in 2000	-8.82E-06**	-8.87E-06**
% of households with income below 80% of county median in 2000	3.005***	2.992***
Number of new market-rate units built between 2000-2013	-0.002***	-0.002***
Number of subsidized units built between 2000-2013	-0.005***	-0.005***
San Francisco control	-0.102	-0.104
San Jose control	-0.121	-0.124
Oakland control	-0.067	-0.067
Foreclosure rate, 2006-2013		-0.262
Intercept	-1.715***	-1.697***
n	1569	1569
Pseudo R^2	0.172	0.172
***<.01 **<.05 *<.10 significance level		

both variables for 2000 and 2013, but were unable to replicate the coefficients identically. Nevertheless, the coefficient for market rate housing production is very similar to that produced in the LAO model and the other variables have similar results in scale, directionality, and significance.

9. Lance Freeman, "Displacement or Succession? Residential Mobility in Gentrifying Neighborhoods," *Urban Affairs Review* 40, no. 4 (March 2005): 463–91.

10. We do not analyze units developed with local funding only (e.g., Redevelopment money or through inclusionary zoning) due to lack of availability for the entire region

11. These relationships were robust for several other measures of displacement we tested including the absolute change in low-income households.

12. Rick Jacobus, "Why We Must Build," *Shelterforce*, March 9, 2016, <http://www.shelterforce.org/article/4408/why_we_must_build/>.

13. Karen Chapple and Mitchell Crispell, "Mission Accomplished? Revisiting the Solutions," November 9, 2015, <http://www.urbandisplacement.org/blog/mission-accomplished-revisiting-solutions>.

14. On average in the Bay Area tracts have 1,656 households (min=15, max=6474) and 4,593 people (min 39, max 13,855).

15. On average in SF block groups have 603 households (min-41, max=4,082) and 1,434 people (min=45, max=8,621).

16. Randy Shaw, "Historic Trinity Plaza Deal Finalized," *Beyond Chron*, June 9, 2005.

17. Laura Dudnick, "Trinity Place Developer Accused of Illegally Leasing Apartments," *San Francisco Examiner*, August 6, 2015.

18. "SOMA Grand Residential Condos - SoMa - San Francisco, CA," Yelp, accessed May 2, 2016, <http://www.yelp.com/biz/soma-grand-residential-condos-san-francisco>.

19. Miriam Zuk et al., "Gentrification, Displacement, and the Role of Public Investment: A Literature Review," Working Paper (Federal Reserve Bank of San Francisco, August 24, 2015), <http://www.frbsf.org/community-development/publications/working-papers/2015/august/gentrification-displacement-role-of-public-investment/>.

20. <http://chpc.net/advocacy-research/preservation/preservation-database/>.

21. Cities that produce a lot of market-rate housing and experience high displacement pressures with places in the suburbs and urban fringe where there has been a lot of construction but little displacement pressure.

22. The same is true if we restrict our analysis only to census tracts with above average density. The effect is also consistent when we control for tracts that gentrified in either decade (149 tracts).

Housing
Authority of the City of Alameda
701 Atlantic Avenue - Alameda, California 94501-2161 - Tel: (510) 747-4300 - Fax: (510)522-7848 - TDD: (510) 522-8467

Frequently Asked Questions

Rent Review, Rent Stabilization, and Limitations on Evictions (Ordinance 3148)

The FAQ has four sections. Please review the sections below:

A. General Questions
B. Rent Increase Questions
C. Offering a One-Year Lease Questions
D. Termination of Tenancy & Relocation Assistance Questions

A. General Questions

1. What is the recent history of the City concerning restrictions on rent increases and limiting the grounds for terminating tenancies?

   - In November 2015, the City Council adopted an Urgency Ordinance (Ordinance 3140) that imposed a moratorium on rent increases at or above 8% and established just cause requirements for evictions, later amended in December 2015 (Ordinance 3143). After deliberations at City Council meetings in the first quarter of 2016, the City Council adopted legislation effective March 31, 2016, (Ordinance 3148) imposing rent review for certain rental units, rent control for certain rental units and limitations on the grounds for terminating tenancies for all rental units. This legislation is effective until December 2019, unless the Council takes action otherwise.

2. The City of Alameda recently adopted an Ordinance (Ordinance 3148) concerning Rent Review, Rent Stabilization and Limitations on Evictions. Where can I read or obtain a copy of the Ordinance?

   - http://www.alamedarentprogram.org/s/Ordinance-3148.pdf

3. Who will administer this Ordinance?

   - The Housing Authority of the City of Alameda through an agreement with the City of Alameda.

4. What is the Rent Review Advisory Committee (RRAC)?

   - The Committee has five members who are Alameda residents. The members are volunteers, nominated by the Mayor and confirmed by City Council. Two members of the Committee are tenants, two members are landlords and one

member is a homeowner who is neither a tenant nor a landlord. Committee members are not on the Committee to advocate for either party. Instead, they serve as neutrals to mediate disputes about rent increases between tenants and landlords.

5. Are there required forms and where can I find them?
    - Yes. Forms can be found online: http://www.alamedarentprogram.org/forms/
6. Where do I file the required forms?
    - Email: rrac@alamedahsg.org
    - Mail: 701 Atlantic Ave. Alameda, CA 94501
    - Fax: (510) 522-7848
7. Is there a fee being charged to administer this Ordinance?
    - The fee has not yet been determined. The City is conducting a fee study to determine the amount of the fee. Once the study is completed, City staff will make a recommendation to the City Council who will determine the amount of the fee and who will pay the fee.
8. If a notice has been given for a rent increase or termination of tenancy before March 31, 2016, but the rent increase or termination of tenancy does not become effective until after March 31st, will the requirements of the moratorium ordinance (Ordinances 3140 and 3143) apply?
    - Yes.
9. What is a multi-family unit?
    - A building with two or more housing units. This still applies even if a property owner lives in one of the units.
10. Is a single-family residence with an in-law unit considered a multi-family unit? Does it matter if the unit is attached or not?
    - If the "in-law" unit is a City-approved second unit, whether detached or attached, it is considered part of the single-family residence. Contact the Program Administrator to determine whether the in-law unit is an approved second unit.
11. Does the Ordinance cover single-family homes or condominiums?
    - Yes. The Ordinance relating to termination of tenancies applies to single-family homes and condominiums.

- Owners of rented single-family homes and condominiums are required to follow the Ordinance concerning noticing tenants of a rent increase. The rent increase requirements are described in the Rent Increase section below. Please note, the RRAC's decision concerning a rent increase for a single-family home or a condominium is not binding on the parties.

12. Will this Ordinance apply to me if I am renting a room in a single-family home?

    - Usually no, but there are limited exceptions. Please ask the Program Administrator concerning the exceptions.

13. Are rent increases and termination of tenancies for Section 8 units governed by this Ordinance?

    - No. If, however, a tenant with a Housing Choice Voucher (sometimes known as a Section 8 voucher) moves out, the owner of that unit will be governed by the Ordinance. If you are or would like to become a Housing Choice Voucher landlord please contact the Housing Authority at 510-747-4322.

14. What is an "exempt" rental unit?

    - Exempt units include single-family homes, condominiums, and certain rental units for which a certificate of occupancy has been issued after February 1995. An exempt unit is exempt from a binding decision concerning rent increases, but is not exempt from the Ordinance concerning terminations of tenancies.

15. How can I find out if my unit is exempt or non-exempt?

    - Generally, if the unit is a single-family home, a condominium or the initial certificate of occupancy was issued for the unit after February 1995, the unit is considered exempt. If you are uncertain, contact the Program Administrator.

16. What do landlords need to tell prospective tenants about the Ordinance?

    - Prospective tenants must receive:
        1) a written notice that the unit is subject to the Ordinance;
        2) a copy of the Ordinance and adopted regulations; and
        3) a copy of any City informational materials

17. If a landlord is selling a rental unit, what information needs to be provided to the prospective buyer?

    - A prospective buyer must be informed of the Ordinance.

18. What is a fixed-term lease?

    - A lease that has no provision for the tenancy to continue after the termination date in the lease.

19. I am disabled and need a reasonable accommodation to attend the RRAC meeting. How can I request this?

    - You will need file a Reasonable Accommodation form. This form is available on the website http://www.alamedarentprogram.org/s/RRAC-Reschedule-for-Reasonable-Accommodation-2.pdf.

20. Where can I get legal advice concerning the Ordinance?

    - The Housing Authority does not provide legal advice. Landlords and tenants are responsible for seeking the advice of legal counsel on any matters or document related to the Ordinance.

    - Resources for legal advice can be found on the website.
      Tenants: http://www.alamedarentprogram.org/tenant-legal-services
      Landlords: http://www.alamedarentprogram.org/landlord-legal-services

B. Rent Increase Questions

1. What information concerning the Ordinance needs to be attached to the notice of a rent increase?

    - All notices of a rent increase must follow State law.

    - The Ordinance has text that must be attached to the notice of the rent increase.

      For a rent increase equal to or less than 5%, the text required is in Form RP-02.

      For a rent increase above 5%, the text required is in Form RP-03. Also, if the rent increase is above 5%, Form RP-03 must be filed with the Program Administrator. Filing instructions are on the form.

2. If a rent increase notice does not have the text of the Ordinance concerning notice, what are the consequences?

    - A rent increase notice that is in violation of the Ordinance is an invalid rent increase. A landlord may cure the violation by re-serving the tenant with a notice that complies with the Ordinance.

3. Can two rent increases be given in one year?

    - No. Only one rent increase may be given within a 12-month period.

4. If the current rent includes utilities, such as water, may the rent be changed so that it no longer includes the utility, but the tenant must pay separately for that utility?

    - Yes, but if there is an increase in the overall amount that the tenant must now pay for rent and utilities, this will generally be considered a rent increase.

5. Does a notice of a 5% rent increase need to be filed with the Program Administrator?

    - No. Only notices of a rent increase above 5% need to be filed with the Program Administrator.

6. Does a landlord have to file with the Program Administrator within a specific number of days for a rent increase above 5%?

    - Yes. The notice to the tenant of a rent increase above 5% must be filed with the Program Administrator within 15 calendar days of serving the tenant with the rent increase notice. The rent increase notice must be filed using Form RP-04 and must include Form RP-03.

7. What personal information is made public about the landlord and tenant when a form is submitted requesting a review of the rent increase by the RRAC?

    - Some personal information will be removed, such as phone numbers and email addresses. Names, unit address, and the history of rent increases may be available to the public through a Public Records Act request. The address of the unit will be placed on the public agenda for the RRAC meeting.

8. Does every rent increase trigger a RRAC meeting?

    - No. Only a rent increase above 5% triggers a mandatory review by the RRAC. If the landlord and the tenant come to an agreement concerning the rent increase prior to the meeting, then the review does not need to be conducted. If the rent increase is equal to or less than 5% then a tenant may request a review of the rent increase.

9. Are the RRAC meetings recorded?

    - Yes. Audio recordings and approved RRAC meeting minutes are available online: http://www.alamedahsg.org/comm_house_resources/hcd_rrac_archive.html

10. If the rent increase is above 5% and the tenant and landlord reach an agreement about the rent increase, when does the rent increase become effective?

    - The rent increase becomes effective based on the terms of the agreement between tenant and landlord. Form RP-05 must be filed with the Program Administrator.

11. Can a tenant and a landlord reach an agreement about a rent increase over 5% and avoid appearing at the RRAC meeting?

    - Yes, but if such agreement is reached, you must file Form RP-05 with the Program Administrator, not later than two business days before the date of the hearing before the RRAC.

12. Can a tenant request review by the RRAC if the rent increase is equal or less than 5%?

    - Yes, by filing Form RP-01 within 15 calendar days of receiving the rent increase notice.

13. When is the RRAC's decision about a rent increase binding?

    - The RRAC's decision is not binding if the unit is an exempt unit. (See Section "General Questions" No's 14 and 15 for the definition of an exempt unit). Also, if a rent increase is equal to or less than 5% and the tenant has requested the RRAC to review the rent increase, the Committee's decision is non-binding whether the unit is exempt or non-exempt.
    - The RRAC's decision will be binding on the parties if all apply: 1) the unit is non-exempt 2) the rent increase is above 5%; and 3) no petition is filed by the deadline for a Rent Dispute Hearing Officer to hear the rent increase.

14. Does a landlord need to attend the RRAC meeting?

    - For all units (exempt or non-exempt):
        - If the rent increase is equal to or less than 5%, a person with the authority to make decisions about the amount of rent increase must attend the RRAC meeting.
        - If the rent increase is above 5%, a person with an ownership interest must attend. If an entity owns the unit, a person with the lawful authority to bind the entity must attend.
        - In either case, the failure of the person with the authority to make decisions or, for rent increases above 5%, the person with an ownership interest, to attend will void the rent increase and prohibit the rent from being increased for one year.

15. When will the rent increase above 5% take effect?

- If the unit is non-exempt, regardless of the date stated on the rent increase notice, the rent increase does not become effective until
    - the tenant and landlord reach an agreement (either before the RRAC meeting or at the RRAC meeting) or
    - if a petition has been filed following the RRAC decision, 60 days after a decision is made by a Rent Dispute Hearing Officer, unless there is a court challenge to the Hearing Officer's decision.

  If the parties have not entered into an agreement and neither party files a petition following the RRAC decision to have a Rent Dispute Hearing Officer hear the rent increase, the rent increase as decided by the RRAC will go into effect the day after the expiration date to file the petition.
- If the unit is exempt, the rent increase will go into effect on the date stated in the rent increase notice. Even if the rent increase has already gone into effect, the landlord must still participate in the review process before the RRAC, including having a person with an ownership interest in the unit attend the meeting when the rent increase is above 5%. In this latter case, the rent increase will be voided if the person with the ownership interest fails to attend the meeting.

16. How are the Hearing Officers hired?

- The Hearing Officers will be hired through the City Attorney's Office based on their qualifications.

C. Offering a One-Year Lease Questions

1. When is it required to offer a one-year lease?

- For **existing** tenants, the offer of a one-year lease is a one-time only requirement.
    - For a tenant on a **lease**:
        - A landlord must offer a one-year lease to a tenant on a lease at the first rent increase on or after March 31, 2016. This lease offer must have terms materially the same as the terms in the current lease as to duration, housing services and household composition.
    - For a tenant on **month-to-month**:
        - A landlord must offer a one-year lease to a tenant on a month-to-month tenancy on the first rent increase on or after March 31, 2016.

- For a **prospective** tenant:
    - A landlord must always offer a prospective tenant a one-year lease option.

2. Does every rent increase require a landlord to offer a tenant a one-year lease?
    - No. For an existing tenant, a one-year lease must be offered only one time, in conjunction with the first rent increase given on or after March 31, 2016.
    - No. For a tenant that moves into the unit after March 31, 2016, the landlord must only offer a one-year lease for the initial lease.

D. Termination of Tenancies & Relocation Assistance Questions

1. What are the valid reasons for terminating a tenancy under the Ordinance?
    - A. Notice to Vacate for No Cause
    - B. Failure to pay rent
    - C. Breach of lease
    - D. Nuisance
    - E. Failure to give access
    - F. Owner move-in
    - G. Demolition
    - H. Capital Improvement Plan (substantial rehabilitation)
    - I. Withdrawal from the rental market
    - J. Compliance with a governmental order

2. What are the noticing requirements, other than those described by State law, for terminating a tenancy?
    - For any termination, the reason for the termination must be stated in the termination of tenancy notice, even if the reason is for "no cause".
    - If the tenancy is terminated for the reasons listed in the below bullet points, the termination notice, along with Form RP-06, must be filed with the Program Administrator within 7 calendar days after having served the notice to the tenant. For the termination reasons listed below, the termination notice served on the tenant must also state the relocation assistance offered to the tenant.
        - A. Notice to Vacate for No Cause
        - F. Owner move-in
        - G. Demolition
        - H. Capital Improvement Plan/substantial rehabilitation
        - I. Withdrawal from the rental market
        - J. Compliance with a governmental order

3. What is the amount of the relocation assistance to be provided to the tenant?

    - Relocation assistance is $1,500 (adjusted yearly based on the CPI) for moving expenses plus the payment of one month's rent for every year, or portion thereof, that the tenant has rented the unit (not to exceed four months). The amount of assistance is per household, not per tenant. Regarding relocation assistance for Capital Improvement Plans/substantial rehabilitation and Compliance with a governmental order, contact the Program Administrator as the requirements are different.

4. Who is eligible for relocation assistance?

    - Any tenant whose tenancy is terminated for Notice to Vacate for No Cause, Owner move-in, Demolition, Capital Improvement Plan/substantial rehabilitation, Withdrawal from the rental market, or Compliance with a government order. There is no minimum amount of time a tenant is required to have rented the unit in order to be eligible to receive relocation assistance.

5. May any part of the relocation assistance be traded for additional time in the unit?

    - Sometimes. No part of the $1,500 for moving expenses may be traded for additional time. A tenant may trade payment of one month's rent for every year (or portion thereof) that the tenant has rented the unit (up to four months) for additional time in the unit only for termination of tenancies based on a Notice to Vacate for No Cause, Demolition, and Withdrawal from the rental market.

      For example, if a tenant has rented a unit for three years, the tenant may remain in the unit an additional three months beyond the date when the tenant was to vacate but would the receive only the $1500 in moving expenses.

6. For relocation assistance, is it mandatory for a landlord to offer the time for money trade (discussed in Question #5) for terminations of tenancies based on a Notice to Vacate for No Cause, Demolition, and Withdrawal from the rental market?

    - Yes.

7. When are the relocation assistance payments due?

    - If the termination of tenancy qualifies for relocation assistance (see question #4), one-half of the payment is due when the tenant confirms in writing the date the tenant will vacate the unit. The other half of the payment is due when the tenant vacates the unit, but only if the tenant vacates the unit on the date the tenant indicated he/she would vacate.

8. Can the second half of the relocation payments be used to offset amounts due after the tenant vacates the unit (e.g. damage to the unit, unpaid rent etc.)?

    - No.

9. Does relocation assistance apply if the tenant is on a fixed-term lease and vacates the unit at the end of the lease?

    - If a tenant is on a fixed-term lease (please seek legal advice to confirm the lease is a fixed term lease), the tenant is not eligible for relocation assistance when the tenant vacates at the end of the lease.

10. Is there a limit to how much the rent can be increased when a tenancy is terminated?

    - Usually no. The only situation in which the rent for a new tenant is limited is if the tenancy were terminated for "no cause." In that case, the rent for a new tenant cannot be more than a 5% of the amount of rent imposed on the previous tenant.

11. If the tenancy is terminated because the owner (or the owner's qualified relative) moves into the unit:
    a) how soon does the owner (or the qualified relative) need to move-in?
    b) how long must the owner (or the qualified relative) live in the unit before the unit can be rented to a new tenant?

    - a) The owner (or the qualified relative) must move-in within 60 days from the date the tenant vacates the unit.

    - b) One year.

12. Does an owner move-in include the owner's children?

    Yes.

CITY OF EMERYVILLE

MEMORANDUM

DATE: April 21, 2015

TO: Sabrina Landreth, City Manager

FROM: Charles S. Bryant, Community Development Director

SUBJECT: Residential Tenant Protections and Services

RECOMMENDATION

Staff recommends that the City Council consider and provide direction to staff regarding options for increasing residential tenant protections and services.

BACKGROUND

Residential rents in Emeryville have been increasing for several years. Market rents in the East Bay have been rising in response to job growth in certain sectors. This economic growth puts increased pressure on the residential rental market in technology employment centers such as the Peninsula and San Francisco. As rents increase in those areas, spill over competition raises the rents in the East Bay, and particularly Emeryville, due to the proximity and ease of access to these job centers.

In the past, landlords have raised rents on vacant units to market levels while imposing lesser rent increases on existing tenants such that their rents remained somewhat below market rates. This was particularly true for owners of single units. However, anecdotal evidence suggests that more recently landlords of single units as well as institutional owners of larger buildings are raising the rents of their existing tenants to market rates. This has resulted in annual rent increases on some units of more than 30 percent compared to the previous year. These rent increases are displacing tenants, and those who remain may be paying over 30 percent of their income on housing costs, which is a measure of overpaying for housing according to the U.S. Department of Housing and Urban Development (HUD).

The table below summarizes data on listed rents for vacant units at major rental projects in Emeryville:

Average Monthly Rental Price by Unit Size, 2010-2013

Number of Bedrooms	2010	2011	2012	2013	Percent Increase 2010-2013	Avg. Annual Increase
Studio	$1,417	$1,655	$1,664	$1,804	26%	8.7%
1 bedroom	$1,774	$1,894	$1,953	$2,231	26%	8.7%
2 bedroom	$2,183	$2,489	$2,455	$2,869	31%	10.3%
3 bedroom	$3,057	$3,190	$3,153	$3,427	12%	4%

City of Emeryville Housing Element 2015-2023

A survey of 847 market rate units in six rental complexes in 2014 yielded the following average rents:

Average Monthly Rental Price in Six Rental Projects by Units Size 2014

Number of Bedrooms	2014	Percent Increase 2013-2014
Studio	$2,163	20%
1 bedroom	$2,479	11%
2 bedroom	$3,199	11%
3 bedroom	$4,079	19%

City of Emeryville Survey Data- Icon at Doyle, Icon at Park, Avenue 64, Artistry (formerly Archstone), Bridgecourt and Bay Street Apartments.

The above tables illustrate that rents increased steadily from 2010 to 2013 and have had a significant increase in the last year. Rents for designated below market rate (BMR) units are protected from these market trends, as BMR rents may only rise according to annual growth in area median incomes at the county level. The BMR designation is secured by an Affordability Agreement executed between the City and the project developer, and its successors and assigns, which is recorded on the property and typically runs for 35 to 55 years from initial development.

In response to these trends, as well as a rise in anecdotal reports of significant rent increases from the community, the City Council directed staff to evaluate tenant protections and services that are, or may be, made available to market rate renters in Emeryville.

DISCUSSION/ANALYSIS

Currently, the City of Emeryville does not have specific tenant protections except in the case of condominium conversions. Like all market rate residential renters, Emeryville tenants are covered by State of California tenant protections. Through a Cooperative Agreement with Alameda County, ECHO Fair Housing provides a variety of services

related to assistance with landlord/tenant issues for Emeryville residents and property owners. Information on State tenants' rights and landlord responsibilities and City of Emeryville Fair Housing Assistance can be found in Attachment 1.

State law does not preclude landlords from raising rents, nor does it prescribe limits for the magnitude of rent escalation. The only consideration in California Law is around noticing periods for rent increases. For example, when a landlord raises rents 10 percent or less during a 12 month period the landlord must provide 30 days' notice. If the increase is more than 10 percent, the landlord must give the tenant 60 days' notice of the rent increase.

In addition to the state laws governing rental housing, there are several forms of tenant protections that some jurisdictions in California provide. These include rent control, eviction protections, harassment protections and rent review. These are discussed below.

Rent Control

As a concept, rent control is a system where local jurisdictions restrict the amount and timing of rent increases. Some California cities have rent control (also known as rent adjustment or rent stabilization) ordinances that govern rent increases. Each community's ordinance is different, and vary widely in terms of purview and enforcement. Some of these ordinances specify procedures that a landlord must follow before increasing a tenant's rent. Some cities have boards that have the power to approve or deny increases in rent. Other cities' ordinances allow a certain percentage increase within each year.

Costa Hawkins Act and Potential for Rent Control in Emeryville

In 1995, the California Legislature passed, and the Governor signed, the Costa Hawkins Act ("Costa Hawkins"), which severely limits rent control in the state. Only those units that received a certificate of occupancy before February 1, 1995 can be covered by rent control. Later legislation further restricted rent control from applying to all single family and condominium units regardless of their occupancy dates. Later legislation created "vacancy decontrol" wherein a landlord can price a unit at market rate when the tenant moves out voluntarily or when the landlord terminates the tenancy for nonpayment of rent.

Cities in the East Bay that have adopted rent control ordinances are Berkeley, Hayward, and Oakland. Other cities in the Bay Area with rent control regulations include San Francisco, East Palo Alto, Los Gatos, and San Jose. The City of East Palo Alto established a new rent control ordinance in 2010 after their prior rent control ordinance enacted in 1988 was superseded by Costa Hawkins. A summary table of these rent control ordinances can be found in Attachment 2

Because much of the housing built before 1995 in Emeryville is either single family detached homes or condominiums, most of the housing units in the City would not be covered by rent control due to the restrictions of the Costa Hawkins Act.

The table below provides an analysis of residential structures in Emeryville that might be eligible for rent control. Please note that four of the projects (Emery Glen, Emery Villa Senior Housing, Archstone, and Triangle Court) have income restricted BMR units which are already regulated with regard to rent increases and therefore would not be subject to rent control regulations.

Pre-1995 Rental Housing In Emeryville		
BMR Units		
Emery Glen	1983	36
Emery Villa Senior Housing	1992	50
Artistry (Archstone)-BMR	1993	52
Triangle Court (BMR)	1994	20
Total rent restricted		***158***
Market Rate Units		
Hollis Street Project	1986	20
Hollis Street Complex	1980	40
Artistry (Archstone) - Market Rate	1993	209
Approximate 2 to 19 unit buildings		450
Maximum Market Rate Units eligible for rent control		***719***

Based on the above, there are approximately 700 units that would be subject to rent control if Emeryville were to institute a rent control ordinance, a little over 10% of the current housing stock. Aside from Artistry, this does not include any of the larger apartment projects such as Bridgecourt, the Courtyards at 65th, and the Metropolitan, all of which were built after 1995, nor would it be applicable to any of the new apartment units currently under construction or planned.

Implementation of Rent Control

Cities with rent control enforce the ordinance through activities such as hearing rent increase cases. In some jurisdictions (such as San Francisco, Oakland, and Berkeley) a rent board made of up tenant and landlord representatives handles this enforcement role. Representatives may be appointed, as in Oakland and San Francisco, or elected, as in Berkeley. Rent boards are typically supported by city staff, either through an existing city agency or a separate department. This city staff may provide other services, such a maintaining a rental unit registry or investigating violations of the rent ordinance prior to consideration by the rent board. Enforcement may also be administered directly by city staff, such as in Hayward where this function is handled by

the City Attorney's office. Enforcement authority varies from requiring a non-binding hearing for a rent increase to imposing permanent reductions or increases in rents.

Cities with rent ordinances generally charge fees to rental owners, and in some cases those fees can be passed on to tenants. Agencies use those fees to provide staff and legal services directly to tenants and landlords and to boards if they exist and to track rental units.

Eviction and Harassment Protection

In addition to rent control, some cities have eviction protections that allow landlords to evict tenants on a month-to-month lease only for "just cause." Long-term leases typically protect tenants from unfair eviction during the term of the lease in the provisions of the lease. Under these "just cause" eviction ordinances, the landlord must state and prove a valid reason for terminating a month-to-month tenancy. Each city's eviction ordinance specifies what would be considered a valid reason or "just cause", such as engaging in unlawful activities. Such eviction protections could be extended to any unit in the city, without regard to the limitations set forth by Costa Hawkins, although a city could also elect to limit these protections only to units covered by rent control.

In addition, some cities such as Oakland and Berkeley have harassment ordinances that make it illegal for the landlord to harass a tenant into moving out of a rent controlled unit.

In general, these policies provide little protection in the absence of rent control because a landlord can raise rents as a way of removing tenants, which is not prohibited by State law. As such, these functions are administered by rent board staff in most jurisdictions that have both rent boards and eviction and/or harassment protection ordinances.

Approaches to Rent Control

There are two general approaches to rent control – either to focus only on rent control or to include eviction and/or harassment protections in addition to rent control.

In the Bay Area, all of the cities with rent control have also chosen to include eviction and/or harassment protections in their rent control ordinances. With the exception of Hayward, all cities with rent control have also elected to have use rent boards to enforce their rent control ordinances.

Staff did not find any examples in the Bay Area of rent control that did not include eviction and/or harassment protections. However, it would be possible to establish an ordinance that was strictly focused on rent control. Such an ordinance would not address any tenant issues, such as evictions without "just cause".

Rent Review

Some cities have ordinances that do not control rent increases but provide appointed rent review boards for tenants whose rents have been increased and request mediation. Local cities with rent review boards include Fremont, Alameda and San Leandro. Unlike rent control, there are no restrictions as to which units would be subject to the purview of the rent review board. There is no fee for this program and they are typically funded by city general funds. Additional staffing is required to implement these ordinances, including administration for the board, managing any contracts, outreach, and tracking. In addition, staff provides annual reports on the program to governing bodies.

The City of San Leandro contracts with ECHO Fair Housing to administer their program while City staff manages the rent review board. The program is complaint driven but mandates landlords who raise the rents either $75 a month or more than 10 percent a month to give notice to the tenant of their right to file for a rent review by the board. In this model, the landlord is required to negotiate in good faith and to attend, or have a representative attend, the rent review board meeting. If the landlord and tenant cannot reach an agreement, the rent increase goes into effect. Most complaints are mediated by ECHO and settled before they reach the board. The program in Alameda is essentially the same as in San Leandro except that landlord attendance at the board meeting is voluntary. The Alameda program also is non-binding and any rent increase that is not voluntarily mediated goes into effect.

Tenant/Landlord Mediation

Most jurisdictions, including Emeryville, contract with a non-profit organization to act as a disinterested party who provides tenant/landlord mediation for disputes that may include rent increases. Emeryville is part of the Alameda County Urban County Consortium and the fair housing and tenant/landlord mediation contractor is currently ECHO Fair Housing. In general, ECHO mediates one to two tenant/landlord disputes a year for Emeryville residents. Some cities supplement the fair housing funds with additional funds for tenant/landlord mediation as well as additional outreach to tenants and landlords regarding their rights and obligations.

FISCAL IMPACT

Any local rent protections for Emeryville residents would require funding that is currently not appropriated. For more detail on costs, please see Attachment 3.

Some of the ongoing cost of rent control could be offset by charging a fee to owners of the units under rent control. However, given the small number of units that would be eligible for rent control, preliminary analysis shows that such a fee will not generate

adequate funding to cover administrative costs related to the program or administration of a rent board.

Estimated unfunded costs for tenant protections are as follows:

Rent Control Only	$184,000 - $291,000
Rent Control w/Eviction and Harassment Protection	$410,000 - $479,000
Rent Review Board	$110,000
Increased Outreach and Mediation Services	$10,000 - $15,000

If the Council directs staff to develop either rent control or a rent review board, staff estimates that costs to research, prepare and adopt such an ordinance, including consulting services, staff time, attorney time, and outreach costs, would range from $40,000 to $140,000.

A more detailed fiscal analysis will be completed once the City Council has provided direction as to which market rate tenant protections and services to pursue, if any.

LEGAL CONSIDERATIONS

As noted above, the Costa Hawkins Act and subsequent legislation severely limit rent control in the state. Rent control in Emeryville could only legally apply to units in multifamily housing occupied before February 1, 1995. It would not have jurisdiction over single family homes or condominium units, regardless of when those units were first occupied. Due to the Costa Hawkins Act, rent review ordinances covering non-rent controlled units do not have binding authority on rent increases.

ADVISORY BODY RECOMMENDATION

At its meeting on October 1, 2014, the Housing Committee approved a motion recommending that the City contract with a landlord/tenant mediation provider to work directly with Emeryville tenants facing rent increases and to look further into a rent mediation board such as those in the cities of San Leandro and Alameda.

NEXT STEPS

Staff requests that the City Council consider and give direction on the following options, and any of the other measures discussed above that the Council deems appropriate:

- Increasing funding to the landlord/tenant mediation contractor and adding evening hours in which Emeryville tenants and landlords can meet with mediators in Emeryville, if needed.

- Developing a rent review ordinance that covers all Emeryville tenants and encourages voluntary negotiations between landlords and tenants related to rent increases. The ordinance may include protections related to tenant harassment, and could provide for a rent review board.

- Hiring a consultant to analyze the issues related to the development of a rent control ordinance for those units that are legally eligible for rent control. The ordinance could also include protections related to eviction control and/or tenant harassment.

PREPARED BY: Catherine Firpo, Housing Coordinator
Community Development Department

REVIEWED BY: Michelle De Guzman, Acting Manager
Economic Development and Housing Division

APPROVED AND FORWARDED TO THE EMERYVILLE CITY COUNCIL

Sabrina Landreth
City Manager

Attachment 1: Tenant Rights and Landlord Responsibilities, and City of Emeryville Resources.
Attachment 2: Summary of Existing Bay Area Rent Control Ordinances
Attachment 3: Tenant Protection Cost and Revenue Estimates

Attachment 1

Tenant's Right and Landlord Responsibilities in the City of Emeryville are covered by State of California law.

Fair Housing issues are covered by State of California and Federal laws.

Tenant's Rights and Landlord Responsibilities

State laws regarding rental units have changed in recent years and many landlords and tenants are unaware of these changes. Details on tenant's rights and landlord responsibilities can be found on the State of California Department of Consumer Affairs website: http://www.dca.ca.gov/publications/landlordbook/living-in.shtml

The website covers the following issues:

- Renter responsibilities
- Paying rent on time
- What should be and cannot be included in a rental agreement
- Rent increases
- When a landlord can enter a unit
- Security Deposits
- Inventory checklist
- Renters insurance
- Subleases
- Repairs and Habitability
- Evictions
- Reasonable Accommodations

Assistance with Tenant's Rights and Landlord Responsibility Issues in the City of Emeryville can be found by contacting **ECHO Fair Housing**. ECHO's Tenant/Landlord Counseling Program provides information to tenants and on their housing rights and responsibilities. Additionally, ECHO has trained mediators to assist in resolving housing disputes through conciliation and mediation. The primary objective of the program is to build awareness of housing laws and prevent homelessness.

Tenant Landlord Fair Housing.

Assistance regarding Fair Housing Issues in the City of Emeryville can be found by contacting **ECHO Fair Housing**. ECHO's Fair Housing Counseling Program conducts site investigations and enforcement in response to reports of housing discrimination

complaints, performs audit-based investigations to determine degrees of housing discrimination existing in designated areas, and provides fair housing education for members of the housing industry including managers, owners, realtors

Protected classes under Fair Housing law include:

- Age
- Ancestry
- Color
- Familial status
- Gender
- Marital status
- Mental and physical disability
- National origin
- Race
- Religion
- Sexual orientation and gender identity
- Source of income and arbitrary discrimination.

ECHO Housing
1350 Franklin St., Suite 305
Oakland, CA 94612
Phone: (510) **496-0496**
http://echofairhousing.org/home.html

Additional Legal Housing Assistance can be found at **East Bay Community Law Center**

The primary work of the Housing Practice includes defending low income tenants who are being evicted, representing tenants in housing subsidy termination proceedings, and engaging in strategic affirmative litigation aimed at forcing landlords to maintain their rental properties in a habitable condition. In addition to direct representation of tenants, Staff attorneys, volunteer attorneys, and law students staff more than 100 educational workshops for low-income tenants each year. The Housing Practice also provides legal advice and assistance to self-represented litigants in eviction proceedings.

East Bay Community Law Center
3310 Shattuck Ave.
Berkeley, CA 94705
Phone: (510) 548-4040
http://www.ebclc.org/practice-groups.php#housing

Attachment 2
Summary of Rent Control Ordinances - Bay Area

	# of Rent Controlled Units	Major Elements of Rent Ordinance	Year Rent Control First Adopted	Enforcement	City Department
Berkeley	27,000	AGA, EP, HP, RR, AB, PT	1980	Rent Board - Elected	Rent Stabilization Board
Oakland	79,000	AGA, EP, HP, RR, AB, PT	1980	Rent Board - Appointed	Rent Adjustment Program, Housing & Community Development
Hayward	8,920	AGA, EP, AB, PT	1983	Rent Review Office	City Attorney
San Francisco	170,000	AGA, EP, HP, RR, AB, PT	1979	Rent Board - Appointed	Residential Rent Stabilization and Arbitration Board
Los Gatos	3,000	AGA, AB, AB, PT	2004	No Board-Contracted Dispute Program	Community Development
East Palo Alto	2,325	AGA, EP, RR, AB	1988	Rent Board - Appointed	Rent Stabilization Department
San Jose	43,000	AGA, EP, AB, PT	1979	Housing and Community Development Commission	Rental Rights and Referral Program, Housing Department

Abbreviation	Element	Description
AGA	Annual General Adjustment	Rent Board, Staff or City council determine the annual percentage rent increase each year for tenants in regulated rental units.
EP	Eviction Protection	Evictions are only permitted for the specific reasons cited in the Ordinance. Evictions not meeting these requirements can be contested in any action to recover possession of a rental unit in court.
HP	Harassment protection	Protect tenants from harassment as a method to cause them to move from a rent controlled unit or unit subject to eviction protections
RR	Rent Registration	Requires all property owners with qualifying residential rental units to register their units and rents charged every year
AB	Adjustment Banking	Landlords may “bank” for future use an AA that is not used to raise rent in the program year for which it is authorized.
PT	Pass Through	Landlords may raise the rent beyond the annual maximum for costs such as maintenance expenses or debt services. Generally there is a maximum annual pass through but increases can be banked.

Attachment 3
Detailed Cost Estimates - Tenant Protection Programs

Possible Tenant Protections	Estimated Costs		
Rent Control			
Rent control with eviction and harassment protections, rental registration			
Rent Board	Staff Costs (4.25 fte)	$	442,000
	Supplies, Outreach, Consulting etc.	$	37,000
	Total Costs	*$*	*479,000*
	Revenue $190/rent control unit*, $30 per evicti		$232,000-$400,000
	Approximate Unfunded Costs		*$79,000-$247,000*
No Rent Board	Staff Costs (3.5fte)	$	378,000
	Supplies, Outreach, Consulting etc.	$	32,000
	Total Costs	*$*	*410,000*
	Revenue $190/rent control unit*, $30 per evicti		$232,000-$400,000
	Approximate Unfunded Costs		*$0 -$146,000*
Rent Contol Only			
Rent Board			
	Staff Costs (2.2 fte)	$	259,000
	Supplies, Outreach, Consulting etc.	$	32,000
	Total Costs	*$*	*291,000*
	Revenue $190 per rent control unit*	$	133,000
	Approximate Unfunded Costs	*$*	*158,000*
No Rent Board	Staff Costs (1.75 fte)	$	159,000
	Supplies, Outreach, Consulting etc.	$	25,000
	Total Costs	*$*	*184,000*
	Revenue $30 per rent control unit*	$	21,000
	Approximate Unfunded Costs	*$*	*163,000*
Rent Review Board			
	Staff Costs (.85 fte)	$	85,000
	Supplies, Outreach, Consulting etc.	$	25,000
	Total Costs	*$*	*110,000*
	Approximate Unfunded Costs	*$*	*110,000*
Tenant/Landlord Mediation Services			
	Staff Costs (existing staff)	$	-
	Supplies, Outreach, Consulting etc.		$10,000-15,000
	Total Costs		*$10,000-15,000*
	Approximate Unfunded Costs		*$10,000-15,000*
	** Estimated at 700 units*		
	*** Estimated at 4,000 units*		

Attachment 6

Dr. Ron Leone
Vice Mayor City of Concord
1950 Parkside Drive
Concord CA, 94519

June 22, 2016

Dear Vice Mayor Leone,

As a small business owner of rental property in the city of Concord, I received the public notice regarding the Educational Rental Housing Workshop, to be held on June 27 at 5:30 pm in the City Council Chambers and would like to respond.

First, I welcome the opportunity of the council members to host such a workshop in order to hear both sides of this emotionally charged issue before making any decision unilaterally without gathering all the data and evaluating the consequence both socially and economic which impact the city.
Moreover, I recognize as elected officials to the city council members have a dual responsibility to listen to the concerns & wants of its residents, yet balanced by the economic & social impact of decisions rendered by the city council in order to preserve the long term viability of our fair city.

That being said as a small business owner of a small muti-family unit on Carleton Drive, I am concerned when I hear the city council is considering enacting "Rent Control" measures which would have a negative financial impact on my ability to own and operate a small 4-unit complex. When I purchased the 4-Plex on Carleton Drive in 2004, my mission was to provide quality affordable housing to my tenants, while at the same time building a long term source of income for myself upon retirement. I didn't raise rents for over five years and even lowered my rents to help tenants when the economy suffered. I raise rents no more than 10% once a year. I am a good landlord by responding to my tenants needs quickly and am constantly making upgrades to the property to enhance its beauty and quality of life for my tenants. While there may be a smaller percentage of corporate entities which do not follow the same philosophy as myself, you will find that a majority of landlords in communities are small business owners like myself.

For over the past decade myself and other owners on the street like John De Sousa, David Mills, and Mike Moore, have worked diligently alongside Cindy Turlington, in the Neighborhood Preservation department to transform what used to be the slums and "dope track" of Concord into a viable and thriving community where teachers, engineers, financial analysist live and raise their families.

We have been able to achieve these results because free market pricing of supply and demand has allowed us to reinvest a percentage of profit from our business back into our properties to enhance and beautify the properties making them desirable places to live and raise a family. Rent Control measures would greatly hinder the survival of the small business owner by not keeping pace with annual increases in property taxes, hazard insurance, sewage & garbage, and labor cost for repairs.

Therefore, I have taken the liberty to gather for your benefit a collection of articles and economic impact studies by respected sources such as the Cato Institute, National Multifamily Housing Council, and St. John & Associates which discuss the effects of government price regulation known as Rent Control on the local community.

The evidence collected over decades is overwhelming showing that government enacted price controls on housing has a negative impact and results in hurting the low income, elderly and poor of which it is actually supposed to benefit. During the upcoming workshops no doubt representatives from the California Apartment Association and Tenants Together will express growing concerns of how evil

corporations raising rents on the poor making it difficult to find affordable housing and will point to neighboring cities such as Berkeley which have a long standing history of Rent Control and point to this city as a model of success to follow.

However, I encourage you to review the economic impact study by St. John & Associates, an independent Real Estate Consultant firm located in Berkeley CA, which published a study titled "The Distributional Impact of Restrictive Rent Control Programs in Berkeley and Santa Monica, California."

The results are quite striking. The long term impact of Rent Control has had a negative impact on the housing market of Berkeley and will have a similar effect on the City of Concord should the council move forward with enacting price controls on the rental market. Enacting Rent Control measures is not the answer, as you will read. The evidence is clear Rent Controls have had a long term negative impact on Berkeley both socially and financial and actually create housing shortages for affordable housing. That is why nationally in the past 10 years, cities across the country like Boston & Chicago have repealed Rent Control measures to create more favorable free markets which have resulted in significant increase in property values and city revenues resulting from higher property taxes.

If the city council passes Rent Control regulation, the city housing market will become unattractive to investors who by real property and generate real income in the form of higher property taxes. Current owners will less inclined, to improve and maintain properties resulting in a slow decline in the quality of residents choosing to pay for better living conditions resulting in a decline in the preservation of neighborhoods. Moreover, council members themselves are at risk since property owners are 2/3'rds more likely to vote compared to those who rent. Property owners have a real vested interest in issue that pay for schools, police & fire protection services, and community enhancement measures whereas renters do not.

Therefore, the solution is not to restrict markets with price controls which tend to displace lower income families, but rather pass measures that create economic incentives and favorable conditions which increase the supply of housing allowing the competitive law of supply and demand to establish fair market pricing for housing. One example of this is the council's work on developing the Concord Naval Station which will create a significant number of new dwellings for families. Another means is creating economic incentives for investors for re-zoning or renovation of existing properties which can be converted to multi-family housing.

In closing, I realize as a council member you want to help the residents of your city who voice concerns of the rising cost of housing when wages have not kept pace with inflation placing added burdens on families. You want to help these people, that's a normal emotional response and shows you empathetic and care. Nevertheless, the city council must also balance the concerns of its residents with their responsibility to preserve and protect the long term economic viability of our fair city. All of us together hold great pride and love for the city of Concord. It is my hope you will review all the data relating to this matter and make a wise and prudent decision that preserves both the social diversity and economic growth of the City of Concord.

Thank you for your consideration in this matter.

Respectfully,

Blaine R. Carter

Blaine R. Carter
3130 McKean Drive
Concord CA 94518
(925) 963-6168

Cc: Laura Hoffmeister
Edi E. Birson
Daniel Helix
Tim McGallian

Related
Topics
Rent Control

The High Cost of Rent Control

That rent control is an ineffective and often counterproductive housing policy is no longer open to serious question. The profound economic and social consequences of government intervention in the nation's housing markets have been documented in study after study, over the past twenty-five years. In response to this hard-earned experience, states and local jurisdictions from Massachusetts to California have banned or greatly constrained rent control. Nevertheless, a number of communities around the country continue to impose rent controls, usually with the stated goal of preserving affordable housing for low- and middle-income families. Rent control does not advance this important goal. To the contrary, in many communities rent control has actually reduced both the quality and quantity of available housing.

Role of Rents in a Market Economy

Too often, those who advocate rent regulation have ignored the basic laws of economics that govern the housing markets -- treating privately-owned, operated and developed rental housing as if it was a "public utility." In so doing, they harm not only housing providers, but also, in the long-run, the consumers they intend to serve.

Rents serve two functions essential to the efficient operation of housing markets:

- they compensate providers of existing housing units and developers of new units for the cost of providing shelter to consumers; and

- they provide the economic incentives needed to attract new investment in rental housing, as well as to maintain existing housing stock. In this respect, housing is no different from other commodities, such as food and clothing -- the amount producers supply is directly related to the prevailing market price.

This second function is particularly important in evaluating the economic implications of rent control. In an unregulated market, a housing shortage -- the reason usually cited for imposing rent control -- will be addressed in a two-step process. In the short-term, rents on the margin will rise as consumers compete for available units. Over time, these higher rents will encourage new investment in rental housing -- through new construction, rehabilitation, and conversion of buildings from nonresidential to residential use -- until the shortage of housing has been eliminated. *Without the increased rents required to attract new investment, new housing construction would be sharply limited and there would be no long-term solution to the housing shortage.* Conversely, a fall in rents sends the message to the market that there is no room for new investments.

When a community artificially restrains rents by adopting rent control, it sends the market what may be a false message. It tells builders not to make new investments and it tells current providers to reduce their investments in existing housing. Under such circumstances, *rent control has the perverse consequence of reducing, rather than expanding, the supply of housing in time of shortage.*

Three additional factors must be considered in the economic implications of rent control. First, the longer rent control remains in place, the more substantial the gap between controlled rents and true market rents is likely to be. Second, the costs of rent controls are not confined to the political boundaries of those communities that adopt them, but often impose significant costs throughout regional housing markets. Third, while the distortions induced by rent control depend on their stringency, any application of rent control leads to inequities and inefficiencies in the housing market.

Harm Caused by Rent Control

Economists are virtually unanimous in their condemnation of rent control. In a survey of economists of the American Economic Association, fully 93 percent agreed that "a ceiling on rents reduces the quality and quantity of housing available."[1] Economists generally point to six principal objections to rent control:

1. Inhibition of New Construction

By forcing rents below the market price, rent control reduces the profitability of rental housing, directing investment capital out of the rental market and into other more profitable markets. Construction declines and existing rental housing is converted to other uses.

Studies have shown, for example, that the total number of rental units in Cambridge and Brookline, Massachusetts, fell by 8 percent and 12 percent respectively in the 1980s, following imposition of stringent rent controls. Rental inventories in most nearby communities rose during that period.[2] Similarly, in California the total supply of rental units dropped 14 percent in Berkeley and 8 percent in Santa Monica between 1978 and 1990, even though the rental supply rose in most nearby cities.[3] And in the United Kingdom, which has imposed rent control since the Second World War, the share of all housing provided through privately owned rental units dropped from 53 percent in 1950 to less than 8 percent in 1986, reflecting the flight of investment from the regulated market.[4]

2. Deterioration of Existing Housing

By reducing the return on investments in rental housing, rent control also can lead to a drop in the quality and quantity of existing rental stock. This may take the form of condominium and cooperative conversions or, in some cases, abandonment of unprofitable property. It can also lead to a deterioration of the quality of housing stock as providers faced with declining revenues may be forced to substantially reduce maintenance and repair of existing housing.

A study by the Rand Corporation of Los Angeles' rent control law found that 63 percent of the benefit to consumers of lowered rents was offset by a loss in available housing due to deterioration and other forms of disinvestment.[5] Studies of rent control in New York and Boston similarly found marked differences between rent-controlled and other units in housing quality and the level of expenditures on maintenance and repair.[6]

3. Reduced Property Tax Revenues

Rent control also reduces the market value of controlled rental property, both in absolute terms and relative to the increase in property values in unregulated markets. The tax implications of this reduction can be significant, as taxable assessed rental property values decline relative to unregulated property. A study of rent control in New York City calculated the loss in taxable assessed property values attributable to rent control at approximately $4 billion in the late 1980s.[7] These distorted assessments cost the city an estimated $370 million annually in property tax revenues. The city of Berkeley, California, also estimates a significant loss in its tax revenue because of rent control.[8]

4. Substantial Administrative Costs

The administrative costs of rent control can be substantial, often outweighing any short-term benefits of rent regulation. Rent controls require the creation of elaborate bureaucratic systems. Rental property must be registered; detailed information on the rental property must be collected; and elaborate systems for determining rents and hearing complaints and appeals must be established. The associated costs in dollars and time fall not only on providers, but also on consumers and municipal authorities. For example, in Santa Monica, the Rent Control Board in 1996 had a budget of more than $4 million a year to control rents on only 28,000 apartments.[9]

5. Reduced Consumer Mobility

The primary beneficiaries of rent control are those consumers lucky enough to find themselves in a rent-controlled unit. But even these consumers pay a price. Consumer "mobility" is substantially reduced by the reluctance of many consumers to part with the rent control subsidy. A recent study in New York City found that rent control tripled the expected duration of residence.[10] Consumers who would otherwise move to smaller or larger homes or closer to their jobs do not do so because they do not want to lose the subsidy. This loss of mobility can be particularly costly to families whose job opportunities are geographically or otherwise limited and who may have to travel long distances to reach those jobs available to them. And for the community at large -- including nearby communities that have not themselves imposed rent control -- reduced consumer mobility can mean increased traffic congestion and demand for city services, among other costs. Because of these spillover effects, rent control is an issue for state and regional policy as well as for local governance.

6. Consumer Entry Costs

The short-term benefits of rent control also are limited by often significant entry costs that must be paid by those in search of rental housing. In many rent-controlled communities, prospective consumers must pay substantial finder's fees to obtain a rental unit, due to the scarcity of available housing. And in some communities, a "gray-market" in rental housing has developed in which units are passed among friends or family members, or new consumers may be required to pay "key money" or to make other payments to current consumers or providers to obtain housing. Poor families, single consumers, and young people entering the market are especially hard-hit by these costs.

Social Implications of Rent Control

In addition to the substantial economic costs associated with rent control, the decision whether to regulate rents raises difficult questions of social policy:

1. The Substantial Costs of Rent Control Fall Most Heavily on the Poor

The costs of rent control fall disproportionately on the poor. As described earlier, these costs include (a) an often substantial drop in the quality of existing rental housing, and (b) substantially reduced access to new housing.

Poor families suffer a marked decline in existing housing as the quality of existing housing falls in response to reduced maintenance expenditures. The middle class can move out; for many reasons, poorer families lack this option.

Poor families also are at substantial disadvantages when it comes to finding new housing. In a tight market, there may be more people looking for housing than available rental units, thereby giving housing providers substantial discretion in choosing among competing potential consumers. In an unregulated market, this consumer selection process will be governed by the level of rents. However, by restricting rent levels rent control causes housing providers to turn to other factors, such as income and credit history, to choose among competing consumers. These factors tend to bias the selection process against low income families, particularly female- headed, single-parent households.

2. Higher Income Households Benefit Most from Rent Controls

Rent control is most often justified as an anti-poverty strategy. Yet, there is strong evidence that higher income households -- not the poor -- are the principal beneficiaries of most rent control laws. For example, a study of rent control in New York City found that rent-controlled households with incomes greater than $75,000 received nearly twice the average subsidy of rent-controlled households with incomes below $10,000.[11] Another study concluded that rent control had the greatest effect on rents in Manhattan, the borough with the highest average income.[12] Similarly, a study of rent control in Berkeley and Santa Monica found that the beneficiaries of controls in those communities are "predominately white, well-educated, young professionally employed and affluent," and that rent control had substantially increased the disposable income of these tenants while "exacerbating" the problems of low-income families.[13] And in Cambridge, Massachusetts, residents of rent-controlled housing had higher incomes and higher status

occupations on average than other residents of the city, including homeowners.[14]

3. Rent Control Promotes Housing Discrimination
By eliminating rents as the basis of choosing among a pool of potential consumers, rent control opens the door to discrimination based on other factors. As noted earlier, rent control forces housing providers to look to income and credit history in choosing among competing consumers, factors which sharply bias the selection process against poor and young consumers. In some cases, consumer selection decisions also may be based on a potential consumer's race, sex, family size or other improper or unlawful factors. This may occur notwithstanding the rigorous enforcement of Fair Housing laws.

The reduction in housing caused by rent control also can slow the process of racial and economic integration of many communities, by limiting the opportunities of certain classes of consumers to reside in rent-controlled communities. In fact, in many middle class communities rent control has raised a relatively impenetrable barrier to economic and racial integration.

4. Rent Controls Unfairly Tax Rental Housing Providers and Other Real Estate Providers
Rent controls are designed to supplement consumer income at the expense of rental property providers -- by holding below market levels the permissible rate of return on rental property investment. There is substantial evidence that such transfers are highly inefficient. For example, one study concluded that housing consumers gained in benefits only 52 percent of what housing providers lost.[15] This is due, in part, to the tendency of consumers in rent-controlled units to "hoard" housing and to be over-housed, a tendency that further exacerbates the underlying housing shortage.

But more importantly, such income transfers pose fundamental questions of fairness. Why should the uniquely public burden of providing subsidized housing to the poor and middle class be borne solely by providers of rental housing? Given both the inefficiency and unfairness of the rent control "tax," we should rely on broader, more equitable means of subsidizing poor families.

The fairness issue, as well as many of the other arguments against rent control, apply to commercial real estate as well. Controls on rents of retail, office, or industrial space deter construction, diminish the quality of existing structures, and

unfairly transfer income from the property owner to the business occupying the rental space.

5. Effective Alternatives to Rent Control Exist

The answer to the problem of scarce housing and rising rents is increased housing supply -- not rent control-induced disinvestment. One way of stimulating the supply of affordable housing is through direct financial assistance to needy renters, whose increased purchasing power will lead to expansion of the quantity and quality of housing in the local market. This "demand-side" strategy is already in place through proven Federal and state programs. In addition, targeted programs to subsidize the construction or rehabilitation of affordable housing can be an effective complement to direct renter assistance. More generally, removal of inappropriate regulatory barriers to housing construction promotes housing affordability for both renters and home owners.

Conclusion

Economists have long considered rent control a failed housing policy. As Dr. Anthony Downs, a leading economist and nationally-recognized expert on housing policy, concluded in a recent report on rent controls, other than during wartime, the economic and social costs of rent control "almost always outweigh any perceived short-term benefits they provide."[16] He also found that rent controls are both "unfair to owners of rental units and damaging to some of the very low income renters they are supposed to protect." Given this fact, reliance on rent control as a solution to the problem of housing affordability cannot be justified.

Signatories

American Seniors Housing Association
California Apartment Association
California Housing Council
Community Housing Improvement Program
Institute of Real Estate Management
Manufactured Housing Institute
National Apartment Association
National Association of Home Builders
National Association of Realtors
National Multi Housing Council
Real Estate Board of New York
Rent Stabilization Association of New York City
Rental Housing Association, Greater Boston Real Estate Board

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Rent Control in Perspective - Impacts on Citizens and Housing in Berkeley and Santa Monica Twelve Years Later (August, 1993)

EXECUTIVE SUMMARY

This report describes a research project which used 1980 and 1990 Census data to examine the socioeconomic impacts of the rent control programs in effect in Berkeley and Santa Monica, California throughout the 1980s. The 1980-1990 Census decade coincides with the first decade of these two fundamentally similar programs, allowing meaningful analysis of the impacts of these cities' rent control programs on rental housing and on economically disadvantaged population subgroups.

Academic models which shed light on the potential effects of rent control programs are described in the report, and predictions are derived. In addition, a "progressive hypothesis" is articulated, describing the theories by which rent control has been justified to the electorate in Berkeley and Santa Monica. Relevant demographic and socioeconomic variables were examined for each subject city, for the surrounding counties, the surrounding SMSAs, for the State, and for ten comparably-sized northern California cities and ten comparably-sized cities in Southern California.

The study finds that these programs were associated with a reduction in the stock of rental housing of 14% in Berkeley and 8% in Santa Monica. In contrast, no comparison city lost rental housing. There were also, in Berkeley and Santa Monica, significant reductions in the numbers of persons and households in the subgroups targeted for assistance by their "progressive" housing policies: low income households, college students, elderly persons, families with children, and disabled persons. In contrast, the numbers and percentages of these groups grew during the 1980s in most of the comparison cities.

It is concluded that restrictive rent control programs create tight and shrinking rental housing markets in which the economically advantaged succeed more consistently than the economically disadvantaged in securing controlled housing and the subsidy that accompanies it. The evidence suggests that a public choice model characterizing rent control (along with growth control, down-zoning, "neighborhood preservation", and eviction control) as an exclusionary program promoting accelerated "gentrification" of host communities may be correct.

The report concludes that the "progressive hypothesis" - the theory holding that rent control will be effective in assisting the poor and in preserving socioeconomic diversity within a rent controlled community - is not correct. As it turns out, restrictive rent control programs like those in Berkeley and Santa Monica seem to have effects which are diametrically opposite to those predicted by the progressive hypothesis. Rent controls seem to reduce population diversity and exclude economically disadvantaged households from rent controlled communities.

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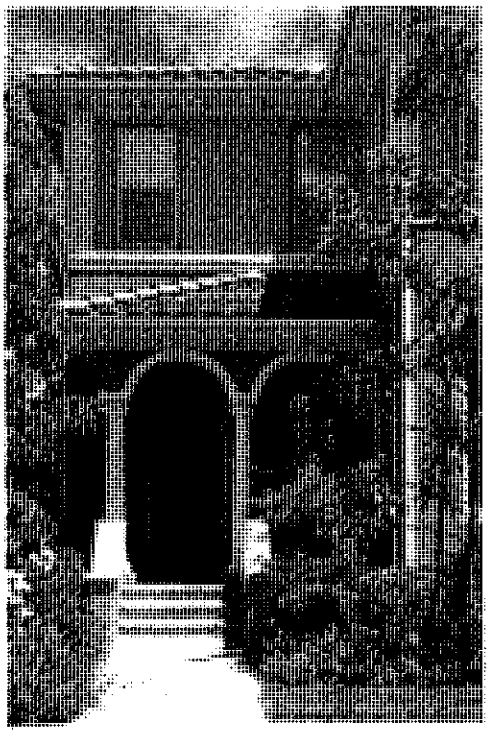

THE DISTRIBUTIONAL IMPACT OF RESTRICTIVE RENT CONTROL PROGRAMS IN BERKELEY AND SANTA MONICA, CALIFORNIA

A paper prepared for presentation at the
1993 Conference of the
Western Economic Association on June 23, 1993
at Lake Tahoe, California

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ABSTRACT

This paper reports on research using 1980 and 1990 Census data to examine the demographic impacts of the restrictive rent control programs in effect in Berkeley and Santa Monica, California throughout the 1980's. The 1980 - 1990 Census decade coincides with the first decade of these two fundamentally similar programs, allowing meaningful analysis of the effects of restrictive rent control (in combination with other "progressive" housing programs) on rental housing and vulnerable population subgroups. Relevant demographic variables are examined for each city, for the surrounding counties, the surrounding SMSAs, for the State, and for ten comparably-sized northern California cities and ten comparably-sized cities in Southern California. The study demonstrates that these programs were associated with a reduction in the stock of rental housing of more than 10% in Berkeley and Santa Monica over the decade. There were also major reductions in the numbers of some of the same subgroups targeted for assistance by "progressive" housing policies: low income households, college students, elderly persons, families with children, and disabled persons. Tight and shrinking housing markets seem to favor economically advantaged individuals and households. The evidence suggests that a public choice model characterizing rent control (along with growth control, down-zoning, "neighborhood preservation", eviction control, blight control, and other "progressive" housing programs) as an exclusionary program promoting accelerated "gentrification" of host communities may be correct.

1. INTRODUCTION

Until recently, the progressivity of rent control was accepted without question. It seemed obvious that renters, as a class, were relatively poor, that owners of rental property were at least relatively wealthy, and that a program redistributing income from property owners to renters would therefore benefit the poor. No one asked whether rent control might occasion a tradeoff between the availability of housing in rent control communities for needy and not-so-needy households.

The public choice and rent-seeking literature of the past two decades, however, has given economists and others good reason to question whether the intended impacts of economic regulation are in fact achieved.[1] The ability of free markets, including free political markets, to engulf regulatory programs within a larger dynamic and turn outcomes to unexpected ends is now well-recognized. The fact that articulated regulatory purposes may not express the covert intentions of the majority or of major interest groups has also been established in many contexts.

Guided by these perceptions, a study was performed to explore the socioeconomic and demographic impacts of the rent control programs found in Berkeley and Santa Monica, California over their first decade, using 1980 and 1990 Census data.

The findings are striking. The evidence seems to indicate that restrictive rent control programs, as they operate in practice, contain significant biases against the interests of many of the same groups formally targeted for assistance by the legislation: families with children, the elderly, college students, the disabled, and lower income households. The numbers of households in these groups, including households receiving public assistance, households with below-poverty incomes, blue collar workers, and less educated persons, **decreased** in these cities over the decade examined. The numbers of households with upper incomes, having professional and managerial employment, having better educations, and not receiving public assistance, on the other hand, **increased** in these cities over the same decade. These patterns contrasted sharply

with outcomes for similar-sized comparison cities in Northern and Southern California which have no rent control programs.

Theoretical understandings of restrictive rent control articulated by its progressive proponents and by academicians of several persuasions are set out in Section 2. Details of the study itself are discussed in Section 3. The results are set out in Section 4. The mechanics by which these impacts are carried out is discussed in the final section of this paper. Section 5 also explores the actual intent of the electorate in passing rent control legislation, and suggests that restrictive rent control programs may contain the seeds of their own destruction by causing a shift in the balance between owners and renters.

2. THEORETICAL EXPLANATIONS OF RENT CONTROL

Proponents of rent control, many of whom would term themselves "progressives", have stated that rent control is essential to the preservation of the ethnic, economic, and cultural diversity of certain communities.[2] The "progressive hypothesis" regarding rent control can be summarized as follows:

> Rising rents in tight housing markets threaten the ability of tenant members of certain subgroups to remain in the community. As rents rise, persons and households in these categories will be forced to leave the community and seek cheaper housing elsewhere and persons and households in these categories will be prevented by high and rising rents from moving to the community. These communities will then lose their ethnic, cultural, and economic diversity, becoming "gentrified". To prevent this outcome, rent control and associated controls on rental housing (demolition control, conversion control, code enforcement, blight control, eviction controls, and so forth) must be enacted.
>
> By enacting a rent control program which keeps rents in the subject community lower than rents in surrounding communities, assistance is granted to those whose ability to stay in the community would be threatened by higher rent: low income persons, minorities, disabled persons, elderly persons, students, and families (especially single-parent families) with children. Over time, the ethnic, income, racial, cultural, and family diversity of the community will be stabilized and standardization of the population and gentrification of the housing stock will

be prevented.

> By enacting the associated controls on the conversion, demolition, and demolition of housing, the existing stock of housing will be preserved and conditions will be made favorable for additions to the stock of housing.

Predictions derivable from academic explanations contrast sharply with the predictions of the progressive hypothesis. Four separate, non-competing theories can be identified from the academic literature: an economic model, a financial model, a public choice model, and a political model.

The economic model is based on the proposition that, without rent regulation, there exists a free market in rental housing, with many non-cooperating participants on each side of the market.[3] Tenants demand more housing (more units, higher quality units, more spacious units, and more associated services) when the price (rent) is lower, less when it is higher. Property owners supply more housing when the price (rent) is higher, less when the price is lower. Such markets find and maintain "equilibrium", a price-quantity balance such that owners supply and tenants use the quantity of housing that each prefers, given the price established by the market.

The economic model predicts that a government-enforced price ceiling significantly below the equilibrium price in such a market will induce tenants to demand more housing than they would at the equilibrium price. Simultaneously, owners will be willing to supply less housing than they would at the equilibrium price. The result will be an imbalance between the quantity supplied and the quantity demanded: a shortage of housing. Since the supply response is gradual, the actual shortage will become progressively more severe over time.

The financial model, best portrayed through spreadsheet analysis of building profitability, sets out the conditions under which investors will be willing to continue or expand the provision of rental housing services.[4] The financial model is based on the following assumptions:

> Rental property is owned and managed by individuals, corporations or partnerships who own one or few such properties.
>
> The purchase of rental properties is financed by lending institutions whose underwriting standards demand certain somewhat rigid relationships among relevant financial variables (gross rents, operating expenses, sale price, and loan amount) before loans can be approved.
>
> Rental property (for personal, tax, and other reasons) is typically held for 5 to 10 years, then sold to another investor.
>
> Individuals who invest in rental housing can and do make alternative investments when those investments promise a return higher than the return realized by ownership of rental housing.

The financial model concludes that if a rate of return comparable to rates of return on alternative investments is not achievable in rental housing, capital will be withdrawn, properties will be allowed to depreciate, values will fall, and rental properties will be withdrawn from the housing market or turned to other, more profitable uses. If a rent control program, therefore, lowers rents significantly below the rents that would obtain in a free market, there will be a loss of rental housing. If severely restrictive controls are allowed to remain in place long enough, the supply of rental housing will disappear altogether.[5]

The public choice model of rent control begins with the proposition that regulation is a service of government which, like any other service in a market economy, can be created or dissolved, or made more or less severe, in response to economic pressures.[6] Economic pressures in the market for government services are expressed, on the demand side, in votes, in lobbying activities, and in economic support for political candidates. Services provided by governments include (among more prosaic services like libraries and fire protection) income transfer services by which income or wealth is transferred from one segment of society to another.

Seen from this perspective, rent controls are the outcome of market preferences expressed on a political playing field. Government expresses in its actions the will, not necessarily of the

people as a whole or of the majority, but the will of those coalitions of individuals and interest groups with enough economic and political clout to achieve their private goals through public action. Majorities can most easily achieve their political purposes, but it is also possible for minorities with an intense interest in a particular outcome to achieve their ends through governmental action. Though typically cloaked in public interest rhetoric, government programs often serve private, not public interests.

The political model sees rent control as a program which politicians use to gain power. Rent control is often popular with voters because it promises major benefits to renters with no off-setting increase in property taxes. By promising major subsidy benefits to a large group of citizens, politicians can gain or keep political power. Since the property owning group bearing the cost of a rent control program is small relative to the size of the beneficiary group, the political cost of such a strategy is relatively low, the inevitable loss of support from property owners being far off-set by the gain of support from the much larger group of renters.

Progressive and academic theorists would agree that a distinction must be drawn between "restrictive" and "moderate" rent control programs. Restrictive rent control means rent control which controls rents continuously, across rentals. Moderate rent control programs control rents for one tenancy, but allow rents to move to market levels ("decontrol/recontrol") between tenants. Most moderate rent control programs also allow more generous year by year rent increases than do most restrictive programs. The theoretical predictions outlined above derive from consideration of restrictive, not moderate rent controls.

3. THE STUDY

The compilation and distribution of 1990 Census data in 1992 created an opportunity to study the socioeconomic effects of the rent control programs in operation in Berkeley and Santa Monica, California. These two fundamentally similar programs were introduced in 1979, just before the taking of the 1980 Census, and continued, without interruption or major change, into

the 1990s. The 1980 Census information therefore provides a "before" data set and the 1990 Census information an "after" data set for the first decade of restrictive rent controls in these two cities.

The severely restrictive rent control programs in operation in Berkeley and Santa Monica controlled all rents, but for a few categories of exemptions. Rents were controlled continuously, changes in tenant or property ownership notwithstanding. Annual increases were allowed for all owners, but these increases were designed to cover expense increases and therefore allowed no increase to account for the effect of inflation on net income. Individual increases were also allowed in some circumstances, but these were not sufficiently generous to raise rents significantly. Rents in Berkeley and Santa Monica increased during the 1980s by far less than rents in surrounding, free market communities. By 1990, controlled rents in Berkeley and Santa Monica had become close to the lowest in Northern and Southern California.

Berkeley stood out in 1980 as a city with a particularly high proportion of college students and of people having high education levels. Santa Monica stood out in 1980 as a city with a particularly high proportion of elderly persons. Otherwise, Berkeley and Santa Monica were not unlike the comparison cities on most variables examined. The claim that Berkeley and Santa Monica are demographically "unique" is not supported by the evidence.

The study consisted in the collection of parallel data from the 1980 and 1990 Census for a variety of economic and demographic variables for Berkeley and Santa Monica, for ten cities in the San Francisco Bay Area with populations similar to Berkeley's (100,000) and ten cities in Southern California with populations similar to Santa Monica's (75,000), and for the counties and Standard Metropolitan Statistical Areas (SMSAs) surrounding Berkeley and Santa Monica.[7] Patterns of change in these variables were then examined to see whether changes occurring over the decade in the rent control cities differed from changes occurring in the comparison cities or in the larger jurisdictions.

One of the comparison cities in the Bay Area, Hayward, also had a rent control program in effect during much of the 1980s. But Hayward's program differs strikingly from the programs in Berkeley and Santa Monica, having a "vacancy decontrol" provision under which apartments, once coming vacant, are permanently released from controls. By 1993, only one third of Hayward's apartment units were subject to rent controls. This type of rent control, termed "moderate" in the rent control literature, would not be expected to have the same effects as "restrictive" rent control programs such as those in Berkeley and Santa Monica.[8]

The methodology of the study can best be described as "heuristic". No complex econometric or statistical calculations were performed. The conclusions stand on the weight of the evidence, directly. As to statistical significance, much of the Census data is from the 100% sample and therefore is automatically significant. Other figures are from 8% samples. Since the numbers involved are in all cases large, even very small differences are statistically significant in the technical sense. But since the comparison cities were not selected randomly, valid technical questions can nevertheless be raised about the significance of the results. A follow-up study, involving, for example, all six restrictively rent controlled cities in California and a larger random sample of comparison cities, would reduce or eliminate the methodological uncertainty.

4. THE RESULTS

The study revealed that Berkeley and Santa Monica both lost rental housing over the first decade of rent control. Berkeley lost 3,941 units, 14% percent of its pre-existing rental housing stock; Santa Monica lost 2,443 units, or 8%. Meanwhile, no other comparison city lost any rental units. Most comparison cities added substantial numbers of rental units. The prediction of the economic and financial models that restrictive rent control will cause a loss of rental housing appears to be confirmed by the evidence.

Consistent with the loss of units, there were population losses among renters. The number of renters fell in Berkeley by 7,014, 14% of the 1980 renter population, and in Santa Monica by 6,422, or 10%, while the number of renters increased in comparison communities by 6% to 77%. The contrast between Berkeley and Santa Monica and the comparison communities is not simply a reflection of the growth of the comparison communities and the lack of growth in Berkeley and Santa Monica; the proportion of renters fell in both cities over the decade, although the proportion of renters is rising in most comparison communities.

Furthermore, the loss of renters was more severe than the loss of rental housing, reflecting density choices of renters themselves. Renters in Berkeley and Santa Monica by the end of the first rent control decade used space less intensively than they had before and less intensively than renters use space in the comparison communities. Renter density (persons per household) fell in Berkeley and Santa Monica by 1.9% and 5.8%, while renter density rose in the Bay Area SMSA and the Los Angeles-Long Beach SMSA by 8.3% and by 17.5%..

Also, and more significantly, losses in renter population were not distributed equally over all sub-groups. The numbers of less advantaged households diminished in number in Berkeley and Santa Monica, while the numbers of more economically advantaged households increased significantly in both cities, patterns not repeated in other communities, where proportions of less advantaged and more advantaged sub-groups remained roughly stable over the decade. Only in Berkeley and Santa Monica were less advantaged populations replaced by more advantaged populations.

The number of very low and low income households decreased in Berkeley by 2,229 and in Santa Monica by 882, whereas the number of very low and low income households increased in virtually every comparison community.[9] The percentage of low and very low income households decreased in Berkeley from 58% to 54% and in Santa Monica from 42% to 39%, while the percentage fell a half percent (from 39.6% to 39.2%) in Northern California and rose (from 35% to 40%) in Southern California. Meanwhile, the numbers of high and very high

income households increased in Berkeley by 1,309 and in Santa Monica by 2,451.[10] As a result, the median income in Berkeley and Santa Monica rose by more than the increase in median income in any of the comparison communities.[11]

There is no evidence that rent control is producing discrimination against racial or ethnic minorities: minority populations increased during the 1980s in Berkeley and Santa Monica much as they increased elsewhere in California. On the other hand, there is also no evidence that rent control favors racial or ethnic minorities, contrary to the assertions of the progressive hypothesis.

The number of college students renting in Berkeley fell by 748 between 1980 and 1990, a decline of 2.3%. This decline in the college student population contrasts sharply with increases in the numbers and percentages of college students in all comparison cities. Santa Monica experienced a small increase in the proportion of college students among renters, but this increase was far smaller than the increase in all but one of the comparison cities.

Supplemental data from the University of California Housing and Transportation Surveys for 1980 and 1990 reveal that the loss of college students was particularly high among students attending the University of California at Berkeley, a loss to some extent offset by a gain in the number of other college students living in Berkeley. These data indicated that there were 1,574 fewer U.C. Berkeley students living in Berkeley in 1990 than were living in Berkeley in 1980, a decline of 5%, despite a small increase (29,868 to 30,620) in the U.C. Berkeley student enrollment over the decade.

The Housing and Transportation Survey data also reveal that those U.C. Berkeley students who do live in Berkeley do not, in fact, receive the expected subsidy from rent control. First, only 52.2% of U.C. Berkeley students living in Berkeley live in rent controlled units, whereas 76% of all rental units are rent controlled. (Many U.C. students live as roomers or boarders in private homes, a living arrangement exempt from rent control.) Second, the average rent paid

by U.C. students living in Berkeley increased during the decade by 311%, far more than the increases allowed under rent control (76%). It appears likely that students are moving into uncontrolled housing, and that those students who do have controlled housing have fewer roommates than they had in 1980, raising the effective rent per student.

Berkeley's and Santa Monica's general plan housing elements say that rent control assists elderly persons. This does not appear to be the case, however. While the elderly population in California as a whole grew during the decade by nearly 30%, the elderly population of Berkeley increased by only 1%, and the elderly population of Santa Monica decreased by nearly 2%. In contrast, the elderly populations of the comparison cities increased in all cases, by amounts varying from 3% to 60%.

Disabled persons were able to find housing in Berkeley during the 1980's, but not in Santa Monica. Santa Monica had 19% fewer work-disabled persons in 1990 than in 1980, despite a decline of only 1% in Los Angeles County and an increase of 11% in California as a whole. In Berkeley, there was a 6% increase in the work-disabled population, the same as the increase in the Bay Area SMSA. Berkeley is the home of the Center for Independent Living and has pioneered in steps making the city "barrier-free". It seems that the negative impact of rent control on housing opportunities for disabled persons has been effectively offset by other programs favoring disabled persons. In Santa Monica, on the other hand, disabled persons have fared badly in the scramble to find scarce rental housing.

Female headed households with children under 18 declined in Berkeley by 24% and in Santa Monica by 27%. Meanwhile, the numbers of these households increased in the SMSAs and in California as a whole. Some of the comparison communities experienced a decrease in the number of female headed households with children, but no comparison community in Northern California had a decrease as large as the decrease in Berkeley and only one comparison community in Southern California had a decrease larger than the decrease in Santa Monica. It would appear to be the case that rental housing in Berkeley and Santa Monica has become

relatively unavailable to female headed households with children. It certainly is not true (as the housing elements promise) that Berkeley and Santa Monica are making their communities receptive to this category of household.

The progressive hypothesis identifies a major purpose of rent control as prevention of "gentrification" of the population. Taking education as an indicator of gentrification, Berkeley and Santa Monica added highly educated persons along with increases in education levels throughout California. But only in Berkeley and Santa Monica were there consistent, major decreases in the number of persons with high school and less than high school educations. Berkeley experienced a 28% decrease in its less well educated population and Santa Monica experienced a 27% decrease. Meanwhile there were increases in the numbers of less well educated persons in L.A. County, in California as a whole, and in most of the comparison communities.[12]

As to employment, Berkeley and Santa Monica in 1990 had more managerial and professional employees than they had in 1980, and fewer blue collar employees, although blue collar employment increased in both SMSAs and in the State as a whole. Berkeley experienced the third greatest loss of blue collar employees in the Bay Area; Santa Monica experienced the greatest loss of blue collar employees in the L.A. area. Berkeley and Santa Monica experienced far greater increases in the ratio of managerial/professional to blue collar employees than any of the comparison cities.

The number of poverty level households fell in Berkeley (-20%) and Santa Monica (-9%), while the number of households with below poverty income rose in L.A. County (+9%) and in California as a whole (+15%). Half of the comparison communities in Northern and Southern California also experienced a decrease in below poverty households, while the other half experienced an increase. The number of poverty level households decreased in the Bay Area by 5%.

The number of households receiving public assistance income fell in Berkeley (-13%) and Santa Monica (-20%), while the number of households receiving public assistance income rose in the Bay Area (+6%), the L.A. area (+5%), and in California as a whole (+18%). There were declines in the numbers of households receiving public assistance income in four out of ten Southern California comparison cities and in two out of ten Bay Area comparison cities. The declines in the six comparison cities that had declines were far smaller (-2% to -8%) than the declines in Berkeley and Santa Monica.

Meanwhile, the proportion of the local population earning twice the poverty level rose in Berkeley (+12%) and Santa Monica (+6), although it fell in L.A. County (-3%), rose by only 2% in the Bay Area, and didn't change in the State as a whole. Several of the comparison cities in Northern and Southern California experienced increases in the proportion of the population earning twice the poverty level, but none so great as in Berkeley and Santa Monica.

5. CONCLUSIONS

The results suggest that the rent control programs in effect in Berkeley and Santa Monica between 1980 and 1990 created conditions inhibiting housing opportunities for economically marginal or needy households while facilitating housing opportunities for advantaged households. Contrary to the intent stated prominently in their General Plan Housing Elements, Berkeley and Santa Monica are becoming more exclusive communities. It is clear that "gentrification" is occurring in Berkeley and Santa Monica, either because of or in spite of their rent control programs. The results tend to confirm the academic models and to deny the validity of the progressive hypothesis.

Establishing the motivation behind the enactment of rent controls, or to predict future outcomes, is more problematic. It is possible that those who voted for rent control thought only about the pocketbook impact, and that the actual demographic outcomes are wholly unexpected, an accidental result of the reactions of the economic agents impacted by the

controls. The following story would then apply:

> Tenant majorities may under some political conditions (perhaps involving predominant student and/or elderly populations) come to see that their economic interest argues in favor of restricting the permissible increases in rents. Rental property owners in the years following the enactment of such legislation react by withdrawing marginal units from the rental market, using those units for purposes having higher economic (or personal) value. Economically secure tenants are more successful than economically marginal tenants in gaining entry into the tight housing market that then develops, so that, gradually, the balance among renters shifts to the relatively well-off, well-educated, and well-employed.

But the rent control programs in Berkeley and Santa Monica were passed amidst considerable, convincing argument about the need to assist the poor. It was said that, absent rent control, Berkeley and Santa Monica would become "gentrified", at the expense of the poor. It was said that rent control was crucial if the ethnic, cultural, and economic diversity of these cities was to be preserved. Was this mere rhetoric, window-dressing to make politically palatable a program involving outright theft from property owners and base, pocketbook interests of middle class tenants? Or were voters sincere in wanting to help the poor? The data examined in the study shed no light on this question. But now that the evidence is available, and assuming that it is made known to politicians and to the electorate, an answer may emerge in ensuing elections. If a majority of the electorate truly value assistance to poor renters, it would seem that modifications to rent control would be enacted which promise a reversal of the regressive trends revealed within the first rent control decade.

One likely possibility is that rent controls are most likely to be enacted when a coalition is formed between tenants desiring rent control subsidies and homeowners with a social conscience who believe the pro-rent-control rhetoric about helping the poor. If information reaches the electorate about the actual impacts of restrictive rent control, the social conscience rationale may become ineffective; pocket-lining will become the only reason for voting for rent controls. If tenants are in the majority, it is quite possible that information about the actual impacts will effect no change. In this case, demographic changes will cause gradual movement

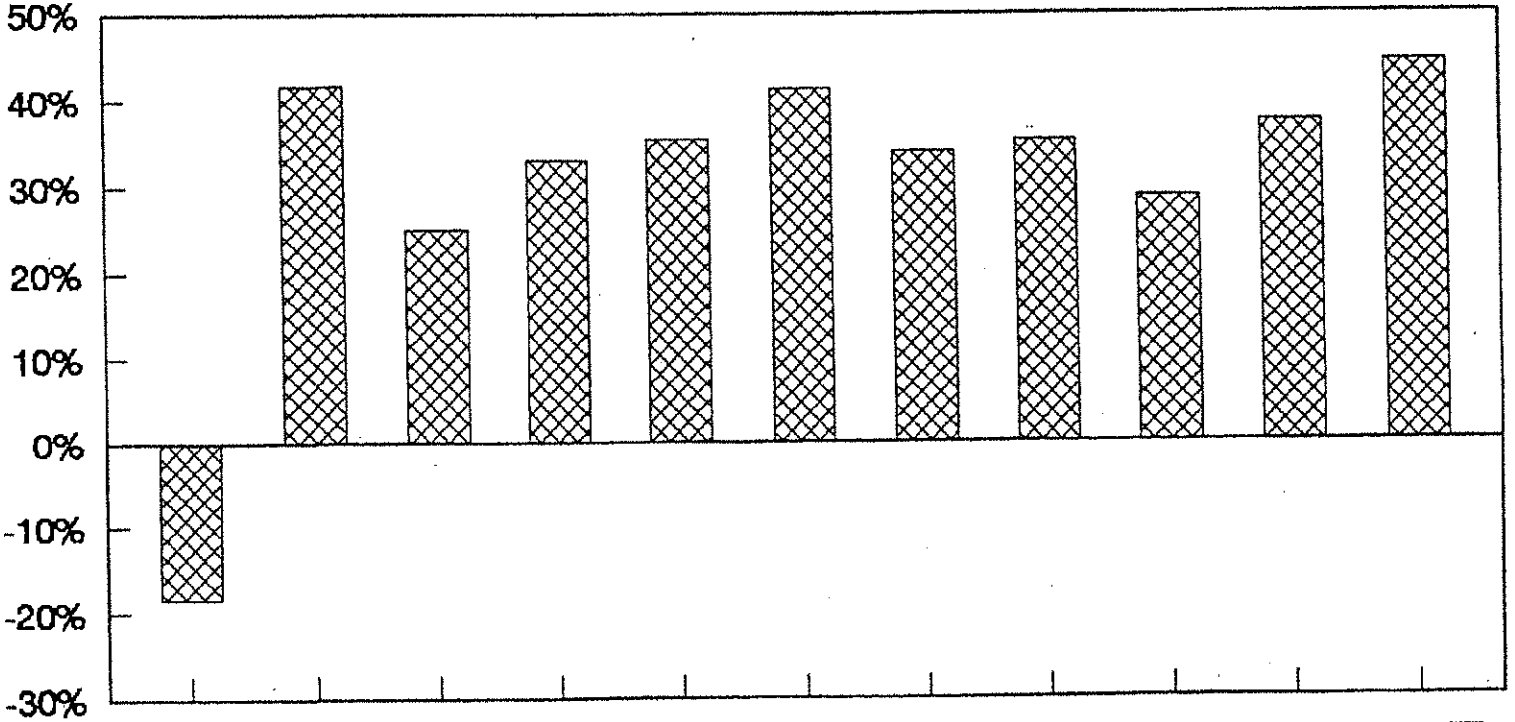
towards a new political equilibrium.

In Berkeley, for example, tenants were in the minority in the 1950s, came into the majority with the construction of many apartment buildings in the 1960s, and retained a substantial (62-38) majority at the inception of rent control in 1979. The tenant majority was eroded during the first rent control decade, to 56-44 in 1990. If the erosion continues at the same rate during the 1990s, a likely happening if rent control continues its restrictive course, homeowner and tenant populations will be 50-50 before the turn of the century. If this occurs, a whole new political dynamic will emerge. No longer will rent control dominate local political discourse; issues of importance to homeowners (police protection? street maintenance? schools?) will predominate instead.

Given that owners vote more consistently than tenants, it is likely that revelations about the actual impacts of rent control on the poor will have an impact prior to tenants and owners coming into demographic balance. Indeed, changes are happening today in Berkeley reflecting the public's impressions about rent control and its impact on civic issues. Already, rent control as it was known in the 1980s has been modified. Already it appears that the political coalition that brought rent control to Berkeley in the 1970s has fallen apart, and that another dynamic is now driving Berkeley politics.

In Santa Monica, on the other hand, where the tenant majority, although eroded from 70% to 63%, is still predominant, no meaningful change is in evidence. Politics in Santa Monica are still dominated by Santa Monicans for Renters Rights (SMRR), the political coalition which brought rent control to the city in 1979. The rent control program is as restrictive in 1993 as it was in at its inception. Demographic changes similar to those evident in Berkeley - including transfer of units from renter-occupancy to owner-occupancy - is continuing, but it may be several years before the demographic shift causes a real shift in the politics affecting rental housing.

PERCENT CHANGE IN INFLATION-ADJUSTED RENTS
1978 to 1990
Berkeley and Comparison Bay Area Cities



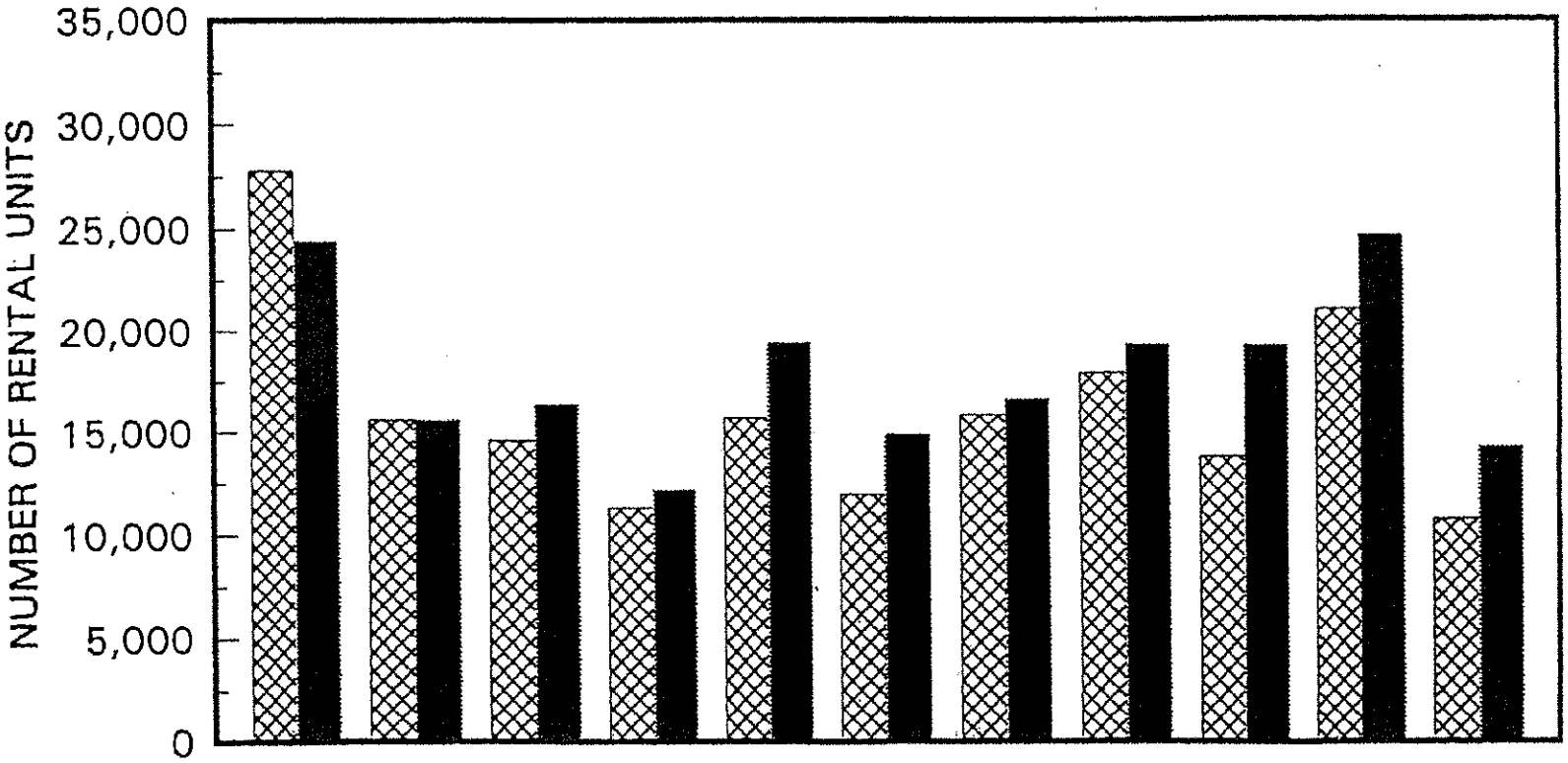
BERKELEY	ALAMEDA	CONCORD	DALY CITY	HAYWARD	RICHMOND	SAN MATEO	SANTA CLARA	SANTA ROSA	SUNNYVALE	VALLEJO
-18.4%	41.7	25.0	33.0	35.5	41.9	34.1	35.9	29.7	37.4	44.9

d:pcrtchba

NUMBER OF RENTAL UNITS

1980 & 1990

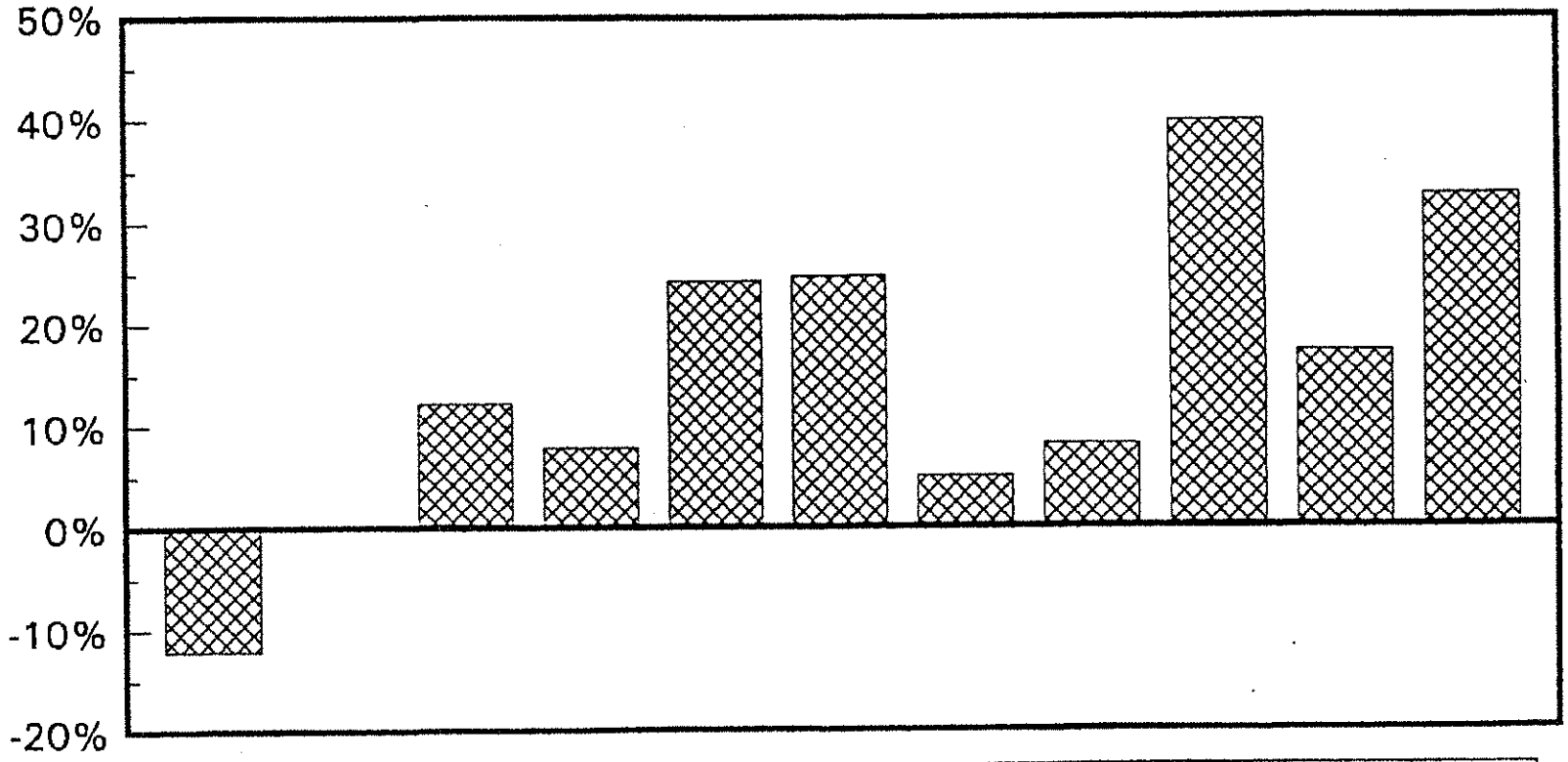
Berkeley and Comparison Bay Area Cities



	BERKELEY	ALAMEDA	CONCORD	DALY CITY	HAYWARD	RICHMOND	SAN MATEO	SANTA CLARA	SANTA ROSA	SUNNYVALE	VALLEJO
1980 ⊠	27,821	15,809	14,802	11,308	15,808	11,956	15,621	17,899	13,771	21,081	10,760
1990 ■	24,465	15,835	16,381	12,186	18,480	14,909	16,815	19,343	19,359	24,681	14,251

d:nounitba

PERCENT CHANGE IN NUMBER OF RENTAL UNITS
1980 & 1990
Berkeley and Comparison Bay Area Cities



	BERKELEY	ALAMEDA	CONCORD	DALY CITY	HAYWARD	RICHMOND	SAN MATEO	SANTA CLARA	SANTA ROSA	SUNNYVALE	VALLEJO
1980	-12.1%	0.2	12.2	7.8	24.2	24.7	5.0	8.1	39.9	17.2	32.6

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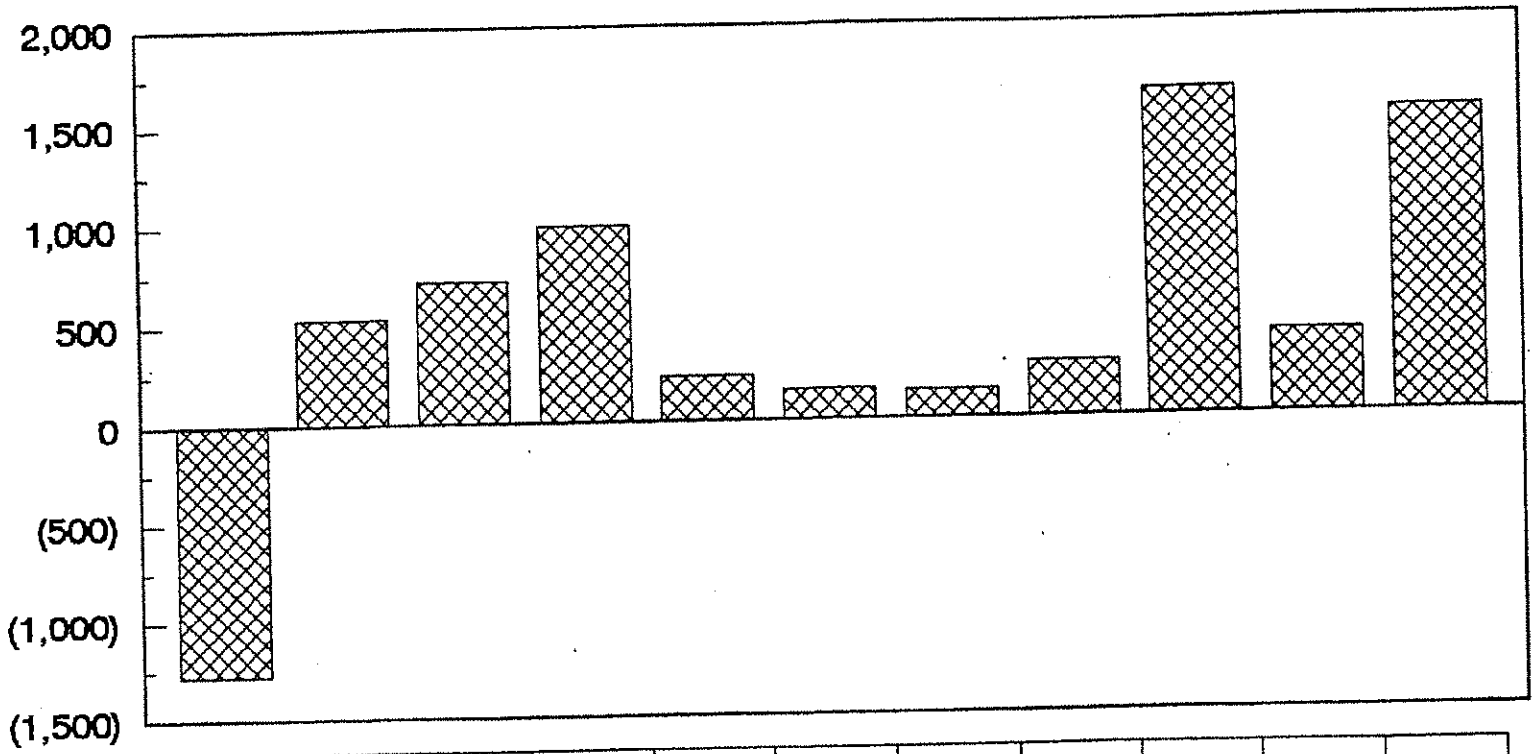
LOSS OF RENTED SINGLE-FAMILY HOMES
Berkeley and Comparison Bay Area Cities
1980 to 1990



BERKELEY	ALAMEDA	CONCORD	DALY CITY	HAYWARD	RICHMOND	SAN MATEO	SANTA CLARA	SANTA ROSA	SUNNYVALE	VALLEJO
(1,289)	532	714	992	217	149	139	271	1,845	407	1,536

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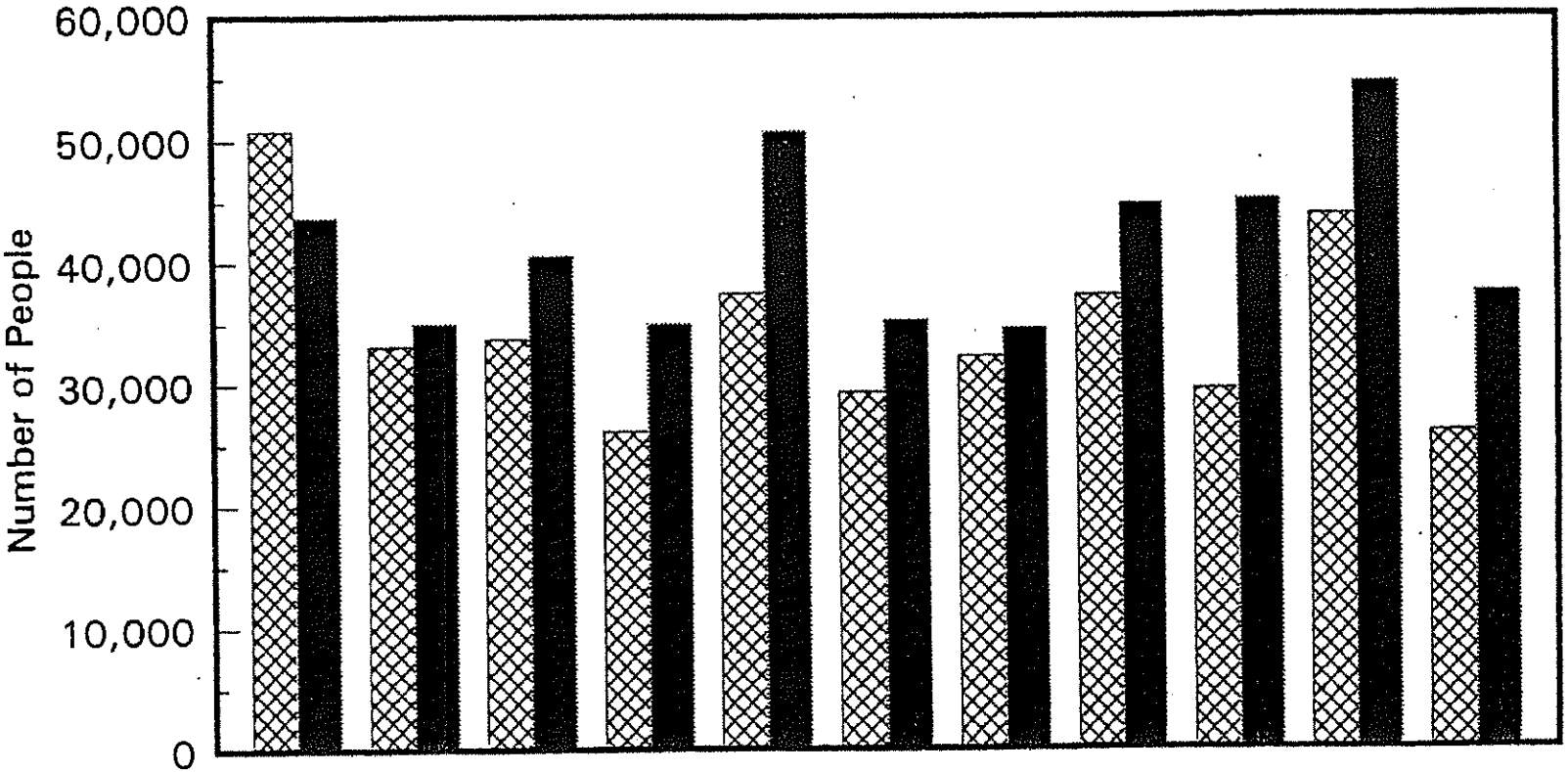
NUMBER OF PERSONS IN RENTAL UNITS
Berkeley and Comparison Bay Area Cities
1980 & 1990



	BERKELEY	ALAMEDA	CONCORD	DALY CITY	HAYWARD	RICHMOND	SAN MATEO	SANTA CLARA	SANTA ROSA	SUNNYVALE	VALLEJO
1980 ⊠	50,821	33,137	33,804	26,130	37,452	29,252	32,252	37,233	29,470	43,863	25,690
1990 ▩	43,807	35,043	40,630	35,011	50,772	35,256	34,571	44,856	45,156	54,638	37,482

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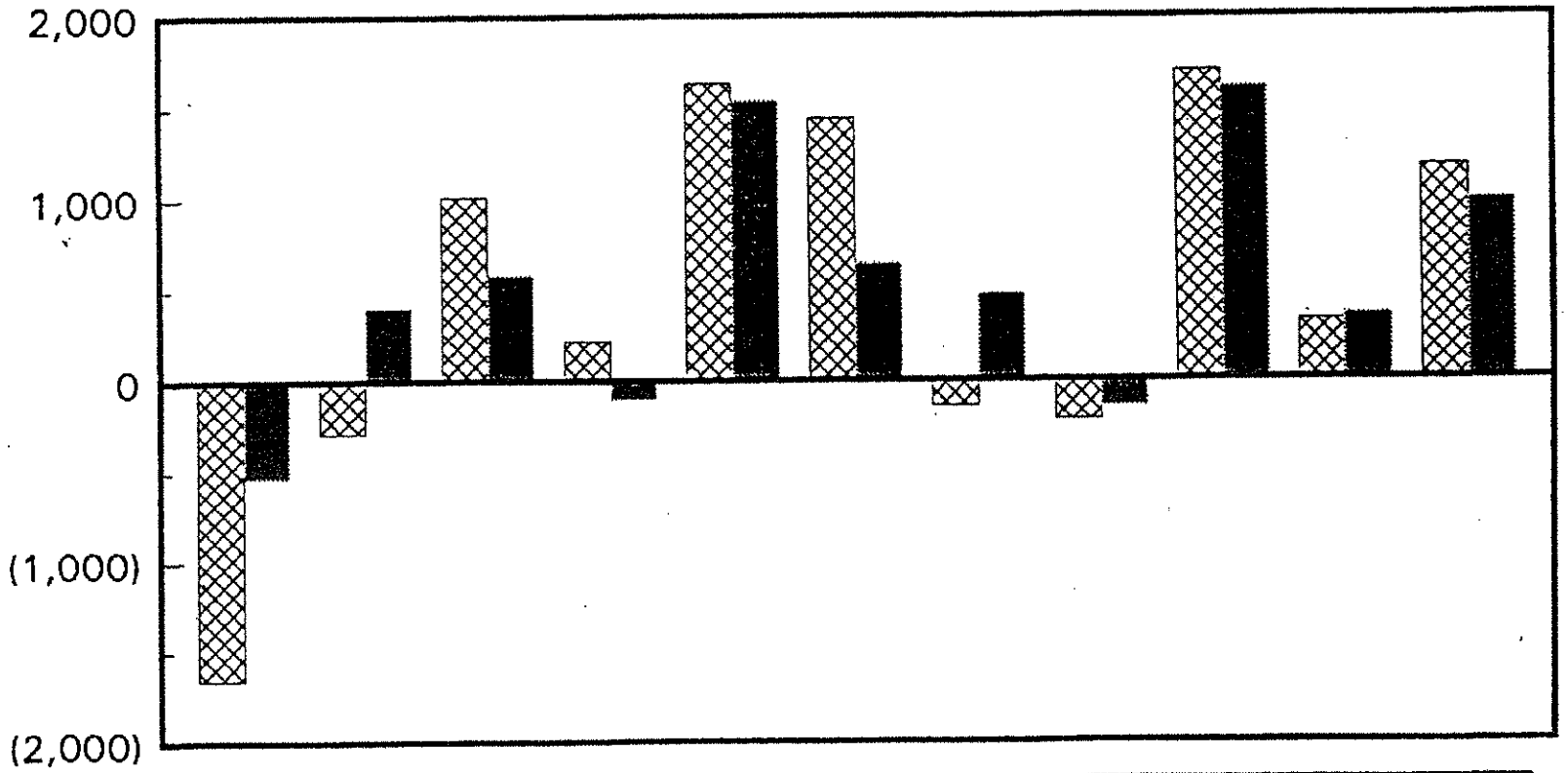
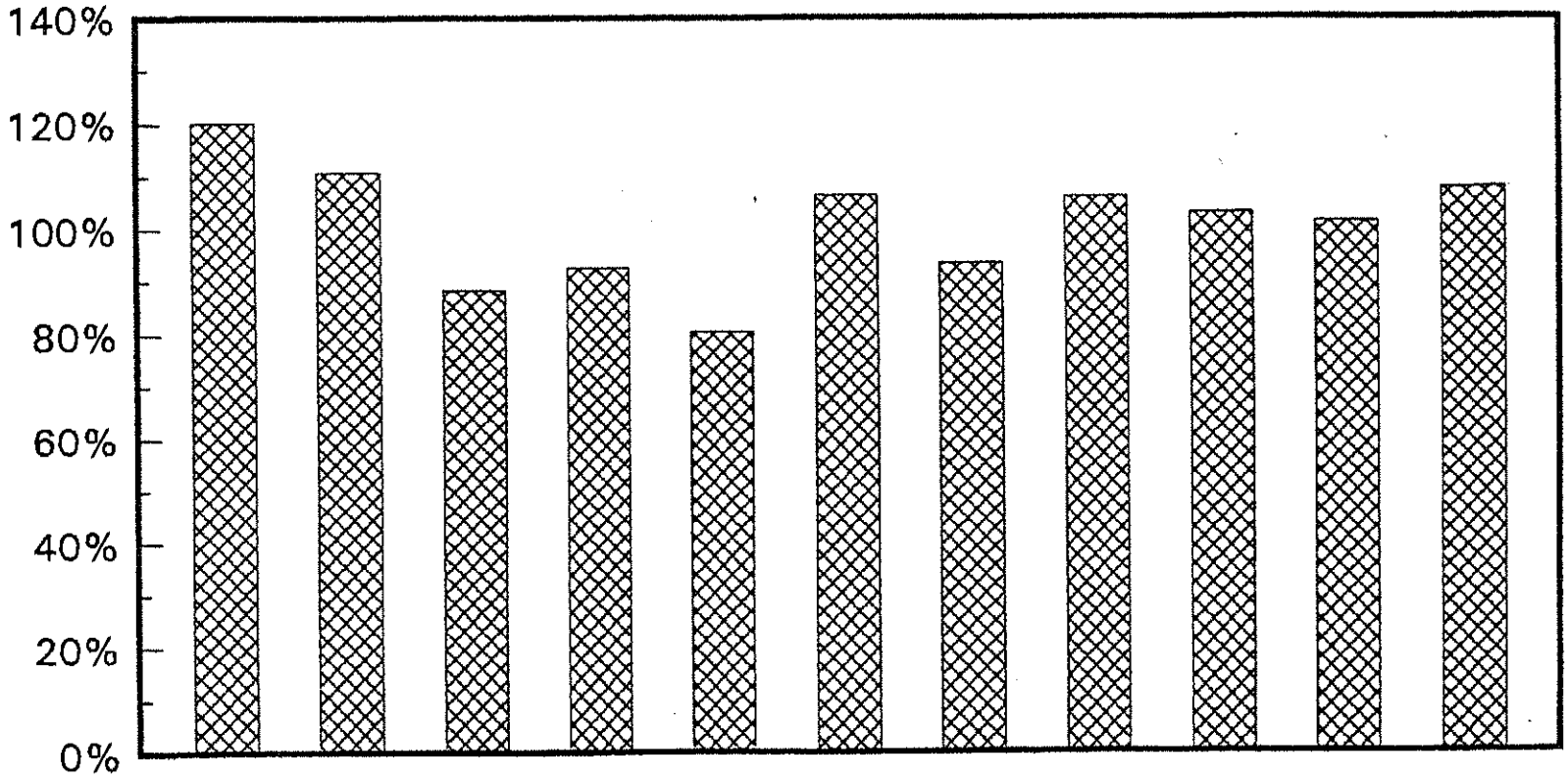
CHANGE IN NUMBER OF LOW AND VERY LOW INCOME HOUSEHOLDS - Berkeley and Comparison Cities 1980 to 1990



	BERKELEY	ALAMEDA	CONCORD	DALY CITY	HAYWARD	RICHMOND	SAN MATEO	SANTA CLARA	SANTA ROSA	SUNNYVALE	VALLEJO
VERY LOW INCOME	(1,998)	(380)	1,015	316	1,631	1,441	(141)	(217)	1,886	334	1,171
LOW INCOME	(831)	408	582	(101)	1,536	843	474	(168)	1,828	367	967

d:lslihhba

PERCENT GROWTH IN MEDIAN INCOME
Berkeley and Comparison Bay Area Cities
1980 to 1990



BERKELEY	ALAMEDA	CONCORD	DALY CITY	HAYWARD	RICHMOND	SAN MATEO	SANTA CLARA	SANTA ROSA	SUNNYVALE	VALLEJO
120.2%	110.7	88.3	92.5	80.4	106.2	93.3	105.9	102.8	101.2	107.8

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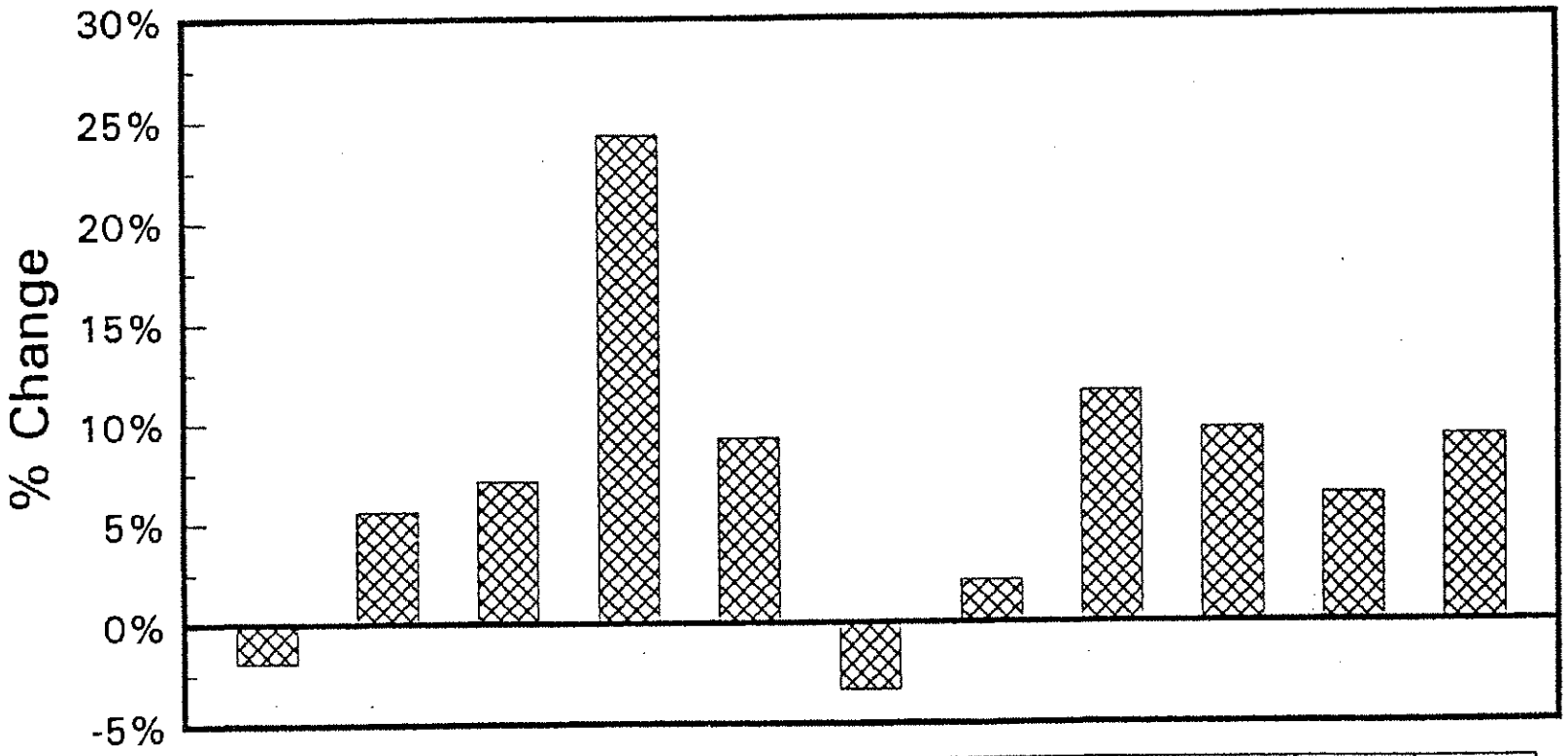
% CHANGE IN PERSONS PER RENTER HOUSEHOLD
Berkeley and Comparison Bay Area Cities
1980-1990



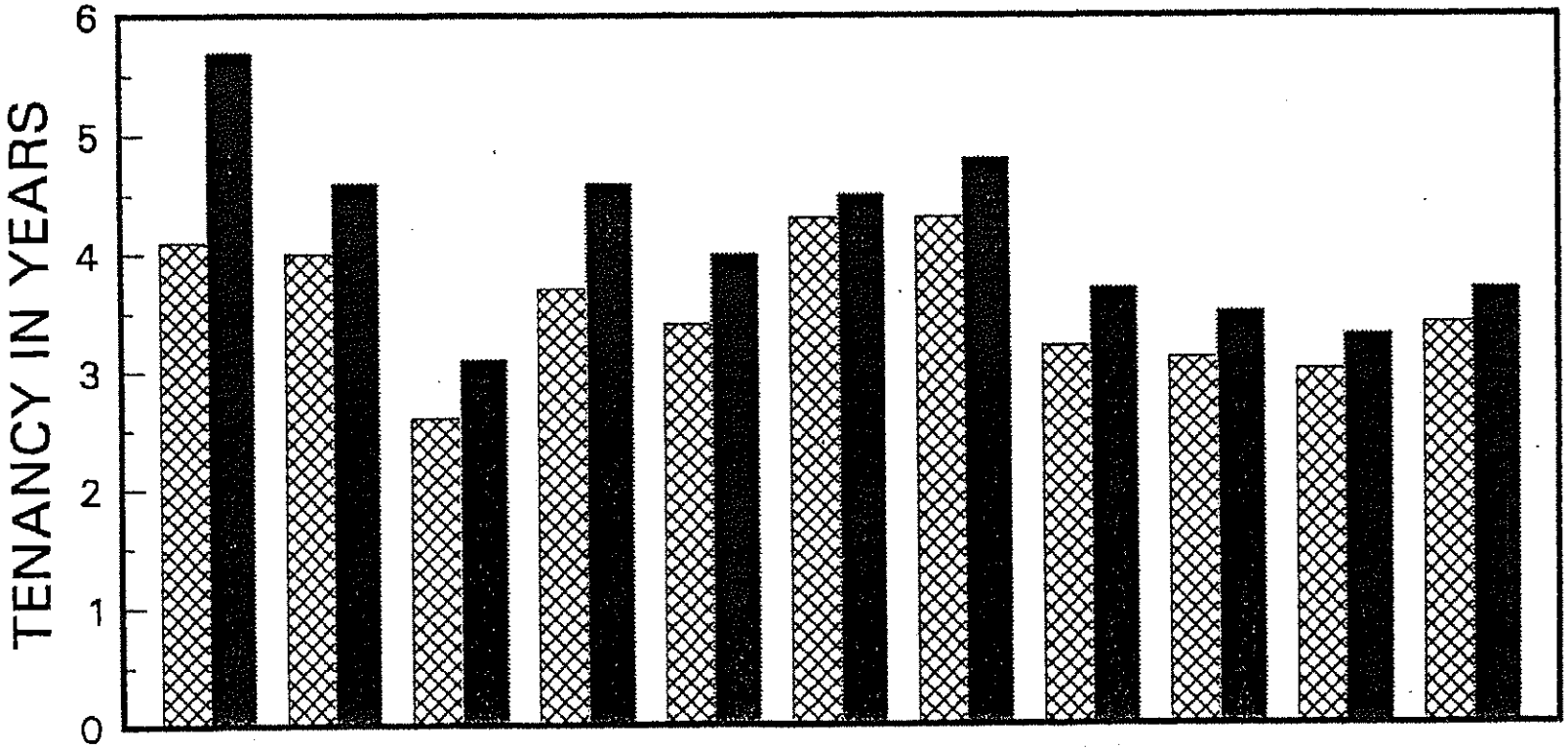
	BERKELEY	ALAMEDA	CONCORD	DALY CITY	HAYWARD	RICHMOND	SAN MATEO	SANTA CLARA	SANTA ROSA	SUNNYVALE	VALLEJO
⊠	-1.9%	5.8	7.1	24.3	9.2	-3.3	2.1	11.5	9.8	6.3	9.2

u:chpphhba

AVERAGE DURATION OF TENANCY

Berkeley and Comparison Bay Area Cities

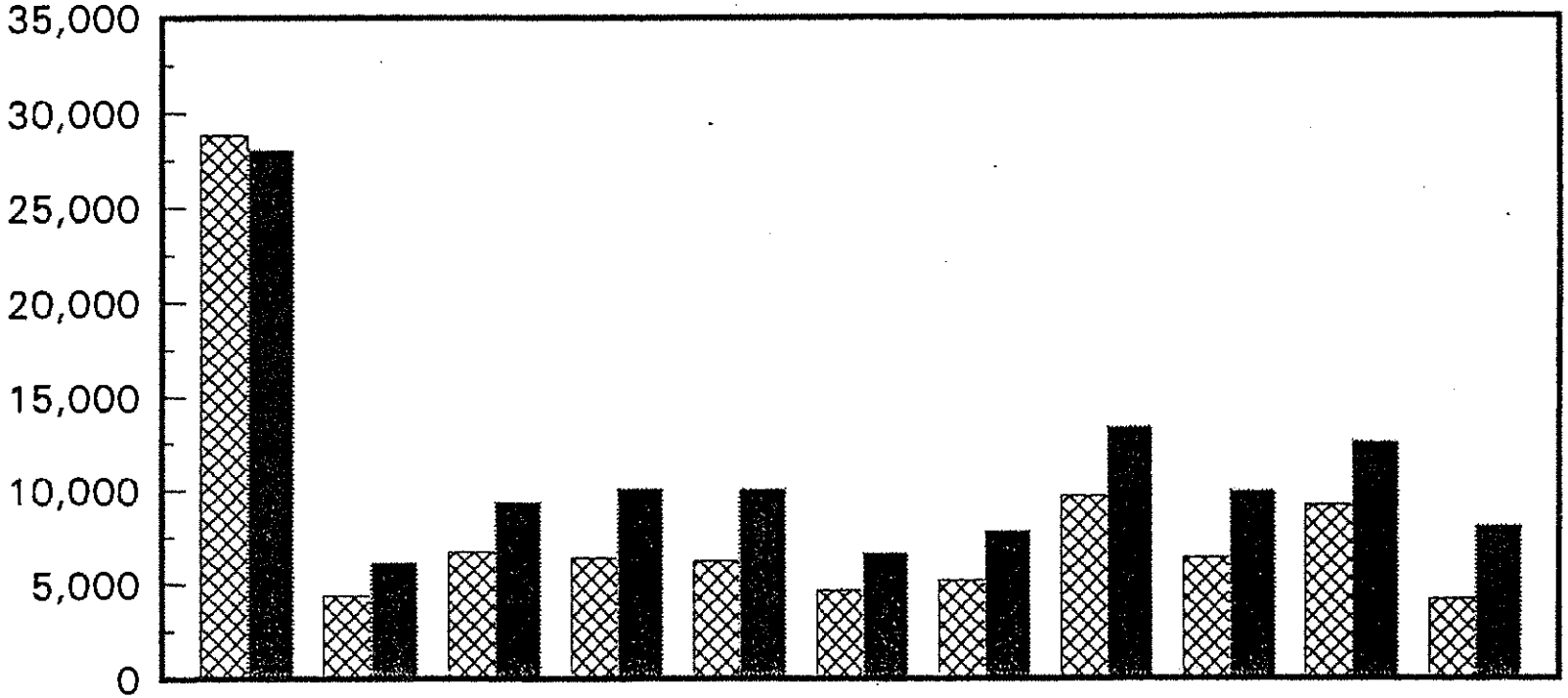
1980 & 1990



	BERKELEY	ALAMEDA	CONCORD	DALY CITY	HAYWARD	RICHMOND	SAN MATEO	SANTA CLARA	SANTA ROSA	SUNNYVALE	VALLEJO
1980	4.1	4.0	2.6	3.7	3.4	4.3	4.3	3.2	3.1	3.0	3.4
1990	5.7	4.6	3.1	4.6	4.0	4.5	4.8	3.7	3.5	3.3	3.7

d:tenyrsba

COLLEGE STUDENT POPULATION
Berkeley and Comparison Bay Area Cities
1980 & 1990



	BERKELEY	ALAMEDA	CONCORD	DALY CITY	HAYWARD	RICHMOND	SAN MATEO	SANTA CLARA	SANTA ROSA	SUNNYVALE	VALLEJO
1980	26,853	4,381	6,723	6,414	6,231	4,663	5,203	9,688	6,416	9,185	4,220
1990	28,105	6,184	9,425	10,112	10,062	6,652	7,844	13,347	9,948	12,562	6,080

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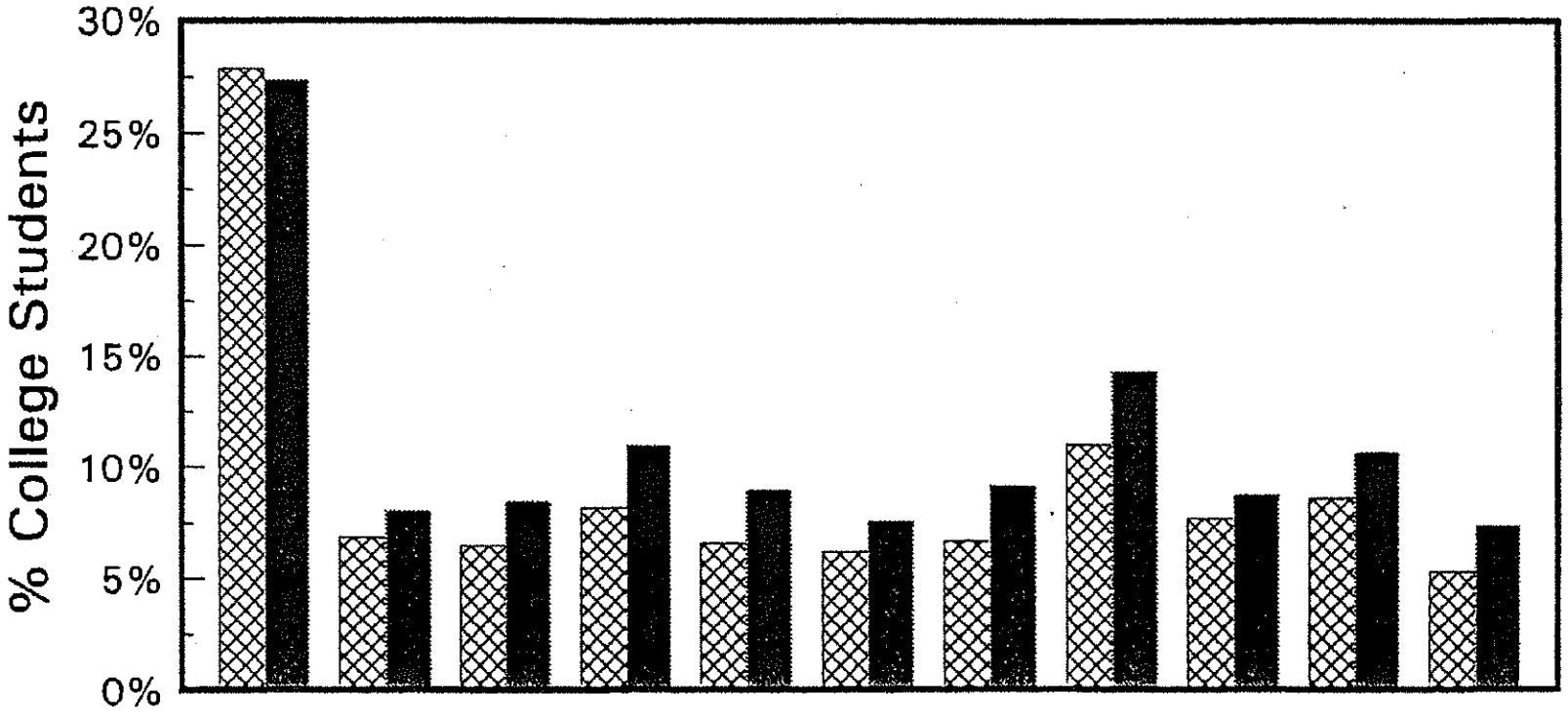
% COLLEGE STUDENTS IN POPULATION

Berkeley and Comparison Bay Area Cities

1980 & 1990



	BERKELEY	ALAMEDA	CONCORD	DALY CITY	HAYWARD	RICHMOND	SAN MATEO	SANTA CLARA	SANTA ROSA	SUNNYVALE	VALLEJO
1980	27.8%	6.9	6.6	8.2	6.6	6.2	6.7	11.0	7.7	8.6	5.3
1990	27.4%	8.1	8.5	11.0	9.0	7.6	9.2	14.3	8.8	10.7	7.4

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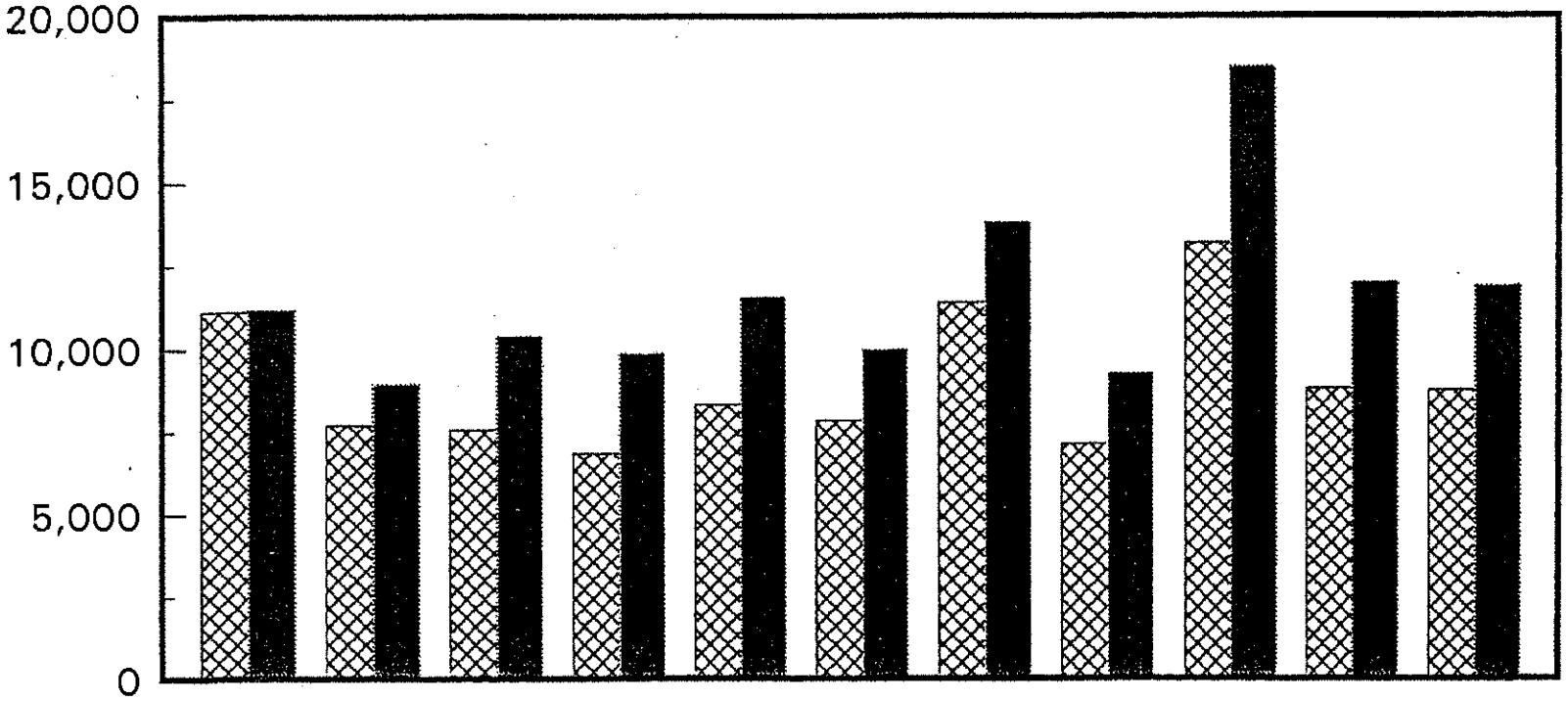
NUMBER OF ELDERLY PERSONS
Berkeley and Comparison Bay Area Cities
1980 & 1990



	BERKELEY	ALAMEDA	CONCORD	DALY CITY	HAYWARD	RICHMOND	SAN MATEO	SANTA CLARA	SANTA ROSA	SUNNYVALE	VALLEJO
1980 ⊠	11,132	7,709	7,588	6,850	8,325	7,836	11,376	7,128	13,184	8,777	8,734
1990 ■	11,208	8,970	10,406	9,877	11,574	9,987	13,826	9,278	18,486	12,005	11,873

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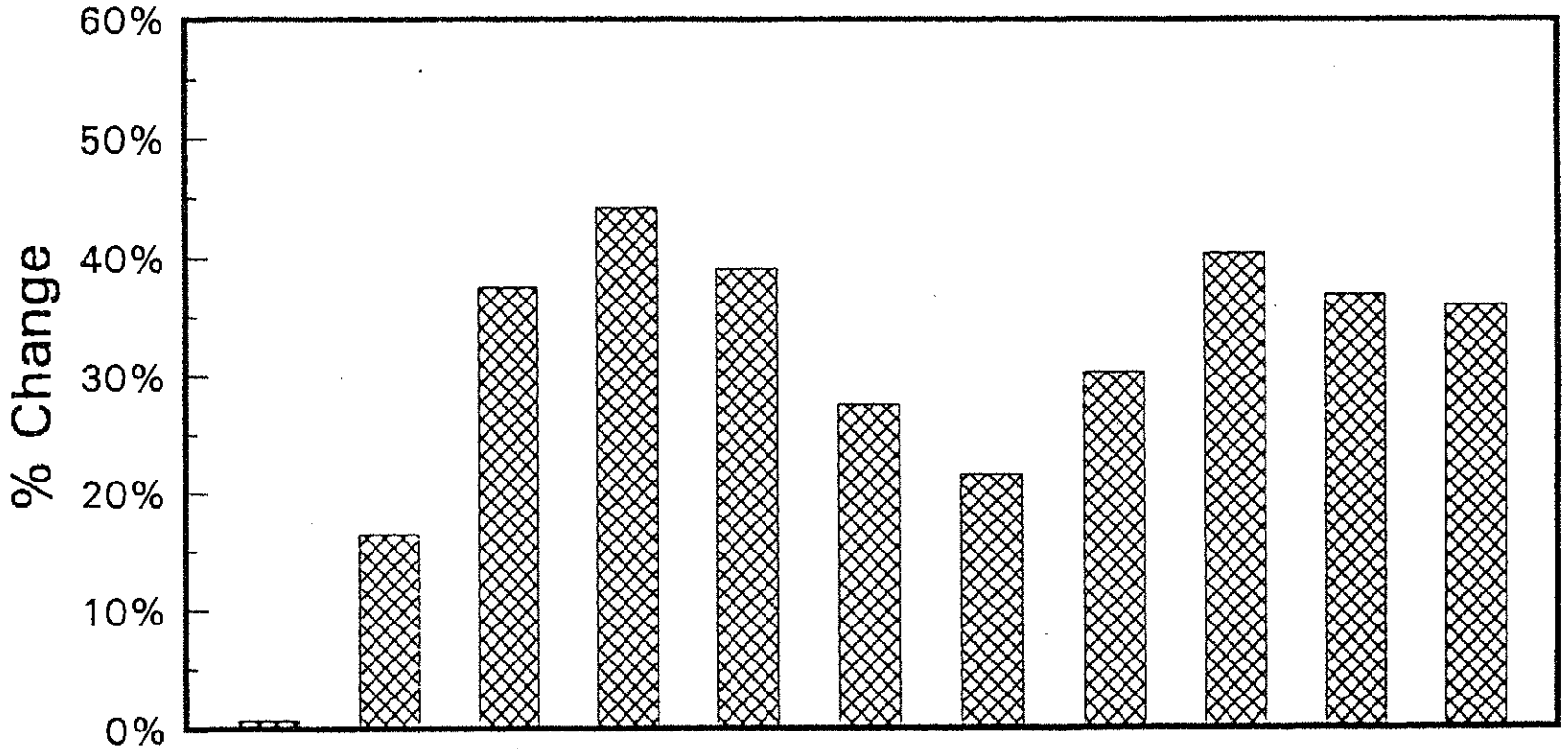
% CHANGE IN ELDERLY POPULATION

Selected BA Area Cities

1980-1990



BERKELEY	ALAMEDA	CONCORD	DALY CITY	HAYWARD	RICHMOND	SAN MATEO	SANTA CLARA	SANTA ROSA	SUNNYVALE	VALLEJO
0.7%	16.6	37.6	44.2	39.0	27.5	21.6	30.2	40.3	36.8	36.2

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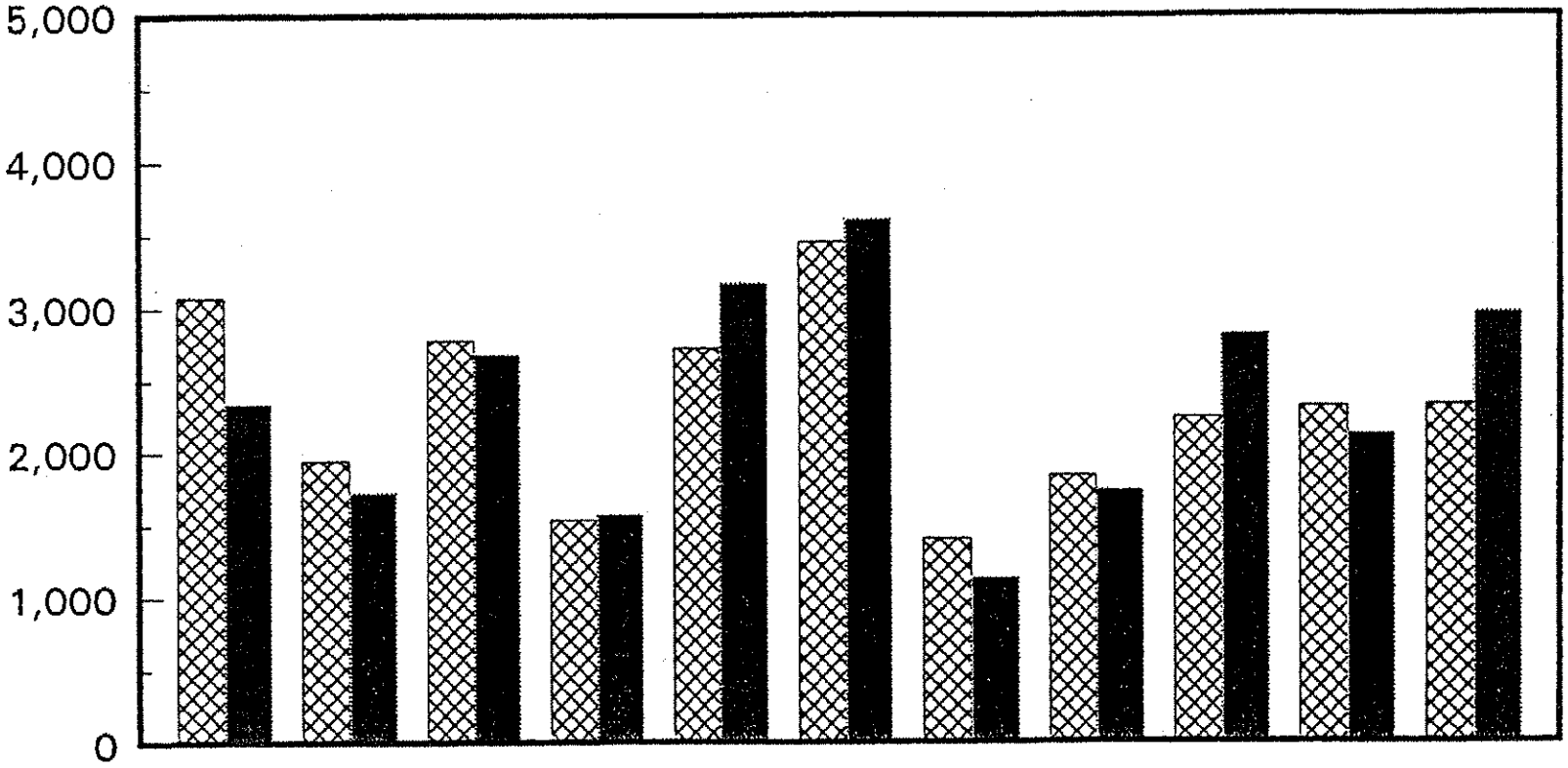
FEMALE HEAD OF HOUSEHOLD WITH KIDS < 18 YEARS
Berkeley and Comparison Bay Area Cities
1980 & 1990



	BERKELEY	ALAMEDA	CONCORD	DALY CITY	HAYWARD	RICHMOND	SAN MATEO	SANTA CLARA	SANTA ROSA	SUNNYVALE	VALLEJO
1980	3,072	1,944	2,775	1,530	2,717	3,447	1,395	1,892	2,232	2,303	2,314
1990	2,345	1,724	2,681	1,568	3,163	3,602	1,131	1,733	2,811	2,120	2,952

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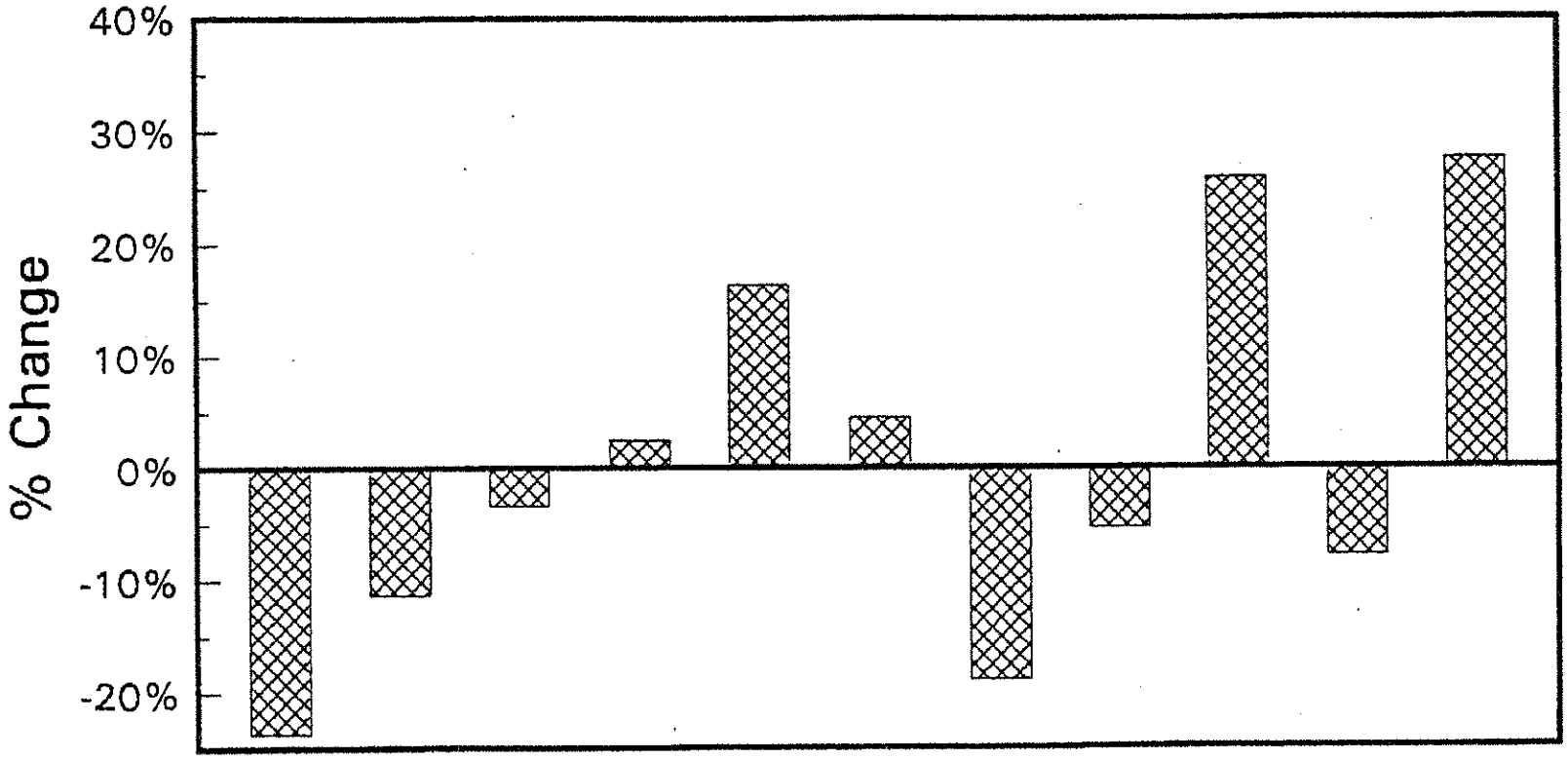
% CHANGE IN FEMALE HEAD OF HH WITH KIDS < 18
Berkeley and Comparison Bay Area Cities
1980-1990



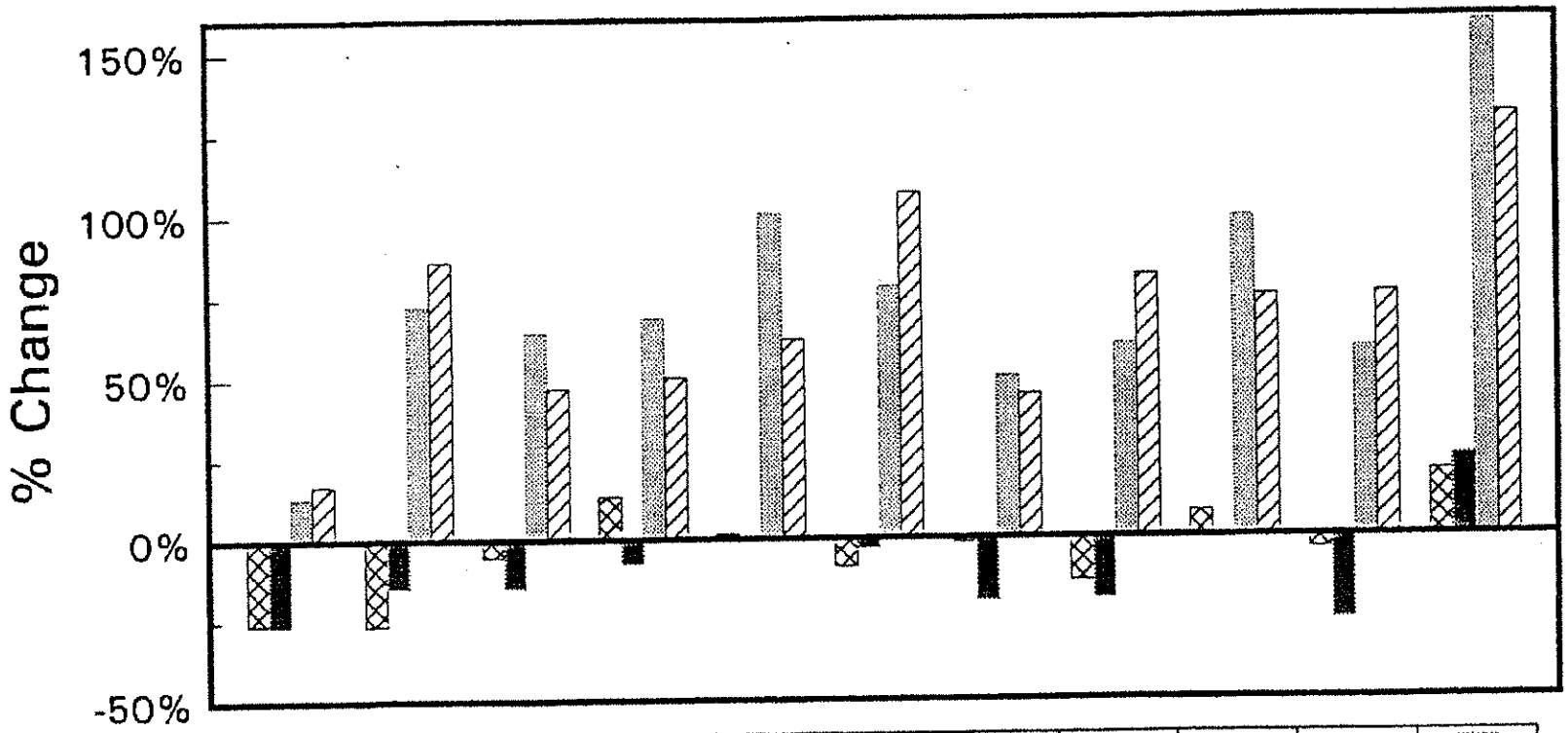
	BERKELEY	ALAMEDA	CONCORD	DALY CITY	HAYWARD	RICHMOND	SAN MATEO	SANTA CLARA	SANTA ROSA	SUNNYVALE	VALLEJO
% Change	-23.7%	-11.3	-3.4	2.5	16.4	4.5	-18.9	-5.4	25.9	-7.9	27.6

u:chgfhhba

CHANGE IN LEVEL OF EDUCATION WITHIN POPULATION

Berkeley and Comparison Bay Area Cities

1980-1990



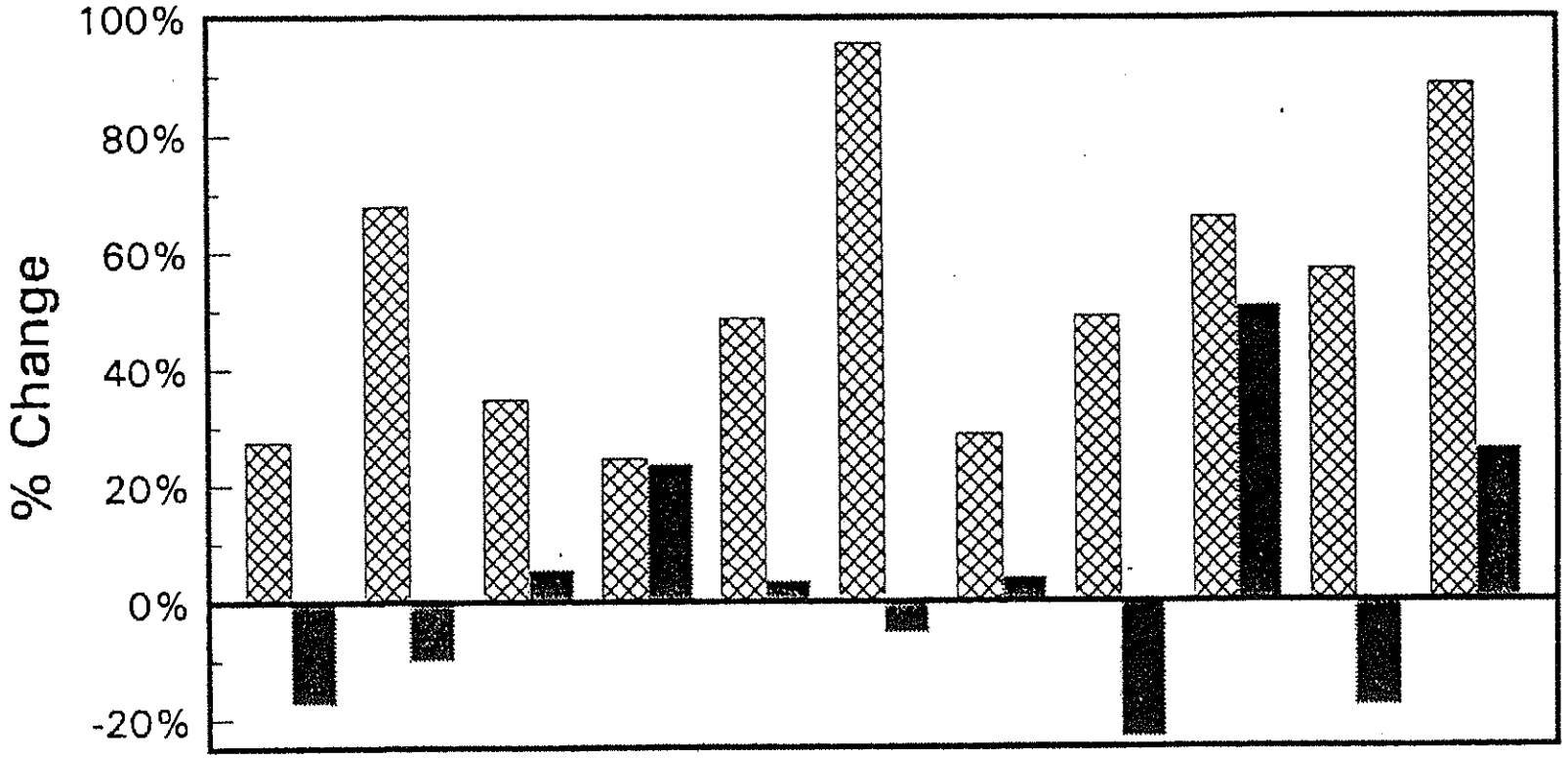
	BERKELEY	ALAMEDA	CONCORD	DALY CITY	HAYWARD	RICHMOND	SAN MATEO	SANTA CLARA	SANTA ROSA	SUNNYVALE	VALLEJO
less than 12 yrs	-25.9%	-26.5	-8.1	13.3	1.5	-9.0	-7.5	-13.6	3.7	-4.0	18.9
High School Grad	-28.9%	-14.5	-15.0	-7.0	0.1	-8.4	-15.9	-15.3	-1.2	-28.9	84.4
Some College	13.9%	72.4	84.3	68.4	100.6	77.6	90.0	98.9	88.5	97.9	164.1
4yrs College or More	17.2%	96.0	46.9	90.0	81.6	108.9	44.3	80.7	74.1	78.9	139.7
	-21.9%	117.0%	80.9%	123.9%	184.0%	171.7%	73.3%	107.7%	179.1%	182.0%	383.1%

Age over 25

u:edchgbay

% CHANGE IN MANAGEMENT/PROFESSIONAL & BLUE COLLAR EMPLOYMENT

Berkeley and Comparison Cities - 1980 to 1990



	BERKELEY	ALAMEDA	CONCORD	DALY CITY	HAYWARD	RICHMOND	SAN MATEO	SANTA CLARA	SANTA ROSA	SUNNYVALE	VALLEJO
Manag/Pro	27.4%	67.9	34.7	24.6	48.7	95.6	28.6	48.8	66.0	56.9	88.6
Blue Collar	-17.3%	-10.0	5.5	23.6	3.5	-5.4	4.1	-23.2	50.7	-17.9	28.0

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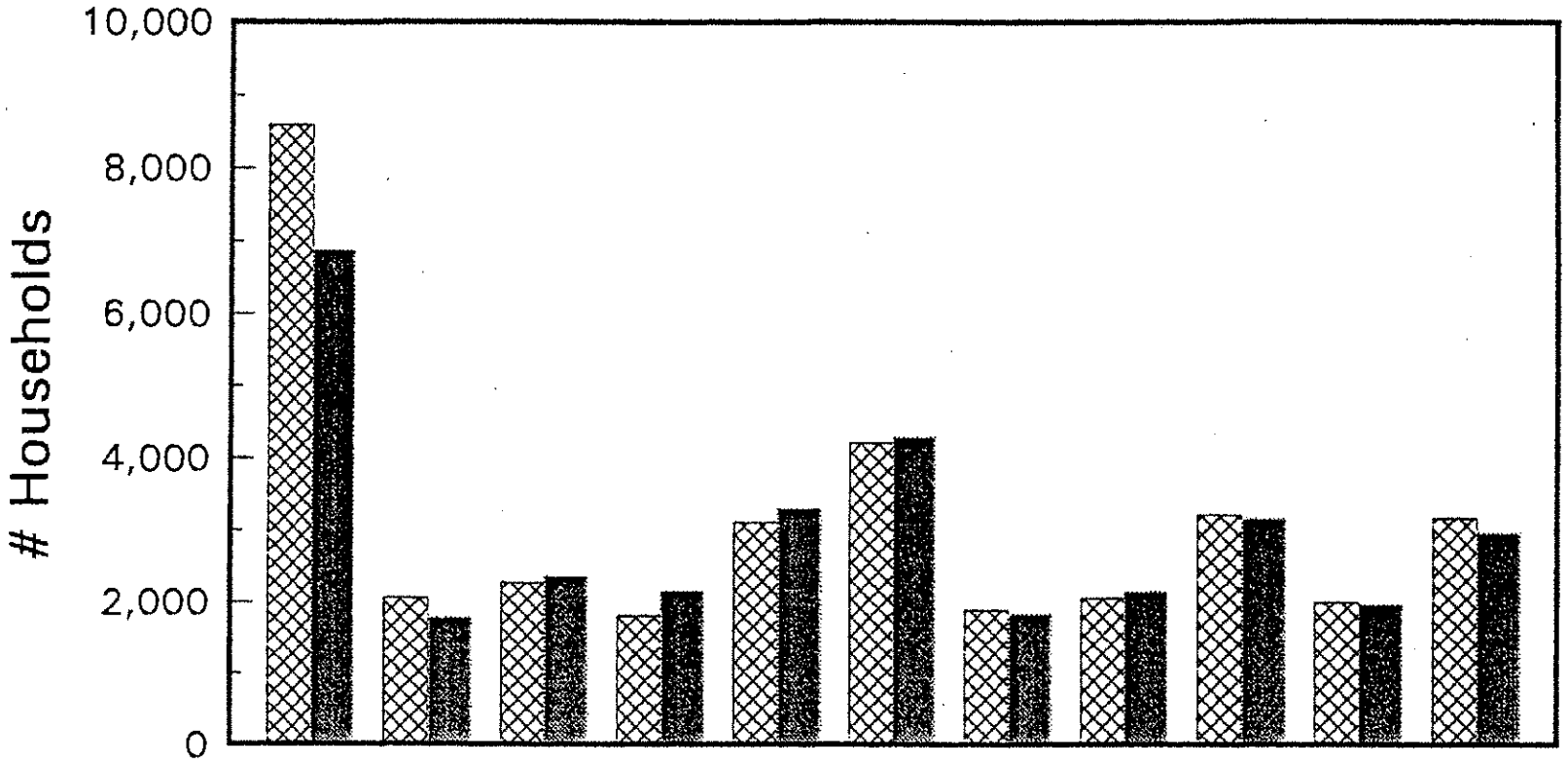
HOUSEHOLDS BELOW POVERTY
Berkeley and Comparison Bay Area Cities
1980 & 1990



	BERKELEY	ALAMEDA	CONCORD	DALY CITY	HAYWARD	RICHMOND	SAN MATEO	SANTA CLARA	SANTA ROSA	SUNNYVALE	VALLEJO
1980	8,599	2,054	2,289	1,801	3,103	4,199	1,882	2,047	3,193	1,984	3,146
1990	6,875	1,785	2,365	2,182	3,291	4,283	1,825	2,142	3,140	1,959	2,950

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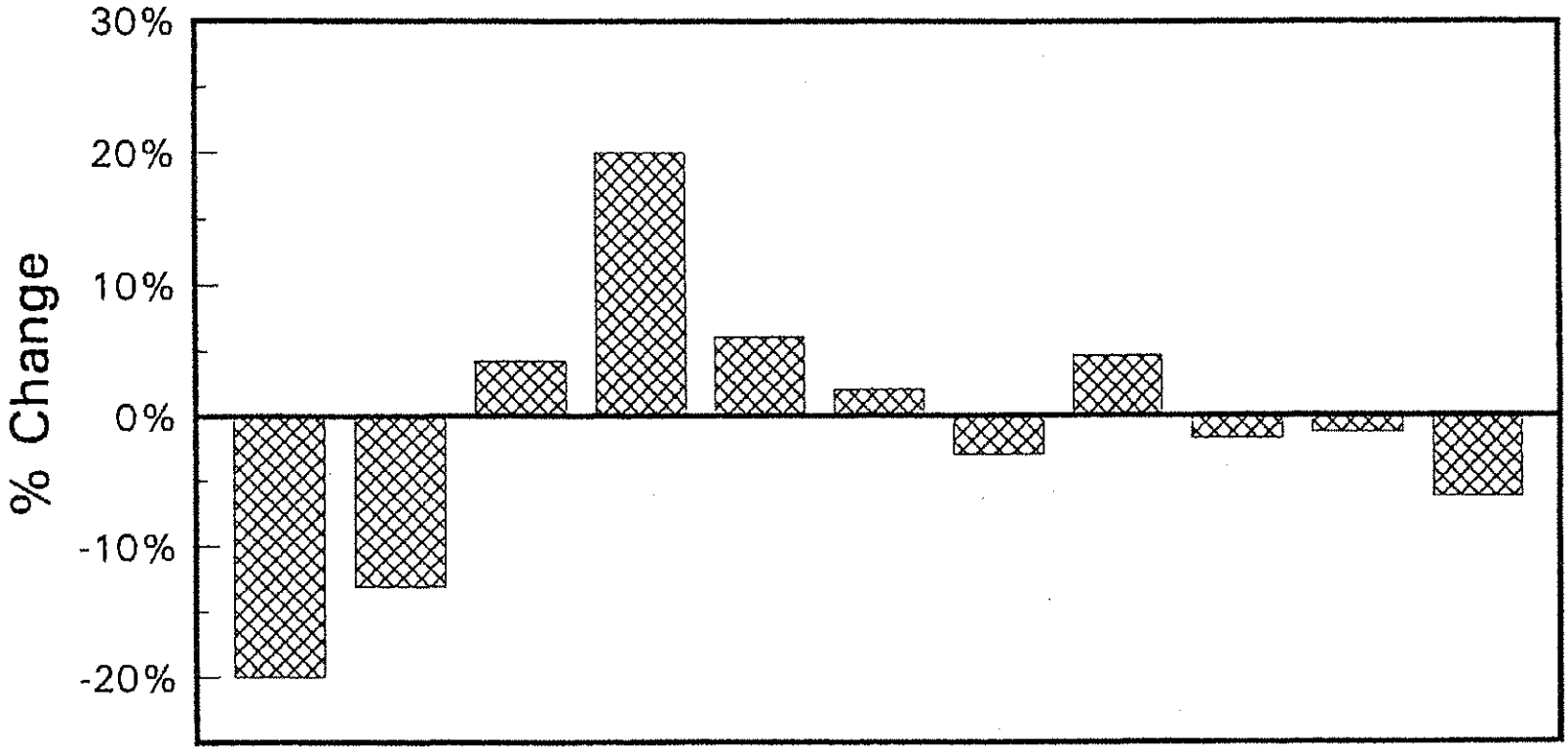
% CHANGE IN HOUSEHOLDS BELOW POVERTY
Berkeley and Comparison Bay Area Cities
1980-1990



	BERKELEY	ALAMEDA	CONCORD	DALY CITY	HAYWARD	RICHMOND	SAN MATEO	SANTA CLARA	SANTA ROSA	SUNNYVALE	VALLEJO
% Change	-20.0%	-13.1	4.2	20.0	6.1	2.0	-3.0	4.6	-1.7	-1.3	-6.2

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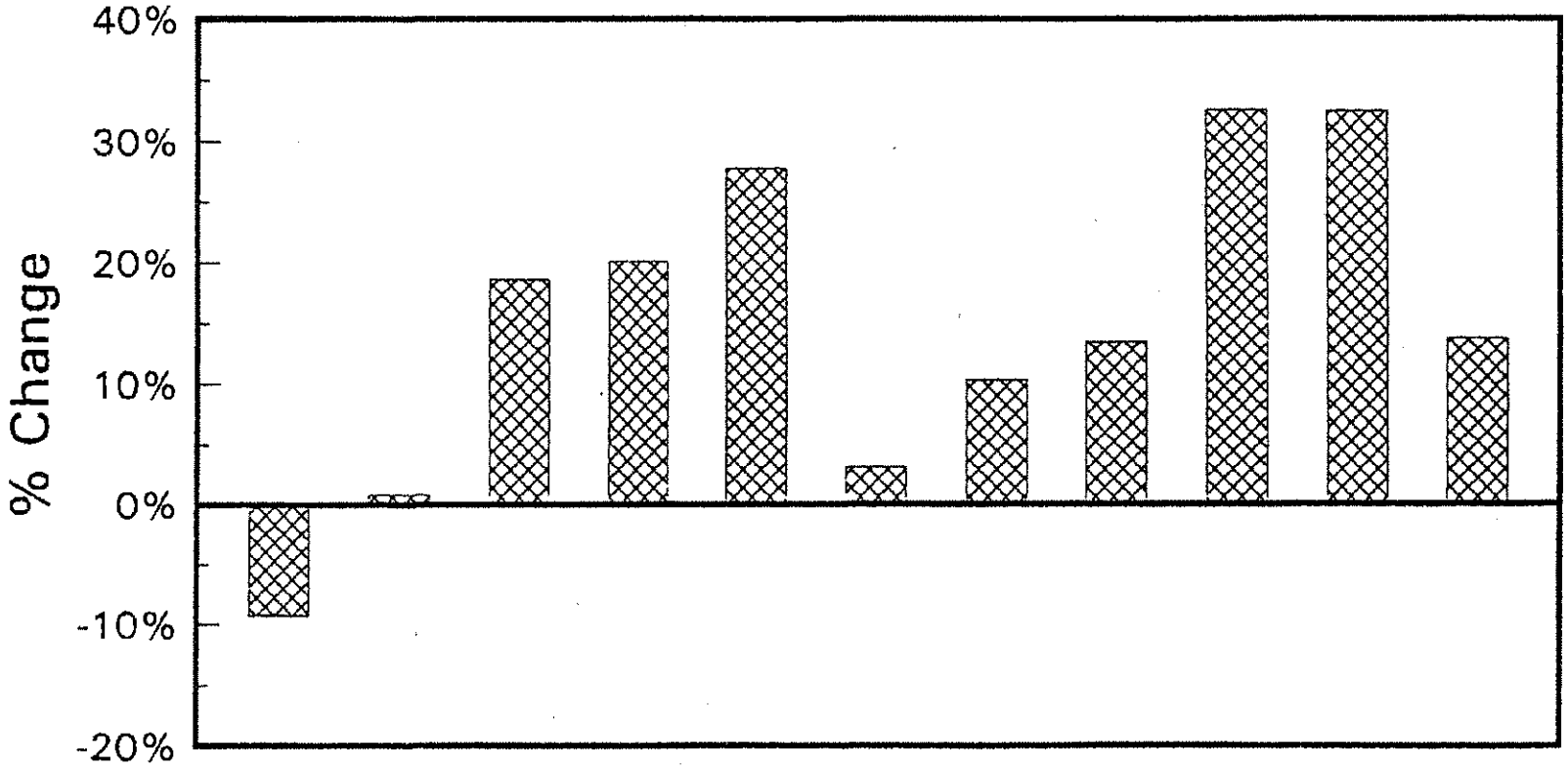
% CHANGE IN HOUSEHOLDS WITH NO EARNED INCOME
Berkeley and Comparison Bay Area Cities
1980-1990



	BERKELEY	ALAMEDA	CONCORD	DALY CITY	HAYWARD	RICHMOND	SAN MATEO	SANTA CLARA	SANTA ROSA	SUNNYVALE	VALLEJO
% Change	-9.3%	0.8	18.8	20.1	27.8	3.1	10.3	13.4	32.8	32.5	13.7

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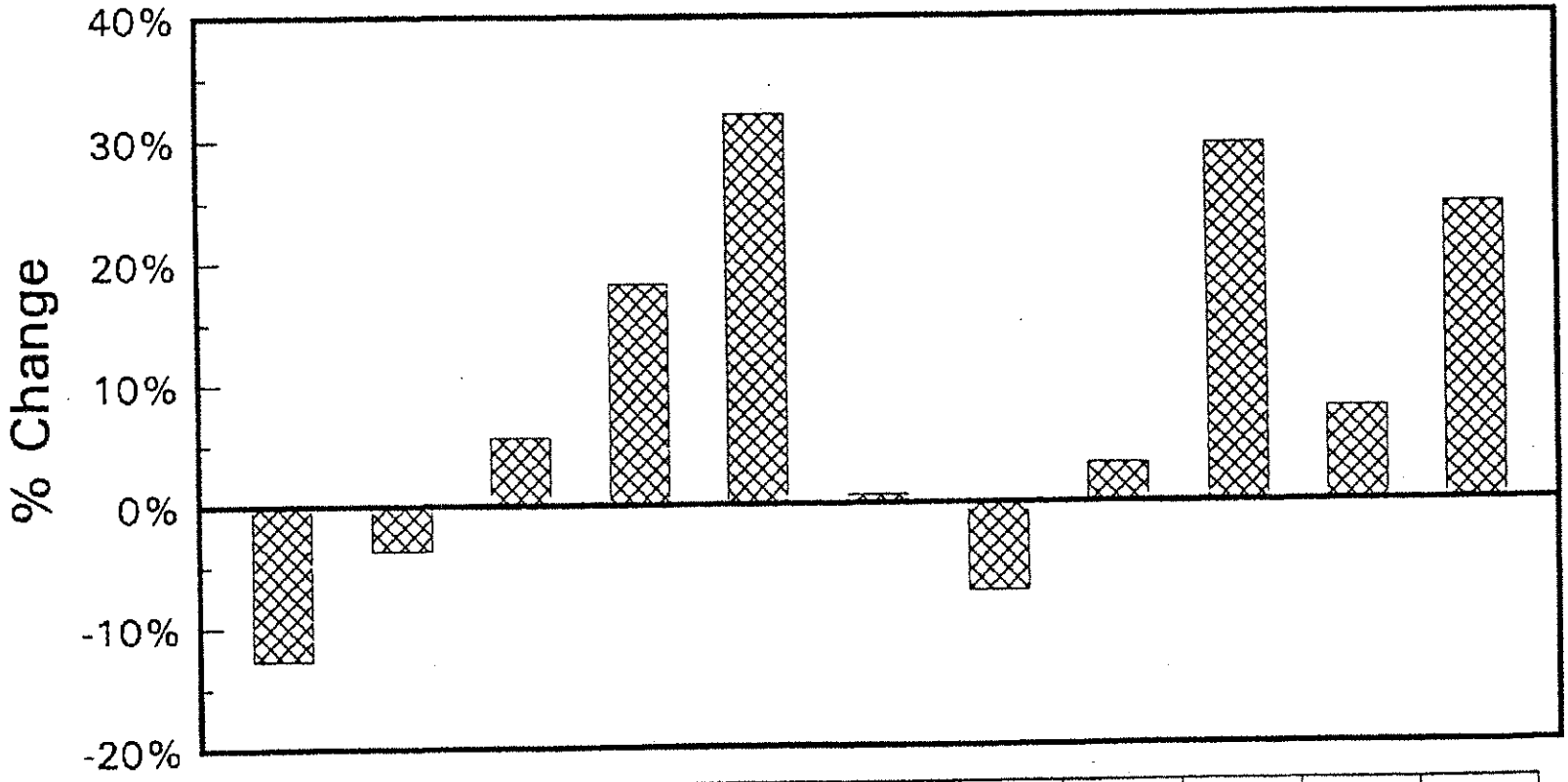
% CHANGE IN HOUSEHOLDS WITH PUBLIC ASSISTANCE INCOME

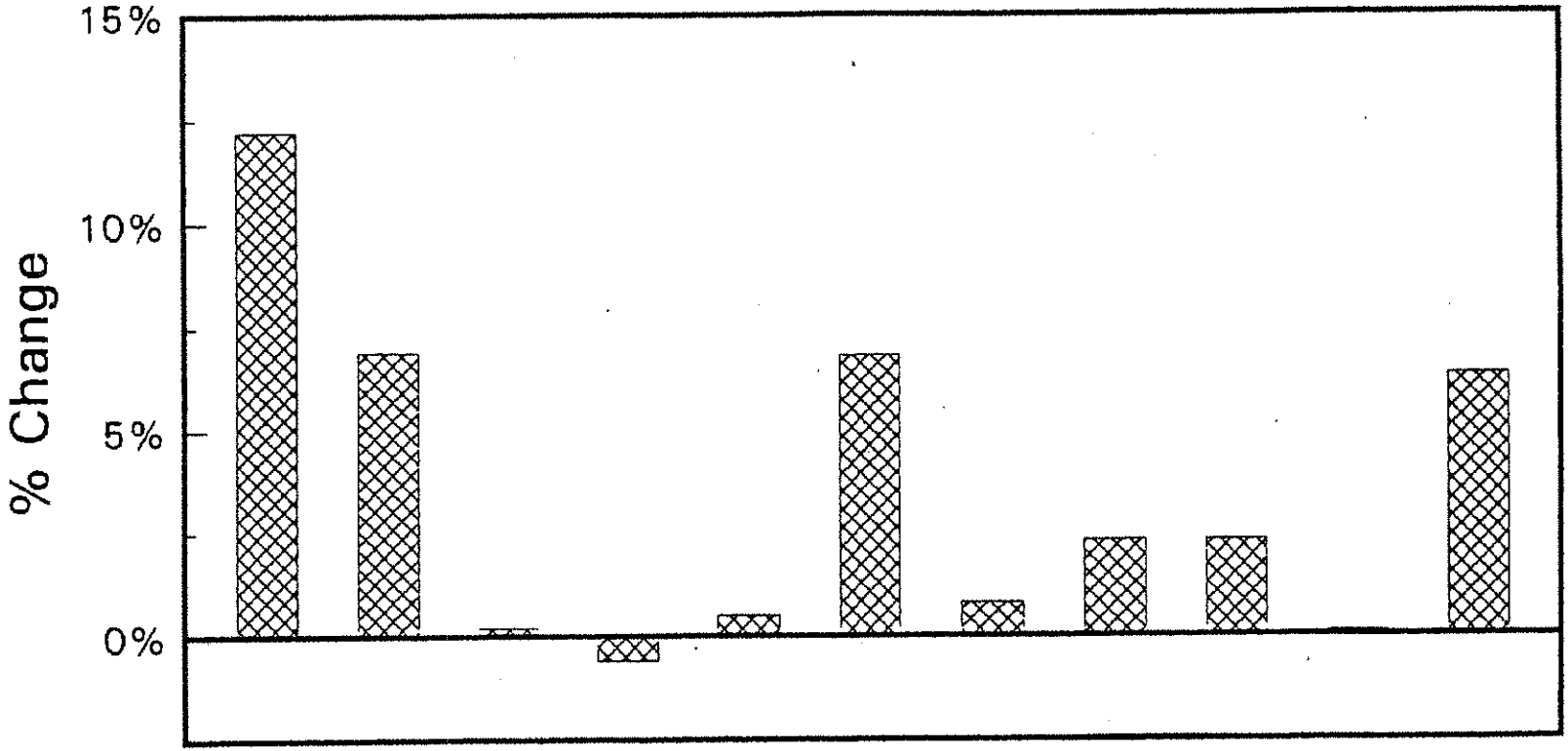
Berkeley and Comparison Cities - 1980 to 1990



	BERKELEY	ALAMEDA	CONCORD	DALY CITY	HAYWARD	RICHMOND	SAN MATEO	SANTA CLARA	SANTA ROSA	SUNNYVALE	VALLEJO
% Change	-12.7%	-3.7	5.6	18.2	32.1	0.7	-7.3	3.2	29.5	7.7	24.5

u:chgpaiba

% CHANGE IN POPULATION EARNING TWICE POVERTY
Berkeley and Comparison Bay Area Cities
1980-1990



	BERKELEY	ALAMEDA	CONCORD	DALY CITY	HAYWARD	RICHMOND	SAN MATEO	SANTA CLARA	SANTA ROSA	SUNNYVALE	VALLEJO
% Change	12.2%	6.9	0.2	-0.6	0.5	6.8	0.8	2.3	2.3	0.1	6.3

u:c2xpovba

ENDNOTES

1. See Stigler, Downs, Posner, Buchannan, Peltzman.

2. The following is derived from a close reading of the Housing Elements, Rent Control Ordinances, and Comprehensive Housing Affordability Studies of Berkeley and Santa Monica.

3. Economists articulating the economic model in a rent control context include Cheung (1974, 1975), Smith & Tomlinson (1981), Smith, Rosen, & Fallis (1988), Rydell et al (1981), Olsen (1972), Hayek (1972, 1975), Friedman & Stigler (1946), Downs (1988), Fallis & Smith (1984), Hirsch (1988), Baird (1980), Lindbeck (1967), among several others.

4. See Roulac (1976), Pyhrr et al (1989).

5. The private rental housing market did disappear, for all practical purposes, in Britain, Israel, and several other nations following long periods of restrictive rent control. Rental Housing in New York City has not disappeared, but 300,000 units of rental housing were lost in the 1960s and 1970s (Salins, 1980).

6. Public choice theorists whose work is relevant in this context include Tullock (1967), Olsen (1965), Buchannan et al (1980), Downs (1957), Stigler (1971, 1975), Peltzman (1976), Posner (1974), and Mueller (1989).

7. Data was also collected for California as a whole, for the cities adjacent to Berkeley and Santa Monica, and for the Census Tracts within and surrounding the two subject cities.

8. There are six cities in California which would, by this definition, be called "restrictive": Berkeley, Santa Monica, West Hollywood, East Palo Alto, Cotati, and Palm Springs.

9. The categories "low income" and "very low income" are the HUD categories: 50% to 80% of median for the region and less than 50% of median for the region.

10. While HUD uses the income categories "very low, low, moderate, and high", this study used a finer breakdown of the top category - "high and very high" - making five categories. In both Berkeley and Santa Monica it is the "very high" group, those earning more than 200% of the median for the region, that increased most rapidly during the rent control decade.

11. The losses of low and very low income households were mostly losses from the renter population, while the gains of high and very high income households were mostly gains in the owner-occupant population.

12. The numbers of less well-educated persons fell 11% in the Bay Area.

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Policy Analysis

How Rent Control Drives Out Affordable Housing

by William Tucker

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Executive Summary

Rent control has been in force in a number of major American cities for many decades. The best-known example is New York, which still retains rent controls from the temporary price controls imposed during World War II. But this policy, meant to assist poorer residents, harms far more citizens than it helps, benefits the better-off, and limits the freedom of all citizens.

A look at the classified ads in rent-controlled cities reveals that very few moderately priced rental units are actually available. Most advertised units are priced well above the actual median rent. Yet in cities without controls, moderately priced units are universally available.

In many cities, policymakers understand that controls drive out residents and businesses. Thus many exempt significant portions of housing from controls, creating shadow markets. Yet as controls hold down rents for some units, costs for all other rental housing skyrockets. And tenants in rent-controlled units fear moving to more desirable neighborhoods since the only units available for rent are very high-priced.

But the trend in recent years has been toward removal of rent control. The repeal of controls in Massachusetts, for example, did not lead to the widespread evictions and hardships that some predicted. The lesson for the rest of the country is that rent control is policy that never was justified and certainly should be scrapped.

The Rush to Rent Control

Rent control has been in force in a number of major American cities for many decades. The best known example is New York, which still retains rent controls from the temporary wartime price controls imposed during World War II.

During the 1970s it appeared that rent control might be the wave of the future. Boston and several of its surrounding suburbs imposed rent control during the inflationary years of 1969 to 1971. President Richard Nixon imposed wage and price controls in 1971 on the entire country, freezing all rents in the process. Many cities retained rent controls, eventually making them permanent, after wage and price

controls expired. Washington, D.C., still retains regulations from this period, as do about 125 municipalities in New Jersey, including Newark, Jersey City, and Elizabeth.

During the Proposition 13 anti-tax campaign in 1978, activist Howard Jarvis promised California tenants that their rents would be reduced if the proposed state constitutional amendment lowered property taxes. Yet in the midst of an inflationary period, this reduction failed to materialize, frustrating many tenants. Berkeley and Santa Monica, two smaller cities with radical political cultures, led California in imposing very strict rent control ordinances. Political activists Tom Hayden and Jane Fonda, who lived in Santa Monica, then toured the state urging other cities to follow suit. Ten cities--including San Francisco, Los Angeles, San Jose, West Hollywood, and East Palo Alto--eventually adopted rent regulation, putting more than half the state's tenant population under rent control ordinances. One major California city, San Diego, bucked the trend, rejecting rent control by a 2-to-1 vote in a 1985 referendum.

By the mid-1980s, more than 200 separate municipalities nationwide, encompassing about 20 percent of the nation's population, were living under rent control. However, this proved to be the high tide of the movement. As inflationary pressures eased, the agitation for rent control subsided.

Some cities have remained strangely immune from the rent control temptation. Chicago, with one of the largest proportions of renters of any American city, has never seriously entertained proposals for rent control. Philadelphia, Baltimore, Cleveland, and other eastern cities outside the Boston-New York-Washington axis have never experimented with this policy. In the major cities of the South and Southwest--Atlanta, New Orleans, Dallas, Houston, Phoenix--rent control is simply not an issue. During the 1980s, a reaction set in among southern, western, and rural states. Some 31 states as diverse as Idaho, Florida, Texas, and Vermont adopted laws and constitutional amendments forbidding rent control.

Once in place, however, rent control usually proves extremely difficult to undo. London and Paris still have rent controls that started as temporary measures during World War I. "Nelson's Third Law," the contention by the late economist Arthur Nelson that the worse a government regulation is, the harder it is to get rid of it, seems to apply here. Whatever distortions a regulation creates, some people will adjust to it and actually profit. These people then become a tightly focused interest group that fights tenaciously to retain the regulation. When this interest group is a tenant population that forms a near-majority of a municipality, the chances that rent control can be abolished through local political efforts are extremely small.

Recent Rollbacks

Nevertheless, rent control is proving vulnerable. On January 1, 1997, Boston, Cambridge, and Brookline became the first major American cities to abandon rent controls since 1950. The process was not altogether voluntary. The initiative came from a statewide campaign organized by Boston and Cambridge property owners, who put up a state ballot initiative banning rent control. The initiative that passed in 1994 required immediate removal of rent controls. Landlords, however, soon agreed to a two-year extension of controls for hardship cases.

The property owners during the referendum argued that the costs of rent control were being borne by other taxpayers. When landlords start losing money because of low rents, they are usually able to get their property assessments lowered. This leads to a general decline in property values in a rent-controlled city and thus less revenue going to governments. In Massachusetts, property tax receipts are shared at the state level through a complicated formula that takes money from cities with high

property tax bases and gives money to cities with low bases. The owners of rental units argued that lower rents in Boston, Cambridge, and Brookline were being subsidized by higher property taxes elsewhere. Massachusetts voters found this argument persuasive and passed an initiative phasing out rent control by a 51-49 margin--even though it lost 2-to-1 in the state's three rent-controlled cities.

The aftermath has been encouraging to those who believe that rent control can be abolished without widespread disruption. Tenant activists had predicted huge rent increases, mass evictions, and a surge in the homeless population if the regulations were abandoned. None of this has occurred. Formerly regulated rents have risen, but construction of new apartments has also begun for the first time in 25 years. Since the overwhelming majority of rental units were deregulated by 1995, and the rest by January 1, 1997, the worst is probably over.

To be sure, there have been individual cases of hardship that tend to attract a great deal of media attention. Almost without exception, these incidents involve tenants who have suffered a loss of income but still have been able to afford their apartments because of rent control. In one case, featured prominently in many newspapers, an elderly diabetic who had been unable to work for 10 years was losing his apartment in the Fenway district of Boston because the landlord was tripling the rent. [1] But tenants frequently are forced to move when they suffer loss of income. Rent control only delays the process and its abolition cannot be held responsible for every instance of tenant displacement. Boston property owners have alleviated the situation considerably by setting up a bank of 200 apartments around the city that are immediately available for such emergencies.

Rent control is now under attack in New York as well. In December 1996, State Senate Republican majority leader Joseph Bruno announced that he intended to end "rent control as we know it" in New York City within the next few years. Bruno, a successful Rensselaer County businessman and free market advocate, says he is philosophically opposed to rent control and believes it is doing enormous harm to New York City.

His vow to overturn the system is no idle boast. Under New York State's arcane legislative proceedings, the majority leader wields enormous power, virtually controlling the entire legislative agenda. Because New York's rent control ordinance is still only "temporary," it must be renewed every two years. Bruno has said that if the Democratic Assembly does not agree to a two-to-four-year phase-out, the Senate will simply fail to renew the statute and rent regulations will expire on June 15. Bruno's effort has set off a firestorm among New York City's regulated tenant population.

Shadow Markets

Although the battle over rent control is routinely portrayed as a contest of "tenants-versus-landlords," in fact the situation is far more complex. Even in New York, which has some of the strictest rent control in the country, only 1.1 million of the city's 1.7 million apartments--about 63 percent--are regulated. This produces a tenant population of about two million individuals, one of the most formidable political constituencies in the city, with a direct interest in retaining rent control. But since New York City has seven million inhabitants, what are the interests of the other five million? And what are the effects of rent control on those among New York State's eighteen million inhabitants who do not live under rent control, or on individuals in other parts of the country who want to move to New York?

It is useful to analyze this issue in terms of the concept of "shadow markets." This concept was developed by Denton Marks in a paper in the *Journal of Urban Economics* in 1984, [2] and also suggested by George Horwich and David Leo Weimer that same year in the context of oil price

controls. [3] Standard supply-and-demand theory predicts that any price controls, including rent controls, will produce an excess of demand over supply--an economic "shortage." There is virtually no disagreement on this premise. In a survey of 75 of the world's outstanding economists, J. R. Kearl and his colleagues found nearly unanimous agreement on the proposition: "A ceiling on rents will reduce the quality and quantity of housing." [4] Of 30 propositions presented for review, only one other received the same level of support. Further, a poll by the American Economic Association of its members in 1992 produced a similar result. [5]

Yet as Marks pointed out in his 1984 paper, rent control, or any other price control, rarely works in a straightforward fashion. It is virtually impossible for a government to control and regulate the entire supply of a commodity. Once a shortage appears, alternative markets and black markets will arise. The government can react in a variety of ways. Often, it will criminalize these markets and prosecute suppliers in draconian fashion. In Iran, merchants who sell above the government prices have their feet burned with hot irons in the public marketplace.

More often than not, however, governments may tolerate these markets as a way of relieving shortages. In many instances, governments will deliberately leave a portion of the market untouched by regulation in order to serve as a safety valve for excess demand. This unregulated portion of a regulated market becomes the "shadow market."

The question posed by Marks and by Horwich and Weimer is "What happens to prices in this shadow market?" Using standard supply-and-demand theory, they predicted that prices in the unregulated portion of the market will be forced higher than their normal market value. This is because the limited supply in the shadow market must absorb the shortage, the excess of demand over supply, in the regulated part of the market. Because prices are pushed too low in the regulated sector, they are forced above what would otherwise be the market price in the unregulated sector. The result is that average prices in both sectors are likely to end up about as high as their free-market level. They could end up higher because of maldistributions and diseconomies in the regulated sector of the market.

Few Low-Rent Units with Rent Control

The concept of shadow markets offers a reasonable explanation of why the results of rent controls are so perverse and why they lead to a sense of helplessness and panic in a rent-controlled population. Although rent controls are widely believed to lower rents, data I have collected from eighteen North American cities show that the advertised rents of available apartments in rent-regulated cities are dramatically higher than they are in cities without rent control. In cities without rent control, the available units are almost evenly distributed above and below the census median. In rent-controlled cities most available units are priced well above the median. In other words, inhabitants in cities without rent control have a far easier time finding moderately priced rental units than do inhabitants in rent-controlled cities.

This is because tenants in the regulated sector tend to hoard their apartments, forcing everyone else to shop only in the shadow market. Thus, rent control is the cause of the widely perceived "housing crisis" in rent-controlled cities.

Price Controls and Commodity Shortages

Standard supply-and-demand theory shows that when the government fixes prices, a gap opens up between supply and demand. This is usually illustrated by two opposing curves, representing the "marginal propensity to sell" (supply) and the "marginal propensity to buy" (demand). Consumers, of

course, are inclined to buy more as prices fall and less as prices rise. Sellers act in an opposite manner, offering more as prices rise and less as prices fall. At one point--and one point only--the interests of buyers and sellers will intersect. This is the "market-clearing price," the point at which, given current economic circumstances, the desires of both groups are optimized. Prices, of course, do not automatically come to rest at some market-clearing level. A continuing discovery process occurs. Either buyers or sellers may achieve a temporary monopoly due to geography or other circumstances. Lack of information may cause either buyers or sellers to accept a price that is unfavorable to them. But, lacking government interference, the actions of buyers and sellers always push prices toward a market-clearing level.

The effect of price regulation is to keep supply and demand permanently separated. If the government holds prices above market value, usually in an attempt to appease suppliers, the result is an economic surplus. For instance, since the 1920s the federal government has maintained price supports for many agricultural commodities. The result has been chronic farm surpluses. Price controls, designed to benefit consumers, are much more common. The oil price controls from 1971 to 1981 that resulted in a decade-long "energy crisis" provide insights into the rent control issue.

Oil price controls had led to gas lines and rationing at the pump during two brief episodes in 1973 and 1979. But for the most part, there was no visible shortage and supplies continued uninterrupted for most of the decade. What happened to the shortages that should have been produced by price controls? In retrospect, the answer was simple. As Horwich and Weimer noted, the federal government was able to impose price controls only on domestic sources of supply. This created a shortage of domestic oil. But the country continually filled this gap by importing more oil. Imports constituted only 25 percent of the nation's supply when Nixon imposed price controls in 1971. In two short years, this portion climbed to nearly 33 percent. OPEC countries were emboldened to interrupt supplies briefly in 1973 and then quadruple the price.

Unfortunately, Congress responded in 1976 by "punishing" the oil companies; dramatically reducing the price and extending price controls indefinitely. As a result, imports rose to more than 50 percent by 1979, despite an extensive government publicity campaign against purchasing importing oil. Congress even abetted the process surreptitiously by expanding "oil entitlements," a program that supplied small refineries with subsidized imported crude oil, supposedly to help them compete against the major oil refiners.

By 1979, America's excess demand had stretched world supplies so tight that a small interruption of supplies, caused by the outbreak of the Iran-Iraq War, was enough to set off another "gas shortage." When President Ronald Reagan removed domestic price controls in 1981, the resulting surge of supply was enough to send world oil prices into a free fall. The "energy crisis" vanished almost overnight.

Horwich and Weimer show that the shadow market concept explains these events. Prices of only part of the oil supply, that produced domestically, were controlled. To make up for the resulting shortages, consumers had to turn to foreign-produced oil. Because of the excess demand, world oil prices rose rapidly. Only when domestic supplies were restored did world oil prices tumble. Over a decade, oil price controls accomplished almost nothing in lowering prices to consumers, but they did cause havoc by creating rapid shifts in the world market.

Shortages and Hoarding

One reason the disadvantages of oil price controls soon became apparent was that the hoarding of this commodity was only partially feasible. Hoarding occurs when consumers buy supplies for future use as well as present consumption. When uncertainty about future supplies becomes general, consumers will begin to stockpile. During the 1979 "gas shortage," for example, entertainer John Denver was reported to be building two 100-gallon gas tanks on his Colorado estate. Ordinary motorists reacted the same way by "topping off" their tanks at gas stations. The U.S. government hoarded oil with the Strategic Petroleum Reserve. Although hoarding may benefit individuals or countries, it also puts upward pressure on prices. When people buy for future use as well as present consumption, supplies will be tighter and prices on the shadow market will be driven even higher. Or, in the case of oil, if rationing-by-waiting is already in effect, gas lines will stretch even longer.

But the ability to hoard depends on the logistics and durability of a product. Oil is consumed only once and must be stored in facilities that are not easily or inexpensively obtainable. During a famine, food can be hoarded, but it must be stored under special conditions to avoid spoilage.

Housing is one of the most durable commodities. A well-constructed building can last more than 100 years; many buildings in Europe are centuries old. Housing can be consumed today and still be consumed 10 or 20 years later. And with government holding prices low through rent control, a tenant who holds a rent-controlled apartment has a strong incentive to stay in it his or her entire life, even passing it on to descendants. Hoarding of housing is not only possible, it can become the natural order of things.

Of course if the laws allow a landlord to charge a higher rent to a new tenant, the landlord may want to evict a low-paying tenant. But this only leads to strong antieviction laws, a staple in all rent-controlled communities that soon makes it difficult or impossible to get rid of even the most destructive or delinquent tenants.

As a commodity, then, rental housing makes an ideal target for conveying certain benefits to a portion of the population. Because of durability of housing, rent control can go on bestowing benefits to the same minority--or even a majority of a municipality--for a very long period of time. It is the individuals who are forced into the shadow market--usually newcomers or people who want to change apartments--who suffer the consequences.

Rent Control and Vacancy Rates

There can be no doubt that rent control creates housing shortages. For almost 20 years, national vacancy rates have been at or above 7 percent--a figure generally considered normal. Cities such as Dallas, Houston, and Phoenix, where development is welcomed, have often had vacancy rates above 15 percent. In these areas of the country, there usually is a surplus of housing rather than a shortage. Landlords commonly advertise "move-in specials," where rent is reduced for the first month or even where they pay moving expenses.

In rent-controlled cities, on the other hand, vacancy rates have been uniformly below normal. New York City has not had a vacancy rate above 5 percent since World War II. (The state's rent control law, supposedly temporary, would automatically expire if it did.) Before giving up rent control, Boston's vacancy rate was below 4 percent. (There are no figures as of yet on the rate since rent control ended.) In rent-controlled San Francisco, the vacancy rate is generally around 2 percent, and in San Jose the rate is 1 percent, the nation's lowest. Meanwhile, comparable nonrent-controlled cities, such as Chicago, Philadelphia, San Diego, and Seattle have normal vacancy rates at or above 7 percent.

Rent-controlled cities absorb these shortages in a variety of ways. Higher rates of homelessness are a manifestation of rent control. [6] Another is the traditional difficulty individuals have in finding a new apartment in these cities. An article in *New York* magazine entitled, "Finding an Apartment (Seriously)," recommended such techniques as "joining a church or synagogue" as a useful technique in meeting people who might provide good leads on an apartment. [7] Young people who migrate to New York or San Francisco usually must settle for paying $600 a month to share a two-bedroom apartment with several other people or commuting from a nearby city. Crowding is a manifestation of rent control.

Excluding Outsiders

The exclusion of newcomers may even emerge as the main purpose of rent control, particularly in small, selfidentified cities. Many of the small New Jersey municipalities with rent control are close-knit ethnic communities that do not particularly welcome newcomers. One of their major fears is apartment complexes that will bring in large numbers of outsiders and "change the character of the community." Rent control has proved an effective tool for making sure that small, exclusionary-minded communities do not have to undergo change.

Santa Monica is a beach community near Los Angeles that was discovered by urban professionals after the construction of the Santa Monica Freeway in 1972. These newcomers, many originally from New York, immediately set about trying to limit new construction, pulling up the ladder to keep out those that would follow them. In particular, they opposed a series of high-rise apartments proposed for the beachfront. The newcomers soon discovered that imposing rent control not only guaranteed themselves cheap apartments but hampered further development as well.

The result has been a virtually closed community. It is almost impossible for newcomers to find apartments in Santa Monica. As Mark Kann, a Los Angeles newspaper columnist, reported in *Middle Class Radicalism in Santa Monica*, a book that celebrated rent control, "I knew one professional woman who tried to get a Santa Monica apartment for more than a year without success, but she broke into the city, finally, by marrying someone who already had an apartment there." [8] The city is also famous for its homeless population and is often called "The Homeless Capital of the West."

Generational Subsidies

Berkeley, California, and Cambridge, Massachusetts, have similar housing markets. Small college communities, they originally adopted rent control with the help of large student-voter populations that felt a town-gown rivalry with their landlords. But like many socialist programs, rent control turned out to be a one-generation wonder. Students who were in place when rent control was adopted often remained in their apartments all through their professional lives. Ken Reeves, the mayor of Cambridge until 1994, who used to advertise his rent-controlled status on his campaign literature, was still living in the apartment he rented as a Harvard law student in 1973. He finally bought a home when rent control was abolished.

In Berkeley, Floyd and Eva Floystrup are a carpenter and his wife, and also landlords, who were once forced to pay $70,000 to their tenants in "back rent" because they had refused to register with the rent control board. "We believe in free enterprise," they explained. They noted that their low-paying tenants are all high-salaried professionals who arrived as students in the 1970s. "I always have Berkeley students come up to me on the street and say, `How come I can't find a place to live in this

city?'" said Eva Floystrup. "I tell them, `Look, we're still taking care of the Class of 1979. As soon as they leave, we'll have room for you.'" [9]

Studies in both cities showed that rent-controlled apartments have tended to fall into the hands of middle class professionals. A 1994 study of Cambridge by housing consultant Rolfe Goetze showed that rent-controlled apartments were concentrated among highly educated professionals, while the poor, the elderly, and students were generally excluded. [10] Michael St. John, a Berkeley sociologist, found similar results in California. "Rent control has actually accelerated gentrification in Berkeley and Santa Monica," said St. John. "Poor and working class people have been forced out of those communities faster than in surrounding municipalities." [11]

In small cities such as Cambridge, Berkeley, and Santa Monica, the housing shortages created by rent control can be pushed onto neighboring communities. Most Berkeley students now search for housing in Oakland and Richmond, significantly increasing their commuting time.

Shadow-Market Housing

In large metropolises a housing shortage can severely damage the city's economy. Experience shows that when such cities adopt rent control, they usually try to avoid outright housing shortages by leaving segments of the market unregulated. Unsatisfied demand is diverted into this unregulated sector. Because of the shadow-market effect, people in this sector pay higher-than-market prices. Still, they are rarely conscious of the causation. Instead, they simply regard the city as "an expensive place to live" and often become a constituency for extending rent control to their own apartments.

It should be recognized that not all cities enforce rent control with the same enthusiasm. Both the city and county of Los Angeles adopted rent control in 1979, but the county dropped it shortly thereafter. The city government exempted new construction and allowed sizable rent increases. It also adopted a form of vacancy decontrol that allows rents to rise to market value each time a new tenant moves in. A 1990 study by the Rand Corporation found rent control saving tenants only $8 a month. Since then the city has depopulated and vacancies rose close to 10 percent. "We can't even get the rent the rent board allows us," said Dan Fellar, director of the Apartment Owners Association of Southern California. As a result, there is little shadow-market effect. Washington, D.C., is also depopulating and its rent control ordinance has little impact. Toronto has regulated all rental housing down to single-family homes since 1979, but allows generous 8 percent annual rent increases. The regulation seems to have only small impact.

New York and San Francisco, on the other hand, enforce two of the strictest sets of rent control ordinances in North America. (In many European countries, regulation has destroyed private rentals to the point that there is little left but public housing.) Both cities allow only small rent increases and neither has vacancy decontrol, although San Francisco will soon be adopting it according to a state law. Neither city is depopulating and both experience a high demand for housing. As a result, both have developed strong shadow markets.

New York City split its housing market at the outset in 1947 by exempting all future construction. Toronto exempted all new construction when controls were adopted in 1979. San Francisco did the same. Thus, while Santa Monica and New Jersey communities used rent control intentionally to prevent new housing construction, these other cities worried that no new housing would ever be built.

Unfortunately, the strategy of exempting new units often backfires. Sooner or later, tenants in the new buildings will realize their position relative to rent-controlled neighbors and seek controls on the rents

of their own dwellings. This happened in New York in 1969, when Mayor John Lindsay was forced to adopt "rent stabilization" to cope with the excessive rent in "post-war" housing, that is, housing built after 1947 that was originally exempt from regulation. Lindsay promised that all post-1969 housing would remain outside rent stabilization. But inflationary pressures forced the New York State Legislature to break this pledge within five years with the Emergency Tenant Protection Act of 1974. Since then, builders have learned that, sooner or later, any new housing in New York risks being "recaptured," the term used by city officials, that is, brought under regulations. Consequently, little new rental housing is ever built.

Toronto also repealed a new-construction exemption in 1989 and now "recaptures" all new housing after five years. Thus little is built. And San Francisco continues to exempt new housing, but does so much to discourage construction through zoning and no-growth ordinances that, with a 1 percent vacancy rate, the city still adds only 500 residential units a year.

New housing thus makes up a stable--if somewhat uncertain--segment of the shadow market. Another common sector is smaller buildings, particularly those that are owner-occupied. Cambridge exempted two- and three-unit owner-occupied buildings. San Jose exempts duplexes and single-family homes, but regulates the 10,000 mobile homes in its jurisdiction. Berkeley does not regulate duplex apartments when the owner occupies one unit. San Francisco originally exempted buildings with four units or fewer, but this was overturned in a popular referendum in 1994. Now the city even regulates rented single-family homes. New York's rent stabilization does not apply to buildings with fewer than six units, although the old rent control regulations from 1947 can still govern smaller units.

Finally, rented condominiums and cooperative apartments are commonly exempted--although this is an extremely controversial policy in most rent-controlled cities. The problem is that once apartment houses fall under rent control, many owners will attempt to escape the regulation by selling off the apartments to individual owners. This frustrates rent control officials because it diminishes the supply of rental housing. In New York, condominiums and cooperatives are treated as single units and thus exempted under the smallowner rule. In Washington, however, an apartment building under cooperative or condominium ownership is regulated as multi-family housing, even though it has multiple owners.

Most cities with rent control usually end up adopting strong laws to discourage conversion to condominium and cooperative ownership, in order to close an escape hatch from the regulated market. In 1989, Cambridge adopted a law actually making it illegal for owners of converted condominiums to live in their own apartments. Instead, owners were to be forced to rent out their apartments as rent-controlled units, in order not to "diminish the supply of rental housing." Active enforcement of this law that would evict individuals from their own property was begun in earnest in 1992. The prosecution of these "condo criminals" swelled the ranks of rent-control opponents and played a large role in passage of the statewide referendum that in 1994 ended this regulation.

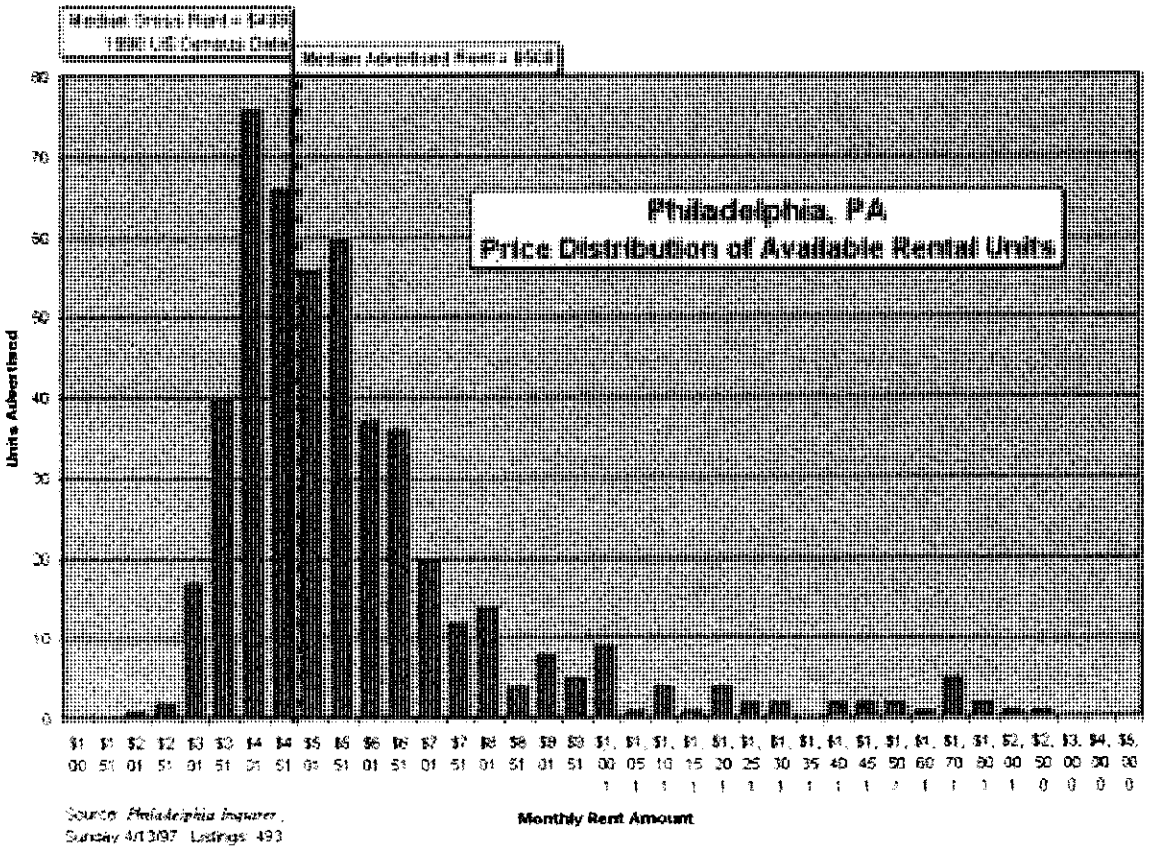
In major cities, then, these three exempted sectors-- new construction, smaller buildings, rented condominiums-- generally form the shadow market. Even in the strictest rent controlled environment, this shadow market may grow to considerable size. In New York, the unregulated sector now makes up 36 percent of the 1.7-million-unit rental market. In San Francisco and San Jose it makes up about half. Only in Berkeley and Santa Monica does the shadow market make up less than 20 percent of all rental housing.

Shortages under Rent Control: The New Evidence

What happens to price and availability of unregulated housing in a rent-controlled market? To determine this, this author collected data on all the available apartments advertised in eighteen major cities around North America. The advertised prices were taken from a single Sunday edition of the largest paper in each city during the month of April 1997. The advertised price of every listed apartment was recorded. (Three newspapers were used for New York.) Rented houses were also included. Some older urban areas--Chicago, Cleveland, New York, Philadelphia--have very few rental houses, while in Sunbelt cities such as Dallas, Houston, Phoenix, and San Diego, they make up a large portion of the rental market. To make sure this regional phenomenon was not distorting the figures, rental houses were omitted in two cities, Atlanta and Phoenix. Six of the surveyed cities have rent control--Los Angeles, New York, San Francisco, San Jose, Toronto, and Washington. In addition, Boston ended rent control in January 1997. The median rent shown on each graph is based on the 1990 U.S. Census. [12] (See Appendix for all graphs.)

The most striking observation is that the graphs of rents in free-market cities follow a standard bell curve. The vast majority of advertised rents cluster around the median, with between 33 percent and 40 percent below the census median. The median advertised rent is rarely more than $50 above the census median. This may be because the very cheapest apartments are not likely to be advertised in the newspaper and because landlords often raise rents when apartments become vacant. The mode - the number where the graph peaks - usually occurs below both medians. Characteristically, there is a steep climb on the low-rent side of the curve, followed by a long tail toward the "luxury" end of the market.

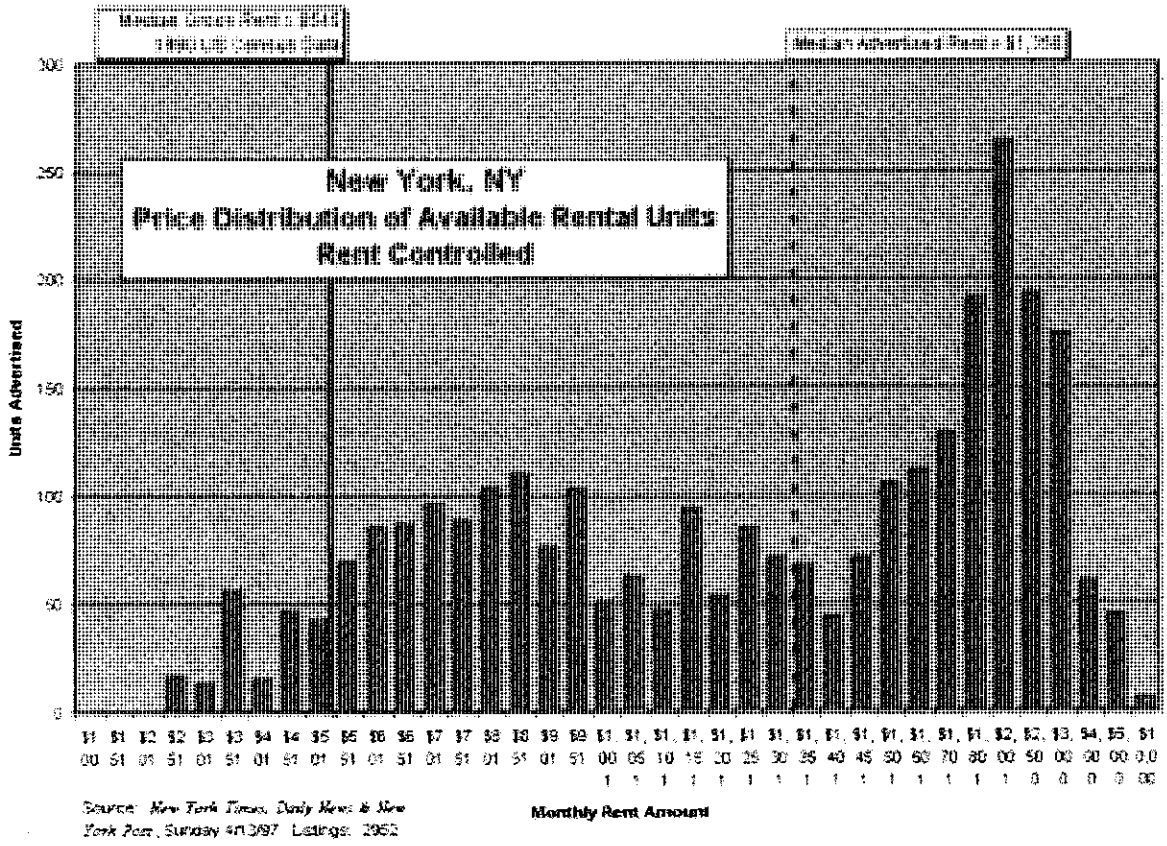
Figure 1



It is also striking how affordable housing is in most free-market cities. In Philadelphia, the nation's fifth largest city, the most common advertised rent, the mode, is between $450 and $500--below both the advertised and census medians. (See Figure 1.) In Chicago, the mode was $500 to $550, also below both medians. Unregulated cities such as Philadelphia, Chicago, San Diego, Phoenix, and Seattle seem to have almost perfectly competitive housing markets, with housing available at every price level but clustered at the low end.

The two cities with strict rent control are glaring exceptions to this pattern. In both New York (see Figure 2.) and San Francisco, advertised rents peaked at $2,000--more than triple the U.S. Census median rent for each city. The median advertised rent in New York was $1,350, in San Francisco, $1,400--both more than double the census median. More important, there were almost no rental units available at the low end of the market. In both San Francisco and New York, less than 10 percent of advertised rents were below the census median. (The New York figures also included listings from the *Daily News* and the *New York Post*, which are slanted toward the lower end of the market.) Rent control in both these cities appears to make housing spectacularly unaffordable.

Figure 2



San Jose and Boston both show strong symptoms of the rent control disease. San Jose rents peak at $1,500, with rents pushed more toward the expensive end. Boston shows the usual "median hump," but displays overtones of the rent-control effect at the upper end. Los Angeles, Washington, and Toronto--all of which practice milder forms of rent control than New York and San Francisco--show little or no signs of the rent control effect.

What is going on in these markets? The explanation seems fairly straightforward. Rent control splits the housing market into two sectors, the regulated segment and the shadow market. As prices in the regulated sector are forced lower, prices in the shadow market go higher. At a certain point, the differential between the two markets becomes so stark that tenants in the regulated sector begin hoarding their apartments. They hardly ever move. In New York, 88 percent of tenants living in pre-war, rent-controlled apartments have not moved in more than 25 years.

If they do abandon their apartments, regulated tenants pass them on to friends or relatives, or sell them to strangers through "key money" that reflects their true market value. As a consequence, regulated apartments are essentially withdrawn from the market. In New York, where regulated apartments make up 63 percent of the market, only 85 or 3 percent of the 2,800 listings in the *New York Times*, *Daily News*, and *New York Post*, were identified or identifiable as rent regulated. [13]

With the regulated portion market locked away, all new demand is funneled into the unregulated sector--the shadow market. Eventually the competition for these limited number of apartments creates highly inflated prices. It is like squeezing a balloon at one end--the pressure will simply create a bulge at the other end.

Burdens on Newcomers

One thing that makes rent control more palatable to the majority is that the brunt of these excessive costs is usually borne by newcomers. People moving to New York or San Francisco assume that housing is very expensive. They may get discouraged and leave. New York has lost 200 of its 250 national corporate headquarters over the last 25 years, in part because these companies found housing almost unattainable for transferring employees. If these individuals do stay, it may be several more years before they realize that others living in almost identical apartments are paying only a fraction of their rent. In 1985, for example, a woman wrote this letter to the New York *Daily News*:

> I recently moved to New York and I pay almost $1,200 a month for a nice little apartment on the lower East Side. The landlords have been reasonable and the building is clean. Still, when I found out at a tenants' meeting that 30 of the building's 34 apartments rent for below $300 and that most of the tenants in those cheap apartments make more money that I do, I was a bit outraged. I understand protecting the old people, but protecting fellow yuppies with bargains?
>
> In Texas, $400 will rent a two-bedroom apartment with air conditioning, washer/dryer, swimming pool, fireplace, and garage. The vacancy rate is over 10 percent. There are no rent controls and the tenants hold all the cards. And landlords are not a hated breed. [14]

Such voices are usually drowned out in the rent control debate. But they are beginning to be heard. As the current debate heads for its June 15 deadline, the following letter appeared in the *New York Times*:

> Where are the voices of all those who do not share the benefits of rent control but who actually suffer from it? For the past seven years my husband and I have been killing ourselves to pay our exorbitant market rent for a small one-bedroom apartment in order to stay in this city. I know too many people who live in rent-controlled apartments who also own country homes. One person (whose apartment we tried to rent at the legal rate) moved to Florida and now rents out his apartment, illegally, at the market price, subsidizing his new life style. If rent decontrol would mean a fairer, less insane market,

then it is a just cause. If the housing situation does not improve, it will be the new generation of middle-class New Yorkers who will be forced to leave the city we love. [15]

Can Rent Control Be Abolished?

Rent control makes housing less affordable to anyone seeking housing in a rent-controlled market. Even people who already have a "great deal" under rent control become prisoners of their own apartment. They can never move because it means being thrown into the shadow market, where prices may be three or four times as high for an almost identical apartment. In Europe, where rent control governs even larger sectors of the market, the result has been the continent's famed "labor immobility," where moving a factory across town may mean losing half the work force. This huge differential between the regulated market and the shadow market strikes terror into the hearts of a rent-controlled population and fuels the fires against deregulation. But this fear is based on the illusion that shadow-market prices are actual market prices. Even landlords make the same mistake. They often assume that an end to regulation will enable them to double and triple rents, whereas the overall effect would be far more modest.

The goal in getting rid of rent control should be to allow the curve of housing prices to return to the elegant symmetry of the free market. It is important to deregulate as much of the market as possible at once. That will move the entire curve toward the lower end of the market. If deregulation occurs in small increments, on the other hand, each individual tenant will be forced to make the jump from the low end to the high end, until their accumulated weight moves the curve back. It would be like moving a mountain one grain of sand at a time.

One poor way to deregulate is "vacancy decontrol." This solution, now in effect in California and being proposed as a compromise in New York, simply extends the adjustment period while delaying the benefits of deregulation. Under vacancy decontrol, apartments are deregulated only when the current tenant leaves or dies. But of course tenants in regulated apartments never move, since leaving an apartment means being thrown into the shadow market. It may take 20 to 50 years before the market resumes its normal shape.

Worse yet, under vacancy decontrol individual landlords have every incentive to evict their regulated tenants since vacancy means deregulation of the apartment. The result will be a daily series of horror stories, with landlords doing everything from hiring thugs to setting fire to their buildings to get rid of low-rent tenants. Meanwhile, because of general uncertainty, builders and renovators will not invest much in new housing. As a result, there is always pressure to repeal vacancy decontrol. New York tried such decontrol in 1972 but repealed it after only two years.

Instead, rent control is best abolished quickly and cleanly, with ample effort to protect the most vulnerable tenants. Massachusetts did it about right. After winning the 1994 referendum, property owners were faced with a series of court challenges that could have delayed implementation indefinitely. At the same time, Governor William Weld had vowed to veto any state legislation to revive rent control in Boston, Cambridge, and Brookline. The result was a compromise. Rent control was lifted immediately in the three cities, but a two-year extension was allowed for tenants qualifying for the federal definition of "lowincome"--less than 60 percent of the median for the region or 80 percent for the elderly and handicapped. In the end, 4 percent of the tenants in Boston and 10 percent in Cambridge and Brookline qualified for this extension. These groups were finally deregulated on January 1997.

Such a program could work in New York and San Francisco, perhaps with a slightly longer time scale. A three-to-five-year phase-out would seem reasonable. The effort could be helped enormously if builders and developers would pledge publicly to step up housing construction during the interim. Unfortunately, landlords and developers in both cities have become such pariahs that they rarely speak openly or work in concert. Boston landlords helped their cause enormously by setting up the reserve bank of 200 apartments for emergency relocations. Yet owners' groups in New York and San Francisco have done nothing comparable. Such an effort would go a long way toward allaying fears about deregulation.

The Morality of the Market

Human morality is based on the premise that virtuous behavior should be rewarded while harmful behavior ought to be punished. Where the rewards of the marketplace are concerned, it can truly be said that cities and nations get what they deserve.

Price controls are built around the concept that one particular group, the providers of some essential good or service, is a nefarious clique that must be wrestled into submission by the government. Oil company executives were the villains of the "energy crisis," and Congress portrayed itself as a gallant knight riding to the rescue of a distressed public. In fact, all that was at stake was the public's ability to tolerate the price increases associated with shifts in energy resources.

Rent control works the same way. Providing housing is perceived by some as an illegitimate enterprise. "Greedy landlords" become public enemies in rent-controlled cities and the entire political apparatus is geared up to subdue them. (The political party that has governed Santa Monica for the last 20 years is called "Santa Monica Renters' Rights.") The hate campaign against landlords feeds on itself, becoming a self-fulfilling prophecy, since owners in the shadow market can charge exorbitant prices, while owners in the regulated sector do best by making life uncomfortable for their low-rent tenants. Yet all that is really at stake is public willingness to accept the idea that some people make their living by providing housing.

Rent control is a disease of the mind that soon becomes a disease of the market. Those cities that resist infection --merely by having a healthy tolerance for the rights of others--are rewarded with a normal competitive housing market in which housing is available at every price level. Those cities that succumb to the disease of rent control are doomed to never-ending, house-to-house warfare over an everdiminishing supply of unaffordable housing. Public policy creates its own rewards.

Appendix:
Price Distribution of Available Rental Units for Various Cities

Atlanta, GA	Boston, MA	Chicago, IL	**Cleveland, OH**	Dallas, TX	**Denver, CO**
Houston, TX	Los Angeles, CA	Miami, FL	New York, NY	Philadelpha, PA	San Diego, CA
San Jose, CA	Phoenix, AZ	San Francisco, CA	Seattle, WA	Toronto, Ontario	Washington, DC
All Graphs **(not recommended for slower connections)**					

Notes

[1]. Gregg Birnbaum, "Ill Man's Apt. Bill Up 219%," The New York Post, April 7, 1997.

[2]. Denton Marks, "The Effects of Partial-Coverage Rent Control on the Price and Quantity of Rental Housing," Journal of Urban Economics 16 (1984), 360-369.

[3]. George Horwich and David Leo Weimer, Oil Price Shocks, Market Response, and Contingency Planning (Washington: American Enterprise Institute, 1984).

[4]. J.R. Kearl, Clayne L. Pope, Gordon C. Whiting, and Larry T. Wimmer, "A Confusion of Economists," American Economic Review, 69, May 1979, 28-37.

[5]. "Survey of Members," American Economic Review, December, 1992.

[6]. William Tucker, The Excluded Americans: Homelessness and Housing Policies (Washington: Regnery Gateway, 1990).

[7]. Jane Goldman, "Finding an Apartment (Seriously)," New York, June 22, 1987.

[8]. Mark E. Kann, Middle Class Radicalism in Santa Monica (Philadelphia: Temple University Press, 1986), p. 176.

[9]. William Tucker, Zoning, Rent Control, and Affordable Housing (Washington: The Cato Institute, 1991), p. 29.

[10]. Rolfe Goetze, "Rent Control: Affordable Housing for the Privileged, Not the Poor. A Study of the Impact of Rent Control in Cambridge." (Cambridge, Massachusetts: GeoData Analysis, 1994).

[11]. Michael St. John and Associates, "Rent Control in Perspective: Impacts on Citizens and Housing in Berkeley and Santa Monica Twelve Years Later." (Berkeley: St. Michaels and Associates, 1993). Also from personal interview.

[12]. More recent data comparing rents in these cities were not available. Rent increases for non-regulated housing could push the median for each city slightly higher but would be unlikely to affect the general shape of each graph.

[13]. Some apartments are advertised as "rent stabilized." Others are listed at odd rates in dollars and cents, for example, "$549.13 a month," which are characteristic of legally regulated rents.

[14]. "Rent control: A lease on stupidity," The Voice of the People, the New York Daily News, June 17, 1985.

[15]. Letter to the editor, the New York Times, April 20, 1997

THE CONCISE ENCYCLOPEDIA OF ECONOMICS

Rent Control

by Walter Block
About the Author

New York State legislators defend the War Emergency Tenant Protection Act—also known as rent control—as a way of protecting tenants from war-related **HOUSING** shortages. The war referred to in the law is not the 2003 war in Iraq, however, or the Vietnam War; it is World War II. That is when rent control started in New York City. Of course, war has very little to do with apartment shortages. On the contrary, the shortage is created by rent control, the supposed solution. Gotham is far from the only city to have embraced rent control. Many others across the United States have succumbed to the blandishments of this legislative "fix."

Rent control, like all other government-mandated **PRICE CONTROLS**, is a law placing a maximum price, or a "rent ceiling," on what landlords may charge tenants. If it is to have any effect, the rent level must be set at a rate below that which would otherwise have prevailed. (An enactment prohibiting apartment rents from exceeding, say, $100,000 per month would have no effect since no one would pay that amount in any case.) But if rents are established at less than their equilibrium levels, the quantity demanded will necessarily exceed the amount supplied, and rent control will lead to a shortage of dwelling spaces. In a competitive market and absent controls on prices, if the amount of a commodity or service demanded is larger than the amount supplied, prices rise to eliminate the shortage (by both bringing forth new **SUPPLY** and by reducing the amount demanded). But controls prevent rents from attaining market-clearing levels and shortages result.

With shortages in the controlled sector, this excess **DEMAND** spills over onto the noncontrolled sector (typically, new upper-bracket rental units or condominiums). But this noncontrolled segment of the market is likely to be smaller than it would be without controls because property owners fear that controls may one day be placed on them. The high demand in the noncontrolled segment along with the small quantity supplied, both caused by rent control, boost prices in that segment. Paradoxically, then, even though rents may be lower in the controlled sector, they rise greatly for uncontrolled units and may be higher for rental housing as a whole.

As in the case of other price ceilings, rent control causes shortages, diminution in the quality of the product, and queues. But rent control differs from other such schemes. With price controls on gasoline, the waiting lines worked on a first-come-first-served basis. With rent control, because the law places sitting tenants first in the queue, many of them benefit.

The Effects of Rent Control

Economists are virtually unanimous in concluding that rent controls are destructive. In a 1990 poll of 464 economists published in the May 1992 issue of the *American Economic Review,* 93 percent of U.S. respondents agreed, either completely or with provisos, that "a ceiling on rents reduces the quantity and quality of housing available."[1] Similarly, another study reported that more than 95 percent of the Canadian economists polled agreed with the statement.[2] The agreement cuts across the usual political spectrum, ranging all the way from Nobel Prize winners **MILTON FRIEDMAN** and **FRIEDRICH HAYEK** on the "right" to their fellow Nobel laureate **GUNNAR MYRDAL**, an important architect of the Swedish Labor Party's **WELFARE** state, on the "left." Myrdal stated, "Rent control has in certain Western countries constituted, maybe, the worst example of poor planning by governments lacking courage and vision."[3] His fellow Swedish economist (and socialist) Assar Lindbeck asserted, "In many cases rent control appears to be the most efficient technique presently known to destroy a city—except for bombing."[4] That cities like New York have clearly not been destroyed by rent control is due to the fact that rent control has been relaxed over the years.[5] Rent stabilization, for example, which took the place of rent control for newer buildings, is less restrictive than the old rent control. Also, the decades-long boom in the New York City housing market is not in rent-controlled or rent-stabilized units, but in condominiums and cooperative housing. But these two forms of housing ownership grew important as a way of getting around rent control.

Economists have shown that rent control diverts new **INVESTMENT**, which would otherwise have gone to rental housing, toward greener pastures—greener in terms of consumer need. They have demonstrated that it leads to housing deterioration, fewer repairs, and less maintenance. For example, Paul Niebanck found that 29 percent of rent-controlled housing in the United States was deteriorated, but only 8 percent of the uncontrolled units were in such a state of disrepair. Joel Brenner and Herbert Franklin cited similar statistics for England and France.

The economic reasons are straightforward. One effect of government oversight is to retard investment in residential rental units. Imagine that you have five million dollars to invest and can place the funds in any industry you wish. In most businesses, governments will place only limited controls and taxes on your enterprise. But if you entrust your money to rental housing, you must pass one additional hurdle: the rent-control authority, with its hearings, red tape, and rent ceilings. Under these conditions is it any wonder that you are less likely to build or purchase rental housing?

This line of reasoning holds not just for you, but for everyone else as well. As a result, the quantity of apartments for rent will be far smaller than otherwise. And not so amazingly, the preceding analysis holds true not only for the case where rent controls are in place, but even where they are only threatened. The mere anticipation of controls is enough to have a chilling effect on such investment. Instead, everything else under the sun in the real estate market has been built: condominiums,

office towers, hotels, warehouses, commercial space. Why? Because such investments have never been subject to rent controls, and no one fears that they ever will be. It is no accident that these facilities boast healthy vacancy rates and relatively slowly increasing rental rates, while residential space suffers from a virtual zero vacancy rate in the controlled sector and skyrocketing prices in the uncontrolled sector.

Although many rent-control ordinances specifically exempt new rental units from coverage, investors are too cautious (perhaps too smart) to put their faith in rental housing. In numerous cases housing units supposedly exempt forever from controls were nevertheless brought under the provisions of this law due to some "emergency" or other. New York City's government, for example, has three times broken its promise to exempt new or vacant units from control. So prevalent is this practice of rent-control authorities that a new term has been invented to describe it: "recapture."

Rent control has destroyed entire sections of sound housing in New York's South Bronx and has led to decay and abandonment throughout the entire five boroughs of the city. Although hard statistics on abandonments are not available, William Tucker estimates that about 30,000 New York apartments were abandoned annually from 1972 to 1982, a loss of almost a third of a million units in this eleven-year period. Thanks to rent control, and to potential investors' all-too-rational fear that rent control will become even more stringent, no sensible investor will build rental housing unsubsidized by government.

Effects on Tenants

Existing rental units fare poorly under rent control. Even with the best will in the world, the landlord sometimes cannot afford to pay his escalating fuel, labor, and materials bills, to say nothing of refinancing his mortgage, out of the rent increase he can legally charge. And under rent controls he lacks the best will; the incentive he had under free-market conditions to supply tenant services is severely reduced.

The sitting tenant is "protected" by rent control but, in many cases, receives no real rental bargain because of improper maintenance, poor repairs and painting, and grudging provision of services. The enjoyment he can derive out of his dwelling space ultimately tends to be reduced to a level commensurate with his controlled rent. This may take decades, though, and meanwhile he benefits from rent control.

In fact, many tenants, usually rich or middle-class ones who are politically connected or who were lucky enough to be in the right place at the right time, can gain a lot from rent control. Tenants in some of the nicest neighborhoods in New York City pay a scandalously small fraction of the market price of their apartments. In the early 1980s, for example, former mayor Ed Koch paid $441.49 for an apartment then worth about $1,200.00 per month. Some people in this fortunate position use their apartments like hotel rooms, visiting only a few times per year.

Then there is the "old lady effect." Consider the case of a two-parent, four-child family that has occupied a ten-room rental

dwelling. One by one the children grow up, marry, and move elsewhere. The husband dies. Now the lady is left with a gigantic apartment. She uses only two or three of the rooms and, to save on heating and cleaning, closes off the remainder. Without rent control she would move to a smaller accommodation. But rent control makes that option unattractive. Needless to say, these practices further exacerbate the housing crisis. Repeal of rent control would free up thousands of such rooms very quickly, dampening the impetus toward vastly higher rents.

What determines whether or not a tenant benefits from rent control? If the building in which he lives is in a good neighborhood where rents would rise appreciably if rent control were repealed, then the landlord has an incentive to maintain the building against the prospect of that happy day. This incentive is enhanced if there are many decontrolled units in the building (due to "vacancy decontrol" when tenants move out) or privately owned condominiums for which the landlord must provide adequate services. Then the tenant who pays the scandalously low rent may "free ride" on his neighbors. But in the more typical case the quality of housing services tends to reflect rental payments. This, at least, is the situation that will prevail at equilibrium.

If government really had the best interests of tenants at heart and was for some reason determined to employ controls, it would do the very *opposite* of imposing rent restrictions: it would instead control the price of every *other* good and service available, apart from residential suites, in an attempt to divert resources out of all those other opportunities and into this one field. But that, of course, would bring about full-scale socialism, the very system under which the Eastern Europeans suffered so grimly. If the government wanted to help the poor and was for some reason constrained to keep rent controls, it would do better to tightly control rents on luxury unit rentals and to eliminate rent controls on more modest dwellings—the very opposite of the present practice. Then, builders' incentives would be turned around. Instead of erecting luxury dwellings, which are now exempt, they would be led, "as if by an invisible hand," to create housing for the poor and middle classes.

Solutions

The negative consequences of rent legislation have become so massive and perverse that even many of its former supporters have spoken out against it. Instead of urging a quick termination of controls, however, some pundits would only allow landlords to buy tenants out of their controlled dwellings. That they propose such a solution is understandable. Because tenants outnumber landlords and are usually convinced that rent control is in their best interests, they are likely to invest considerable political energy (see RENT SEEKING) in maintaining rent control. Having landlords "buy off" these opponents of reform, therefore, could be a politically effective way to end rent control.

But making property owners pay to escape a law that has victimized many of them for years is not an effective way to make them confident that rent controls will be absent in the future. The surest way to encourage private investment is to signal investors that housing will be safe from rent control. And

the most effective way to do that is to eliminate the possibility of rent control with an amendment to the state constitution that forbids it. Paradoxically, one of the best ways to help tenants is to protect the ECONOMIC FREEDOM of landlords.

Rent Control: It's Worse Than Bombing

NEW DELHI—A "romantic conception of SOCIALISM" ... destroyed Vietnam's economy in the years after the Vietnam war, Foreign Minister Nguyen Co Thach said Friday.

Addressing a crowded news conference in the Indian capital, Mr. Thach admitted that controls ... had artificially encouraged demand and discouraged supply.... House rents had ... been kept low ... so all the houses in Hanoi had fallen into disrepair, said Mr. Thach.

"The Americans couldn't destroy Hanoi, but we have destroyed our city by very low rents. We realized it was stupid and that we must change policy," he said.

—From a news report in *Journal of Commerce*, quoted in Dan Seligman, "Keeping Up," *Fortune*, February 27, 1989.

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Footnotes

1. Richard M. Alson, J. R. Kearl, and Michael B. Vaughan, "Is There a Consensus Among Economists in the 1990's?" *American Economic Review* 82, no. 2 (1992): 203–209.

2. Walter Block and Michael A. Walker, "Entropy in the Canadian Economics Profession: Sampling Consensus on the Major Issues," *Canadian Public*

Policy 14, no. 2 (1988): 137–150, online at: **http://141.164.133.3/faculty/Block/Blockarticles/Entropy.htm**.

3. Gunnar Myrdal, "Opening Address to the Council of International Building Research in Copenhagen," *Dagens Nyheter* (Swedish newspaper), August 25, 1965, p. 12; cited in Sven Rydenfelt, "The Rise, Fall and Revival of Swedish Rent Control," in *Rent Control: Myths and Realities,* Walter Block and Edgar Olsen, eds. (Vancouver: The Fraser Institute, 1981), p. 224.

4. Assar Lindbeck, *The Political Economy of the New Left* (New York: Harper and Row, 1972); cited in Sven Rydenfelt, "The Rise, Fall and Revival of Swedish Rent Control," in *Rent Control: Myths and Realities,* Walter Block and Edgar Olsen, eds. (Vancouver: The Fraser Institute, 1981), pp. 213, 230.

5. States New York "public advocate" Mark Green: "the number of rent-controlled apartments fell 18.2% between 1991 and 1993 and the new data we have analyzed shows an even greater decline—30%—from 1993 to 1996. Indeed, the total number of rent-controlled apartments has fallen by 75% from its peak of 285,000 in 1981" (**http://www.tenant.net/Alerts/Guide/papers/mgreen1.html**). This is due to the fact that when rents reach a certain level ($2,000 per month under certain conditions), apartments leave the controlled sector altogether. Inflation plus a "hot" New York City housing market have pushed many units above this level. See on this **http://www.housingnyc.com/html/resources/faq/decontrol.html**. Ken Rosenblum, Mike Golden, and Deborah Poole provided the above cites.

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