

# RENT CONTROL ISSUES AND IMPACTS

*Presented to:*

California Apartment Association (CAA)  
1414 K Street, Suite 610  
Sacramento, CA 95814-2939  
916/447-7881

*Prepared by:*



SCHOOL OF BUSINESS ADMINISTRATION  
CALIFORNIA STATE UNIVERSITY, SACRAMENTO  
7750 College Town Drive, Suite 102  
Sacramento, CA 95826-2344  
916/278-6633

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## EXECUTIVE SUMMARY

The objective of this project is to review the impact of restrictive rent control on several population and housing issues; to compare objectives with results. The study concentrates on cities with restrictive rent control, because it is in these cities that the intent of the ordinances may not meet their intended goals. The 1980 and 1990 Census were compared to ascertain the percent change between Berkeley and a reference county, Alameda; and Santa Monica, and its reference county, Los Angeles. The results indicate that:

- Both Berkeley and Santa Monica lost rental housing units (single-family detached and single-family attached units) while their reference counties added to their rental housing stock. Both cities lost structures with five or more units, while their reference counties gained this type of housing structure.
- Both Berkeley and Santa Monica showed declines in renter-occupied rooms while their reference counties gained renter-occupied rooms. Both cities and both counties gained owner-occupied rooms.
- Rent ordinances may cause biases against certain age groups. The data indicate that family composition may be affected as the number of persons in their early child-bearing years is declining in both cities. Also, despite the rapidly aging society, the elderly population is either declining or barely increasing in both of these cities, while in their counties, the elderly population is increasing rapidly.
- Both cities saw declines in the percent of the population that rented. The greatest declines were among White renters. While the proportion of Hispanic renters increased for the subject and reference areas, that proportion did not increase as fast in the two cities as in their counties.
- Overall, lower income renters declined in both cities. In Berkeley, the declines were greater. Although the proportion of lower income renters increased in Santa Monica, the increase did not keep pace with the county increase.
- The comparisons indicate that rent control ordinances offer a benefit to some renters, but it is not clear that the groups for whom the benefits were intended are the actual recipients.
- Gentrification (that is, the displacement of lower economic and educational status renters by higher economic and educational status owners) is the opposite of what the rent control ordinances seek to achieve, but is occurring in both cities. The two restrictive rent control cities have become increasingly inhabited by higher-income, higher-educated home owners since rent control.

The data show that the restrictive rent control ordinances in Berkeley and Santa Monica do not meet their stated goals. Instead, the groups for whom the ordinances were written appear to be the least likely to receive the benefits, and appear to be leaving these two cities to find rental housing elsewhere.

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# RENT CONTROL ISSUES AND IMPACTS

The objective of this project is to analyze the impact of rent control on several population and housing issues. The project is organized around six questions:

- Does rent control have an effect on the size of the resident population?
- Does rent control have an impact on the quantity of rental housing stock?
- Does rent control affect household composition?
- What are the major economic issues involving rent control?
- Does rent control have any indirect effects on the demographics of the population?

## METHODOLOGY

The effects of the restrictive rent controls in Berkeley and Santa Monica, implemented just prior to the 1980 Census, can be measured through the changes in population, housing, and other variables which occurred during the 1980-1990 decade under rent control.

Not all cities with rent control are included in this study, as it is only those with restrictive rent control that may upset the balance between renters' needs and market forces, resulting in a systematic bias that may include those for whom the ordinances are supposed to protect.

The restrictive rent control ordinances in these two cities were created to meet perceived needs of the community by attempting to meet stated goals. These ordinances were designed to achieve the following goals:

- Assist certain subgroups, such as the elderly and disabled, families with children, and minorities to find and remain in rental housing.
- Preserve and protect affordable rental housing and existing rental housing stock.
- Maintain the rich racial, ethnic, and economic diversity within the community.

The research process used in this report was designed to test whether progress toward these goals have been achieved during the 10 years between the 1980 and 1990 Census. All data are from the STF-3 summary tables in the Census reports.

A simple comparison of population and housing variables for these two census years would not be a fair test, however, because external economic, social, and demographic factors unrelated to rent control have been operating. In order to control for the effect of these external factors, the changes in these two cities were compared in each case to the changes which occurred over the same time period in the counties in which they are located — Alameda and Los Angeles counties. The use of the counties for comparison should correct for external economic, social, and other factors which should have similar effects on the cities and counties.

It would be incorrect to compare Berkeley to Alameda County, or Santa Monica to Los Angeles County, in any absolute sense, because these cities are certainly different in many respects from their counties. Our methodology was to compare the percentage changes in the cities with the percentage changes in their counties over the same time period.

Comparing the percentage changes in the two cities with the percentage changes in their counties allows the analysis to be placed in a comparative, rather than absolute, frame of reference. Wherever changes in the cities occur in a very different way than occurred in their counties, it can be assumed that factors unique to the cities, such as a very restrictive rent control, are a major contributor.

Strengthening this methodology is the use of two restrictive rent control cities which are very different from each other. Santa Monica and Berkeley are very different from each other in their economic composition, ethnic and age makeup, income, and other features. The similarity of their restrictive rent control laws is one of the greatest similarities between the two cities. If both of these cities have housing and population changes which are similar to each other, but which are very different from their counties, a strong argument can be made that these differences are related to the restrictive rent control laws.

## HOUSING AND POPULATION

Frequently, rent control is enacted to ensure that the cost of housing does not exceed the housing needs of a diverse population. Since maintaining a population diverse in socio-economic characteristics is important to the health of a city, some local governments have chosen to pass ordinances with the intention of preserving and protecting rental housing stock. The more complex the socio-economic structure of the community, the more important it is to maintain a diverse residential mix that houses the necessary labor force and consumers of goods and services, the more likely the community will choose some method to maintain parity between owner-occupied and rental housing.

There is some doubt, however, that rent control meets these goals. Although the free market does not always supply all housing needs for a diverse population, specifically housing for low-income persons, it is not clear that rent control achieves that purpose, either. The "unknown" is the effect of rent control ordinances that may erect barriers to the stated goals of the law. The following discussion of housing and population, cultural diversity, and economic issues seeks to add clarity to some of the questions forming the direction of this study.

### Housing Stock

One of the undesired effects of restrictive rent control is that it limits the ability of investors to obtain adequate returns on their investments. Consequently, investors in residential rental properties will either convert to alternative investments or neglect to maintain their properties. U.S. Census data were used to determine if, under the present ordinance, the quantity of rental housing stock in Berkeley and Santa Monica remained approximately the same, and if the changes in rental housing stock were consistent with those changes observed in the counties.

**Assumption #1: Rent control is a disincentive to maintain and construct residential rental properties.**

If this assumption is correct, it would be expected that, in Berkeley and Santa Monica, the total number of rental housing units would decrease, but similar declines would not be observed in the counties. Also, it should be observed that there appears to be greater decreases among large apartment houses, as those larger pieces of property can be more profitably converted to commercial uses. Table 1 contains city and county rental housing counts.

**TABLE 1**  
**PERCENT CHANGE IN RENTAL HOUSING COUNTS**  
**BY TOTAL AND TYPE OF UNIT**  
**Berkeley vs. Alameda County**  
**Santa Monica vs. Los Angeles County**  
**1980-1990**

Housing Variables	1980-1990 Percent Change			
	Berkeley	Alameda County	Santa Monica	Los Angeles County
Total Renter-Occupied Housing Units	-12.10%	12.05%	-4.90%	10.07%
Renter-Occupied Housing Units by Structure				
Single, detached	-25.53	7.15	-11.24	3.73
Single, attached	-29.02	24.56	-22.39	28.69
2-unit structures	-10.01	6.09	14.71	5.03
3-4 unit structures	-17.64	7.65	6.85	8.27
5-9 unit structures	-11.57	13.15	-8.84	10.95
10-49 unit structures	-46.88	7.78	-15.19	0.14

Sources: 1980 U.S. Census, Table 102, STF-3.  
 1990 U.S. Census, Table H22, STF-3a.

The data show that the number of rental housing units declined in the two study cities, while the number increased in the counties. The greatest declines in Berkeley were in the buildings with 10 to 49 units. In Santa Monica, declines in 10 to 49 unit structures were not as dramatic as in Berkeley, but they exceeded the declines in the county by a significant amount.

Of equal importance are the sharp declines in the single-family attached and detached rental homes in both Berkeley and Santa Monica. While the Census data do not show what happened to these units, it can be suggested that they have been demolished in favor of other uses, or converted to owner-occupied housing. **Since the city ordinances were focused on preserving existing rental housing stock, the data clearly indicate a precipitous decline in this type of housing.**

The data for rental housing stock were reviewed from another perspective: aggregate rooms in rental housing. Table 2 contains the data for the cities and counties in this study.

**TABLE 2**  
**PERCENT CHANGE IN AGGREGATE ROOMS IN**  
**RENTAL AND OWNER-OCCUPIED HOUSING**  
**Berkeley vs. Alameda County**  
**Santa Monica vs. Los Angeles County**  
**1980-1990**

	1980-1990 Percent Change			
	Berkeley	Alameda County	Santa Monica	Los Angeles County
Total Rooms	-3.0%	8.6%	-2.5%	2.6%
Renter-Occupied	-15.1	10.5	-7.4	4.5
Owner-Occupied	7.5	7.6	6.2	1.4

Sources: 1980 U.S. Census, Table 32, STF-3.  
 1990 U.S. Census, Table H17, STF-3a.

The data in Table 2 show that the total number of rooms declined in Berkeley and Santa Monica, while they increased in Alameda and Los Angeles counties. The declines were caused by the loss of renter-occupied rooms, a decline of 15.1 percent in Berkeley and 7.4 percent in Santa Monica. The declines in the number of rooms in renter-occupied housing were accompanied by increases in the number of rooms in owner-occupied housing, suggesting that both cities are losing rental space, and increasing the number of owner-occupied housing, or increasing the size of the existing owner-occupied housing stock.

The data for the less constrained counties are interesting, in themselves. In both cases, the number of rooms in rental housing have increased faster than the number of rooms in owner-occupied housing. It appears that the ordinances, written to preserve and protect rental housing stock, have not attained the goal of the ordinances — to preserve rental housing.

### Population

If the rental housing stock declined, it would be expected that the number of persons traditionally living in rental housing would change in the same direction. Table 3 contains the city-county total population comparisons.

While the declines in total population were not large, they did occur in both cities. The increases in the total population for the counties, however, were quite large, almost 19 percent for Alameda County and over 20 percent for Los Angeles County. Although it cannot be completely explained by the existence of the restrictive rent control, it is clear that the declines in rental housing stock might be having an impact on the total population of the two cities.

**TABLE 3**  
**PERCENT CHANGE IN TOTAL POPULATION**  
**BY AGE COMPARISONS**  
**Berkeley vs. Alameda County**  
**Santa Monica vs. Los Angeles County**  
**1980-1990**

Population and Age	1980-1990 Percent Change			
	Berkeley	Alameda County	Santa Monica	Los Angeles County
Total Population	-0.58%	18.74%	-1.60%	20.83%
Age Groups (in years)				
Less than 5	16.19	31.73	14.37	31.38
5-14	-11.43	9.39	-21.04	13.80
15-24	-10.81	-6.54	-37.84	4.12
25-64	5.22	26.56	10.16	27.04
More than 64	0.68	28.46	-1.70	23.51

Sources: 1980 U.S. Census, Table 15, STF-3.  
1990 U.S. Census, Table P13, STF-3a.

The greatest declines occur in the age groups 5 to 14 and 15 to 24. The latter population, age 15 to 24, consists of those who are more likely to rent than own a home. In the subject cities, a large proportion of these persons are more likely to be in college or starting out in a new career. One argument that could account for the decline of almost 11 percent in the 15 to 24 year age group in Berkeley is that the college student population is declining, or moving out of Berkeley. The Census data show, however, that the proportion of college students in the city remained the same, 27.9 percent in 1980 and 27.4 percent in 1990. Also, the constant proportion of students suggest replacement, and that the declines are not students simply completing college and moving to another area for work or continued schooling. Therefore, it can be suggested that the persons moving out of Berkeley are other than college students. Instead, they are persons who cannot afford to purchase a home in Berkeley and cannot find rental housing.

The data show declines for the age group 5 to 14, also. This group is the most likely to be part of a family. The recent increases, slight but real, in the birth rate magnifies the large declines in this age group, compared to the increases shown for the counties.

The last group that deserves attention is persons over the age of 64, another group that has a high probability of being a renter. With respect to the overall aging of the general population, it is not surprising to see the extraordinary gains in both the counties. Berkeley, on the other hand, shows less than a one percent increase, and Santa Monica, an almost two percent decrease in the proportion of persons who fall into this group. The data, once more, show that the restrictive rent control has not met their goals. In the case of the subject cities, it appears that the age groups most likely to decline in size are those in which families are more likely to occur, affecting family composition, and in the elderly population.



## CULTURAL/ETHNIC AND ECONOMIC DIVERSITY

In general, as resources become scarce, the value of the resource increases. In the case of rental housing, if the supply of rental housing declines but the demand remains the same, it follows that the price of rental housing will increase. Since rent control imposes an artificial barrier to increased prices, rental property owners enhance their credit checking activities relative to prospective residents to increase the probability that rent will be paid. In this section, the impact of restrictive rent control on household composition, lower income households, and families or households with children is examined.

***Assumption #2: If the supply of rental housing decreases but the demand remains the same or increases, rent control will encourage property owners to favor tenants who appear to be better-able to pay the rent.***

Table 4 contains information for persons living in renter-occupied housings by total renters, race, and ethnicity. The racial and ethnic categories are limited to White, Black, and Hispanic because the majority of the population fall into these categories, and the categories for Asian and Other are not comparable between the two Census years.

**TABLE 4**  
**PERCENT CHANGE IN HOUSEHOLDS BY RACE OF HOUSEHOLDER**  
**LIVING IN RENTER-OCCUPIED HOUSING**  
**Berkeley vs. Alameda County**  
**Santa Monica vs. Los Angeles County**  
**1980-1990**

<i>Racial and Ethnic Categories*</i>	<i>1980-1990 Percent Change</i>			
	<i>Berkeley</i>	<i>Alameda County</i>	<i>Santa Monica</i>	<i>Los Angeles County</i>
Total Renters	-11.89	12.09	-4.90	10.07
White Renters	-23.65	-.65	-7.44	-6.81
Black Renters	-7.87	15.50	2.40	10.71
Hispanic Renters	16.32	37.93	7.35	46.40

\* Categories Asian and Other not included in this table. The racial and ethnic designation applies to head of household only, not to total family members.

Sources: 1980 U.S. Census, Table 98, STF-3.  
 1990 U.S. Census, Table H12, STF-3a.

The cultural, racial, and ethnic diversity issue has an impact on household composition. Table 5 contains information on the percent change in female householders with no husband present. The data are for total households in the subject cities and counties.

The data in Table 5 are mixed. In Berkeley, the number of households headed by females with no husband present is declining for all racial and ethnic groups. Black females appear to be the most seriously affected. For Santa Monica, the data are quite different. Female households are increasing for all racial and ethnic categories.

**TABLE 5**  
**PERCENT CHANGE IN FEMALE HOUSEHOLDERS WITH NO HUSBAND PRESENT**  
**Rental and Ownership Households**  
**Berkeley vs. Alameda County**  
**Santa Monica vs. Los Angeles County**  
**1980-1990**

<i>Racial and Ethnic Categories*</i>	<i>1980-1990 Percent Change</i>			
	<i>Berkeley</i>	<i>Alameda County</i>	<i>Santa Monica</i>	<i>Los Angeles County</i>
Total Female Householders	-2.2%	5.9%	7.3%	3.1%
White Female Householders	-3.8	10.8	3.1	1.0
Black Female Householders	-7.8	-8.4	2.5	1.0
Hispanic Female Householders	-5.4	-12.5	2.9	6.8

\* Categories Asian and Other not included in this table. The racial and ethnic designation applies to head of household only, not to total family members.

Sources: 1980 U.S. Census, Table 98, STF-3.  
1990 U.S. Census, Table P17, STF-3a.

Two factors should be considered when reviewing these data. First, the data are for total households, as racial and ethnic data for renters only were not available in the STF-3 data. The data already examined suggest that the impact of rent control would be more negative if renter-only data were available.

Also, income data indicate that households with lower annual incomes are declining in both cities. Since female-headed households with no husbands present usually have lower annual incomes, it can be suggested that the declines would be greater for renters than for the total population.

The data for the cities and their counties are quite different, also. If the county data represents the mean activity for all persons in these categories, the data show that the subject cities are exhibiting quite different characteristics. Thus, not only is household composition being affected, the data show that economic and, in some cases, cultural diversity are being affected also.

## ECONOMIC ISSUES

If the goal is to maintain economic diversity by controlling rents, it would be expected that the percent of households earning lower annual incomes would remain constant, or under the best circumstances, increase somewhat. The data in Table 6 contains data on income levels for households earning an income of less than \$20,000 a year. These data conform to Census categories.

**TABLE 6**  
**PERCENT CHANGE IN ANNUAL INCOME FOR RENTAL HOUSEHOLDS**  
**Berkeley vs. Alameda County**  
**Santa Monica vs. Los Angeles County**  
**1980-1990**

Income Group	1980-1990 Percent Change			
	Berkeley	Alameda County	Santa Monica	Los Angeles County
Less than \$10,000	-3.1%	4.1%	3.8%	9.4%
\$10,000-\$19,999	-27.1	3.9	-9.1	8.5

Sources: 1980 U.S. Census, Table 132, STF-3.  
 1990 U.S. Census, Table H50, STF-3a.

The data show that, in the counties, the percent increase for both income groups is consistent. In Alameda, the percent increase is between 3.9 and 4.1 percent, and in Los Angeles County, between 8.5 and 9.4 percent. The percent change for Berkeley and Santa Monica, however, are quite erratic. In Berkeley, there has been a decline in both income categories in the decade between the Censuses. In Santa Monica, there is an almost 4 percent increase for the lowest income category, but a 9.1 percent decrease for the households earning between \$10,000 and \$19,999. The data suggest that the ordinances have not met their goal of maintaining economic diversity, and it appears that the ordinance has not preserved rental housing for the lower income groups.

### RENT CONTROL AS A BENEFIT

An important economic issue is the discussion of rent control as a benefit. The preceding table suggests that the ordinances fail to benefit lower income groups, as both cities are losing renters at lower income levels.

If rent control creates a benefit, then the size of the benefit and who pays the benefit become important questions that need to be addressed. Table 7 contains a calculation of the amount of annual rental benefits. The data are shown for the cities of Santa Monica and Berkeley, for the years 1980 and 1990.

The median rents were used to calculate the benefits to renters living in Berkeley and Santa Monica. It was assumed that, if rent control were not in effect, the median rent in both cities would approximate the rents in the reference counties. The median rents at the county level represent the expected rent, and are used as a basis for suggesting the rental benefit.

In 1980 and 1990, the Berkeley median rent was below the county median. In Santa Monica, the median rent was above the county median rent in 1980; however, after a decade of the rent control being in effect, the median rent was lower in Santa Monica than in the county.

**TABLE 7**  
**COMPARISON OF MEDIAN RENTS AND RENTAL PRICE BENEFITS**  
**Berkeley vs. Alameda County**  
**Santa Monica vs. Los Angeles County**  
**1980-1990**

<i>Comparisons</i>	<i>Berkeley</i>	<i>Alameda County</i>	<i>Santa Monica</i>	<i>Los Angeles County</i>
Median Rent				
1980	\$245	\$266	\$319	\$276
1990	\$426	\$626	\$532	\$626
Annual Benefit <sup>1</sup>				
1980	\$ 7,010,892		\$(17,644,104)	
1990	\$ 58,692,000		\$ 36,682,560	
Annual Benefit to Renters				
1980	\$ 252		\$ (516)	
1990	\$2,400		\$1,128	

<sup>1</sup> Difference in City/County median rent multiplied by units annualized.

Sources: 1980 U.S. Census, Table 124, STF-3.  
1990 U.S. Census, Table 43, STF-3a.

The table shows that the annual benefit to renters in 1980 was \$252 in Berkeley, and by 1990, a little over a decade after the ordinance was in effect, the annual benefit was \$2,400 for renters. In Santa Monica, there is no calculated benefit to renters in 1980; however, in 1990, the annual benefit to renters was estimated at \$1,128.

While the calculation of the benefit to rental households is generally stated, the conclusion comes from the magnitude of the estimate. In 1980, offering a benefit to rental households of \$252 per year was a reasonable price to meet the stated goals of the ordinance. In 1990, the magnitude of the benefit has increased 10 times in Berkeley and doubled in Santa Monica, without meeting the objectives of the ordinance.

Since the data suggest that the restrictive rent control ordinances are not entirely meeting their goals, the benefits are apparently not going to the segments of the population for whom the benefits were intended.

## EDUCATIONAL ATTAINMENT

Frequently, education is used as a proxy for gentrification, that is, the upgrading of properties to the exclusion of low income persons. Table 8 contains the data for educational attainment for the subject cities and counties.

The data are for 1990 only. They show an inverse relationship between the educational attainment level between each city and its county. In both cases, as the attainment level increases for the cities, it declines in the counties.

**TABLE 8**  
**EDUCATIONAL ATTAINMENT**  
**Berkeley vs. Alameda County**  
**Santa Monica vs. Los Angeles County**  
**1990**

<i>Income Group</i>	<i>Berkeley (%)</i>	<i>Alameda County (%)</i>	<i>Santa Monica (%)</i>	<i>Los Angeles County (%)</i>
Less than 9th grade	4.11%	7.38%	5.51%	15.58%
9th to 12th grade, no diploma	5.57	11.18	7.00	14.39
High school graduate (includes equivalency)	9.88	22.76	15.96	20.70
Bachelor's degree	28.22	17.90	24.78	14.48
Graduate or professional degree	30.45	10.91	18.60	7.84

Source: 1990 U.S. Census, Table P57, STF-3a.

Table 9 compares educational attainment between 1980 and 1990. The data show that, for both years, the proportion of the population with four or more years of education is much larger in the subject cities than in the respective counties.

**TABLE 9**  
**EDUCATIONAL ATTAINMENT**  
**Berkeley vs. Alameda County**  
**Santa Monica vs. Los Angeles County**  
**1980-1990**

	<i>Berkeley</i> (%)	<i>Alameda</i> <i>County</i> (%)	<i>Santa</i> <i>Monica</i> (%)	<i>Los Angeles</i> <i>County</i> (%)
Four or more years (1980)	52.3%	22.3%	33.6%	18.5%
Four or more years (1990)	58.7	28.8	43.4	22.3
Percent Change	6.4	6.5	9.8	3.8

Sources: 1980 U.S. Census, Table 50, STF-3.  
1990 U.S. Census, Table P57, STF-3a.

The percent change data are somewhat inconclusive. The percent change is the same for Berkeley and Alameda County, but larger for Santa Monica than Los Angeles County. The data suggest that, in the City of Santa Monica, the population with four or more years of education is growing rapidly.

Although the percent change is not high for Berkeley, the data do not distract from the argument that the population of the two cities with restrictive rent control are increasingly better educated and wealthier, a strong argument for the gentrification of the two cities.