

Advanced Policy Analysis

# California's Affordability and Displacement Crisis: The Role of the Costa Hawkins Rental Housing Act

UC Berkeley, Goldman School of Public Policy  
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May 9, 2016



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## Author's Note

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This report was prepared for the Dellums Institute of Social Justice, an intergenerational justice hub working to advance structural solutions to end displacement from urban centers. A more detailed version of this report was also submitted to the Goldman School of Public Policy as the capstone project for the Author's Master of Public Policy degree. For access to that report, please contact the author [tsmiley@berkeley.edu]. The Goldman School of Public Policy is ranked by US news as the top public policy school in the country and prepares students for careers in public leadership. The analysis and recommendations are those of the author and are not necessarily endorsed by the Goldman School.

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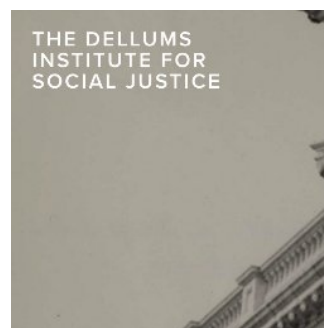
### Acknowledgements

I would first and foremost like to thank Margaretta Lin for her support of this project and her commitment to anti-displacement work. Thank you for sharing your knowledge, expertise, and unwavering optimism that public policy can change the structures that create and perpetuate inequities.

I am also grateful to Larry Rosenthal, my academic advisor, for the invaluable feedback he provided throughout the research and writing process. Dan Lindheim, Jesse Rothstein, Steve Raphael, Rucker Johnson and Lee Friedman also provided excellent feedback and support for the economic and quantitative analysis of this report.

To all of the organizers, affordable housing professionals, rent board members, and housing researchers whom I interviewed for this project, I thank you for your time and insight in the early stages of this work. In particular, I would like to acknowledge Stephen Barton, Ned Levine, Roger Clay, and Tony Samara for the depth of their participation in the scoping of this project. Stephen Barton was an invaluable resource both in interviews and in the breadth of his academic work on the topic of rent stabilization in California. Ned Levine who spent a career estimating the impacts of rent control in cities in California, thank you for your guidance on the quantitative element of this report. Ecaterina Burton, thank you for connecting me with both the Dellums Institute and Stephen Barton, without which I would not have had the opportunity to do this research.

Prepared for:



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# Summary

The United States is becoming a nation of renters but as rents rise in major cities, low-income people and people of color are excluded from those places – driving inequality and threatening the nation’s long-term economic prosperity. A growing body of research from economists and economic institutions like the International Monetary Fund, the OECD, and Standard & Poor’s, finds that inequality hinders economic growth and prosperity, while lower levels of inequality and racial inclusion contribute to sustainable economic growth and success.<sup>1</sup> Inclusive cities are cities that are affordable for low and middle-income people and people of color.

As rents rise and real household income decreases across households in California, low and middle-income people are increasingly burdened by rents and many are being displaced from their homes. There are 5.7 million renters across the state, more than half of them spend 30 percent or more of their household income on rent, the standard measure of affordability. Almost 2 million families who rent are living on less than \$50,000 a year. For these families who are living in a 2-bedroom apartment in Oakland, where the median rent is \$2,270, they spend more than half of their income on rent – a severely unaffordable and economically unstable situation.<sup>2</sup> A report by the Urban Displacement Project estimated that displacement is underway and likely to accelerate in the Bay Area, but the trends highlighted in the report are statewide. While cities like San Francisco are far along in the process of gentrification and displacement, this is not the inevitable fate for all of California’s cities.

All levels of government can and should intervene to slow rapidly rising rents or California’s future will be one where poverty is suburbanized, cities are affordable only to the wealthiest people, and low-income residents will commute long distances to keep the cities running. This has happened in major cities across the world, where centers for of economic opportunity exclude low-income people, perpetuating income inequality. To reverse this trend toward a new era of economic and racial segregation, government must intervene deliberately, and immediately. If state and local governments do not act quickly, low and middle-income communities will be marginalized to

the exterior of cities, effectively re-segregating urban centers by concentrating lower income people on the exterior.

This brief adds new information to the conversation about the need to give local jurisdictions the option to consider strong rent control given the rapid displacement occurring in many California cities. Analyzing empirical reviews on the impacts of strong rent control in California cities, the report summarizes the trade-offs associated with strong rent control. Second, using historical census and American Community Survey (ACS) data on racial and ethnic demographics, rents etc., the report estimates the impact of the state ban on vacancy control, the Costa Hawkins Rental Housing Act (AB1164), on affordability and displacement in cities.

California has faced periods of rapid rent increases and displacement in the past. When rents were accelerating and people were being displaced in the late 70’s and early 80’s, tenant organizations around the state implemented rent strikes and pushed for rent control to stabilize rents in their local communities.<sup>3</sup> Eleven of the fourteen cities that enacted residential rent control during this time did so through a local ordinance process, voters in the remaining three cities secured rent control via an initiative process.<sup>4</sup> Eleven of the cities enacted moderate rent control, a style of rent control that includes vacancy decontrol – landlords can reset rents to market rates when a tenant leaves voluntarily. Four cities enacted strong rent control (vacancy control) a policy that permits rent increases under regular annual adjustments. Unlike vacancy decontrol, a moderate rent control practice, vacancy control does not allow landlords to reset the rent to market rate once a tenant vacates and a new tenancy begins. Strong rent control more effectively stabilized rents and maintained affordability of units in the cities where it was practiced, concentrating the benefits of lower rents among low and middle-income renters. While rent control maintained affordability for lower income people, it is ambiguous whether strong rent control prevented the displacement of people of color from these cities. In some cases, it slowed the displacement of Black and Latino residents, in others it maintained the population of Latino community members, but did not stop the displacement of Black residents.

Despite the benefits of maintaining affordability in the cities where it was practiced, the California legislature banned strong rent control in 1995. While the affordability and displacement crisis is complex, and a full menu of policy options are needed to effectively address the problem, the state should re-evaluate its ban on a policy that had effectively maintained the supply of affordable housing in the past.

Racial and socioeconomic inclusion is crucial for long-term economic prosperity and environmental sustainability. When people can live in hubs of economic opportunity, they can access the benefits of those cities. Maintaining a wide distribution of incomes also reduces economic inequality, and prevents the economic instability that arises as a result. Living close to your place of work also reduces commute times, wear on transportation infrastructure, and slows carbon emissions, ultimately supporting California's climate goals. Further, allowing the suburbanization of poverty by failing to act swiftly to stem displacement is in direct opposition to the state's environmental sustainability goals. Ensuring that cities are affordable for all requires government intervention in a housing market that is systematically displacing people from these hubs of opportunity.

Achieving racial and socioeconomic inclusion in California's cities will require leveraging a wide array of policy tools to make housing more affordable, to protect tenants from economic displacement, and to extend cities' economic opportunities to low and middle income people so their incomes can rise. However, a crucial first step to achieving inclusion is ensuring that low and middle-income families are not displaced in the immediate present. All levels of government, including the state, need to act quickly to prevent this from happening. At a minimum, the legislature should repeal a law that aggravates displacement, and should allow cities to enact emergency measures as needed to slow rapidly accelerating displacement. Given the benefits of strong rent control in addressing affordability and displacement, cities should have the option of implementing it as they see fit. Rent control alone will not solve this crisis, but it is one tool that prioritizes equity and protects vulnerable Californians from further marginalization and displacement.

#### **Findings – Strong Rent Control:**

- Slowed or halted displacement, resulting in maintenance of a city's socioeconomic distribution.
- Slowed growth of median rent, resulting in savings for tenants.
- Slowed the loss of Black and Latino households and promoted greater racial/ethnic diversity.
- Slowed the loss of families and children.
- Increased rental tenure.
- Increased share of owner occupied units.
- No impact on maintenance expenditures.
- Provided stability for low and middle-income renters, and senior citizens.

#### **Findings – Costa Hawkins Rental Housing Act (Qualitative):**

- Increased rent above inflation.
- Increased rents resulted in wealth transfer from tenants to landlords.
- Destabilized rents overall because rents were re-set to market rates when tenant vacated.
- Decreased total units affordable to low and middle income renters.
- Increased units affordable for higher income people.
- Moderately improved maintenance.

#### **Findings – Costa Hawkins Rental Housing Act (Quantitative):**

*In cities with prior vacancy control rent control, Costa Hawkins is associated with:*

- 2.4 percent decrease in the share of the population that is Black or African American
- 9.4 percent decrease in the share of the population that is Hispanic or Latino,
- 17 percent increase in the share of the population that is non-Hispanic white population,
- 1.3 percent decrease in the share of the population that is over 65 years old.
- 6.7 percent increase in median gross rent,
- 3.8 percent reduction in share of households that were renter occupied,

# Introduction

## Renters are a Growing Share of Households in California:

The share of housing units occupied by renters has been growing since 2004, and housing experts predict that this nation-wide trend will continue. The Joint Center for Housing Studies at Harvard projects that: "...the number of renter households is likely to increase [nationwide] by between 4.0 million and 4.7 million in 2013–23," an almost ten percent increase in the share of renter households.<sup>5</sup> California has also seen upward growth in the share of renters across the state. Between 2010 and 2014, the number of units occupied by renters grew from 43 to 45 percent of households, compared to a 2 percent loss in owner occupied units.<sup>6</sup>

In addition to renters becoming a rising share of the population in California, they are also more likely to be older than 35, despite conventional wisdom that renters are primarily younger individuals. In 2014, two out of every three renters in the state of California was above the age of 35; more than one in ten renters was above the age of 65.<sup>7</sup> Of the 10.5 million people in California who are 65 or older, 7 percent of them rent.<sup>8</sup>

## As Rents Rise, So Does Risk of Displacement:

As renters in California are disproportionately people of color, rising rents make communities of color increasingly vulnerable to displacement. In California, **65 percent of all African American households rent, compared to only 36 percent of white households**, 43 percent of Asian Pacific Islander households, and 57 percent of Hispanic and Latino households (see Appendix 1. Table 5). In other words, in seven out of every 10 Black households, the family is paying rent. People of color bear a disproportionate burden of the affordability and displacement crisis given the racial disparities in home ownership versus renting, making this an issue of not just economic equity, but also racial equity.

Low-income households are also facing immediate and pressing rent burdens. The California Legislative Analysts Office reports that the median low-income household spends more than 65 percent of their income on housing.<sup>9</sup> The lowest income households

in California make up 21 percent of all renter households, and 96 percent of those households are rent burdened.<sup>10</sup> Low-income households experience greater pain from rent burden given their limited budgets, but the problem is widespread. Three out of four households in California make less than \$75,000 a year, making them more likely to experience rent burden (see Figures 2-5). Even when households are making above \$75,000 a year, about one in four households in the state, there is a 10 percent prevalence of rent burden. In East Palo Alto, 17 percent of households making more than \$75,000 a year are rent burdened. High housing costs have made housing unaffordable for a majority of renters in California, and the share of burdened households will increase as rents continue to rise.

As households become increasingly rent burdened, they have less to spend on other necessities like food, or medical care, and they face a higher risk of economic displacement. Economic displacement is when a household has to move out of their neighborhood because they can no longer afford housing. While no data exists on the number of people who move involuntarily as a result of high housing prices, analysis of large demographic trends in a city allow policy makers to understand who can access and who is excluded from cities. *For the purposes of this report, displacement is defined as the loss of low-income households and households of color from a census tract.*

## Displacement is a Social, Economic, and Environmental Problem

Displacement of low-income and middle-income people from hubs of economic opportunity exacerbates income inequality, which is harmful for overall economic growth and prosperity.<sup>11</sup> It increases the commute times of people who must live further from their place of work, which undermines California's sustainability goals.<sup>12</sup>

A study by the Center for Disease Control found that displacement has adverse health effects. Displacement further marginalizes low-income people and people of color from their communities, destroying social capital, creating an additional barrier to health care access.<sup>13</sup> The populations that are most vulnerable to displacement have higher rates of

chronic illness, exposure to environmental toxins and shorter life expectancy. The stress and mental health impacts of displacement aggravate existing health problems and may make it more difficult for people to access health care services as they are pushed further away from health centers. It is in the public interest to make California cities affordable for people across income brackets.

### **We Can't Build Our Way Out of the Housing Crisis**

While constructing affordable housing units to more effectively meet the demand for housing is of central importance in solving this crisis, this solution does not address the immediate risk of displacement that Californian's across the state are facing. The status quo of California tenant protections, while variable by city, is insufficient to address the growing vulnerability of tenants in the state's current housing crisis. **California renters are facing immediate rent burdens and increasing threat of displacement, necessitating government intervention as low and middle-income people and people of color are experiencing acute pain of rent increases.**

### **Vacancy control can stem displacement and maintain housing affordable to low-income people**

Strong rent control is a model of rent control that maintains control over a unit even when a tenant vacates and a new tenancy begins (vacancy control). This practice differs from moderate rent control (vacancy decontrol), which allows a landlord to reset the rent to the market rate when a tenant vacates and a new tenancy begins. Based upon the research conducted in four California cities that had strong rent control [Santa Monica, Berkeley, West Hollywood, East Palo Alto] the policy:

- Slowed the displacement of low-income households and households of color in the California cities where it was practiced from the late 1970's to 1995.
- More effectively maintained the affordability of rental units (affordable to people with a broader range of income) compared to moderate control.
- Increased home ownership as rental units were converted to owner-occupied units.

Despite the benefit of slowing rent increases, strong rent control has policy tradeoffs that must be considered. For example, Berkeley experienced a 12 percent decline in total rental units when strong rent control was implemented in the 80's and early 90's. When considering using strong rent control as an anti-displacement strategy, policymakers should conduct future research on what caused the loss of rental units in order to mitigate this issue as much as possible.

### **The Costa Hawkins Rental Housing Act Undermines Anti-Displacement Strategies**

Costa Hawkins (AB1164) was passed in 1995 immediately after Senator Roberti, who had killed the bill for the previous 12 years, was termed out.<sup>14</sup> The law did the following:

- 1) **Exempted newly constructed units from rent control** - Of the cities with residential rent control, all but one had already exempted new construction. For the 13 cities with exemptions, the law froze existing local exemptions in place. For any locality that passed rent control after 1995, they are required to exempt all units built after February 1, 1995.
- 2) **Banned local vacancy control laws** – As of January 1, 1999, landlords could increase rents to market rate if the tenant voluntarily vacated the unit and the tenancy began before February 1, 1995. If the tenancy began between January 1, 1996 and December 31, 1998, landlords could impose a set number of “phase-in” rent increases until January 1, 1999, when the landlord could set the rent to market-rate upon a new tenancy.
- 3) **Exempted single-family homes from rent control** – single-family homes would no longer be subject to rent control after a 3-year phase-in period to protect existing tenants. If the tenancy began on or after January 1, 1996, the bill exempted from rent control single-family residences and other similar units after January 1, 1999. If the tenancy began prior to January 1, 1996, the unit remained under rent control until the first vacancy after January 1, 1999.<sup>15</sup>

Costa Hawkins undermined the benefits of strong rent control, and removed a large number of single-family homes from the pool of units with stabilized rents. Together, these policies exacerbated displacement and socioeconomic exclusion from the cities that had



practiced strong rent control prior to its passage: Santa Monica, Berkeley, West Hollywood and East Palo Alto.

While the law was specifically designed to undermine the strong rent control practiced in the above cities, it also impacted cities with moderate rent control and continues to have an impact on cities attempting to pass rent ordinances today. The law primarily affected cities with moderate rent control by exempting single-family homes – meaning that many single-family rentals that had been covered by rent control were no longer protected. The law also prevents cities in California from enacting emergency rent control measures today. For example, Alameda city passed a rent ordinance on March 1, 2016 that was severely limited by the exemption of single-family homes in Costa Hawkins. An estimated 3,500 single-family rentals were built before 1995 and could otherwise be regulated if not for this exemption (given the exemption of units built after 1995).<sup>16</sup> Considering that Alameda city only has 15,900 renter occupied units, being unable to enact emergency measures on

more than twenty percent of total rental units severely limits the council's ability to protect all residents from rising rents.

This report reviews the empirical literature on the impact of strong rent control in these cities, and the impact of the subsequent statewide ban on vacancy control. This report also analyzes historical data to determine whether diluting rent control contributed to displacement and a loss of affordable units in cities that had previously practiced vacancy control.

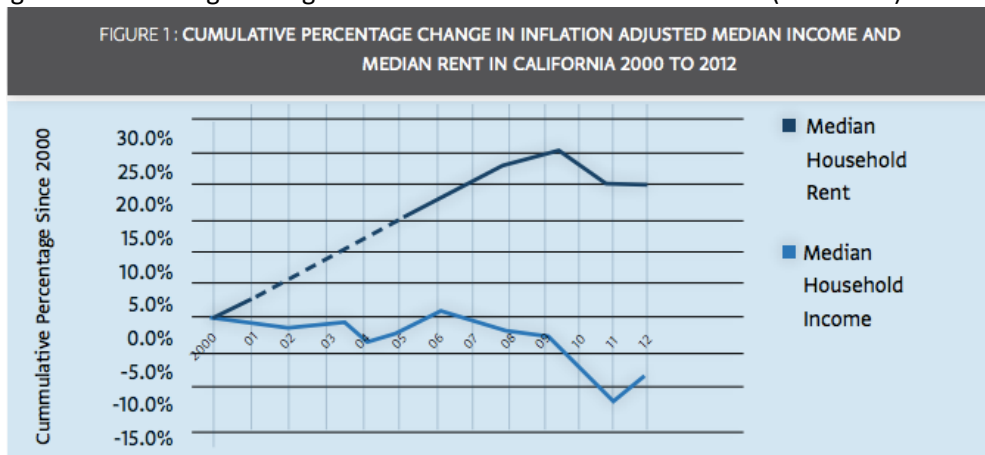
Given the immediate need to address the displacement crisis in California, it is counterproductive for the State to limit the power of local government to respond to the crisis by sustaining a ban on a form of rent control that effectively slows displacement. While rent control alone will not stop displacement, it can be used in conjunction with other housing policy strategies, including increasing the supply of affordable housing, to reduce the severity of the crisis and preserve the access of low-income communities and communities of color to cities.

# Background

## Rent Burden is Greatest for Low and Middle Income Renters

As rents increase and median household income decreases, rent burdens have increased across the state. Median household income had been stagnating in California since 2000, and dipped during the Great Crash in 2008. Given patterns of job growth in the past two decades, it is likely that median income will continue to decline. Between 1990 and 2012, the state experienced 29 percent job growth in low wage jobs, a 4 percent decrease in middle wage jobs, and a 21 percent increase in high wage jobs.<sup>17</sup> Mirroring trends of economic inequality in the rest of the country, California's job growth trends will likely result in a continuing decline in median household income. Stagnating or declining incomes make rapidly rising rents more painful as household budgets shrink, and rent burdens increase.

Figure 1. Percentage Change in Median Income and Median Rent (California)



Source: California Housing Partnership Corporation (CHPC), 2014<sup>18</sup>

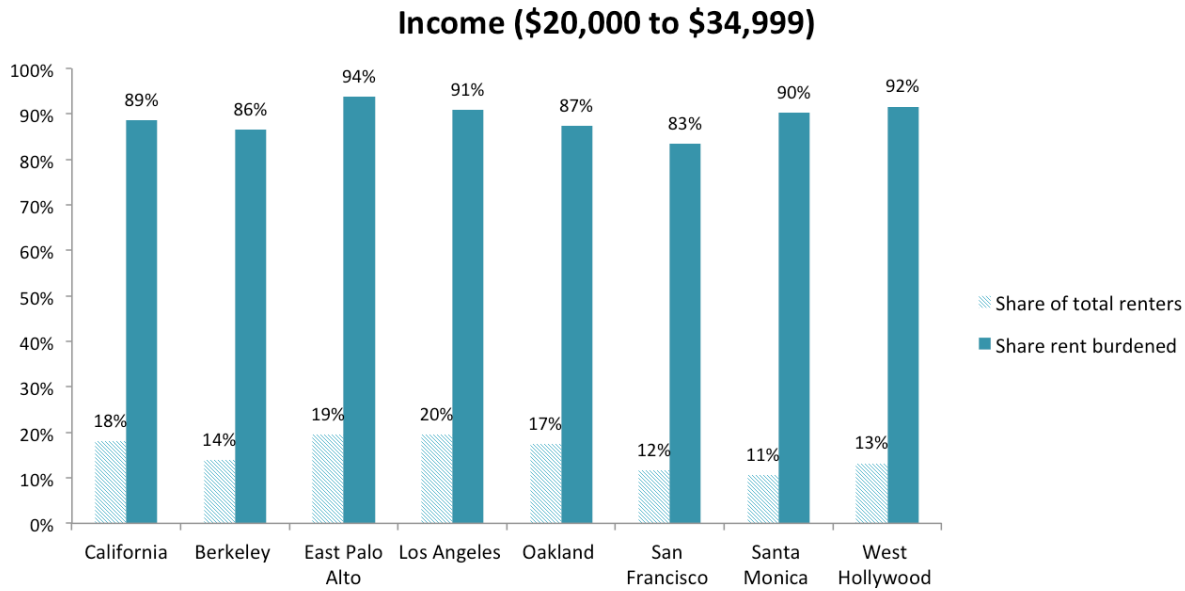
A household is rent burdened if they spend more than 30 percent of their income on housing. A household is severely rent burdened if they spend more than 50 percent of their income on housing. Based on an analysis of American Community Survey data on rent burden, low-income households are far more likely to be severely rent-burdened, leaving very little for other necessities like food, transportation, and medical care.

**54 percent**  
of Renters in California  
spend  
**30 percent or more**  
of their household  
income on rent.

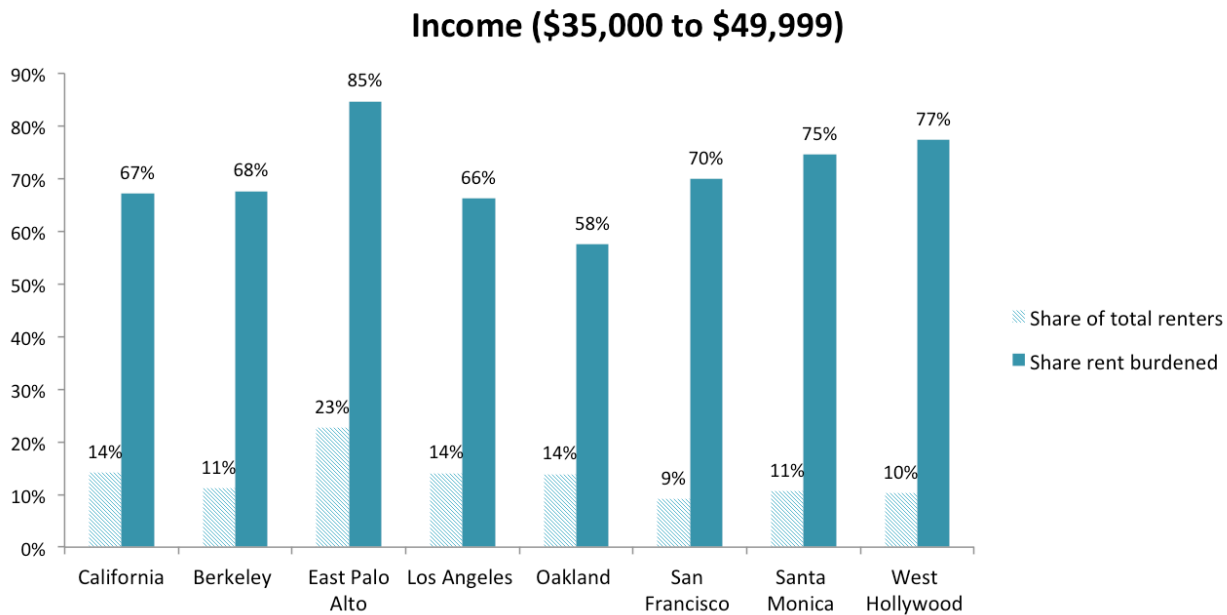
**29 percent**  
of Renters in California  
spend **50 percent or more**  
of their household  
income on rent.

The prevalence of rent burden is largest for the lowest-income families, 89 percent of whom are rent burdened, but impacts a majority of California renters. The charts on the following pages demonstrate the severity and breadth of the affordability crisis.

**Figure 2. Current Rent Burden in California and Select Cities For Lowest Income Households, 2014**

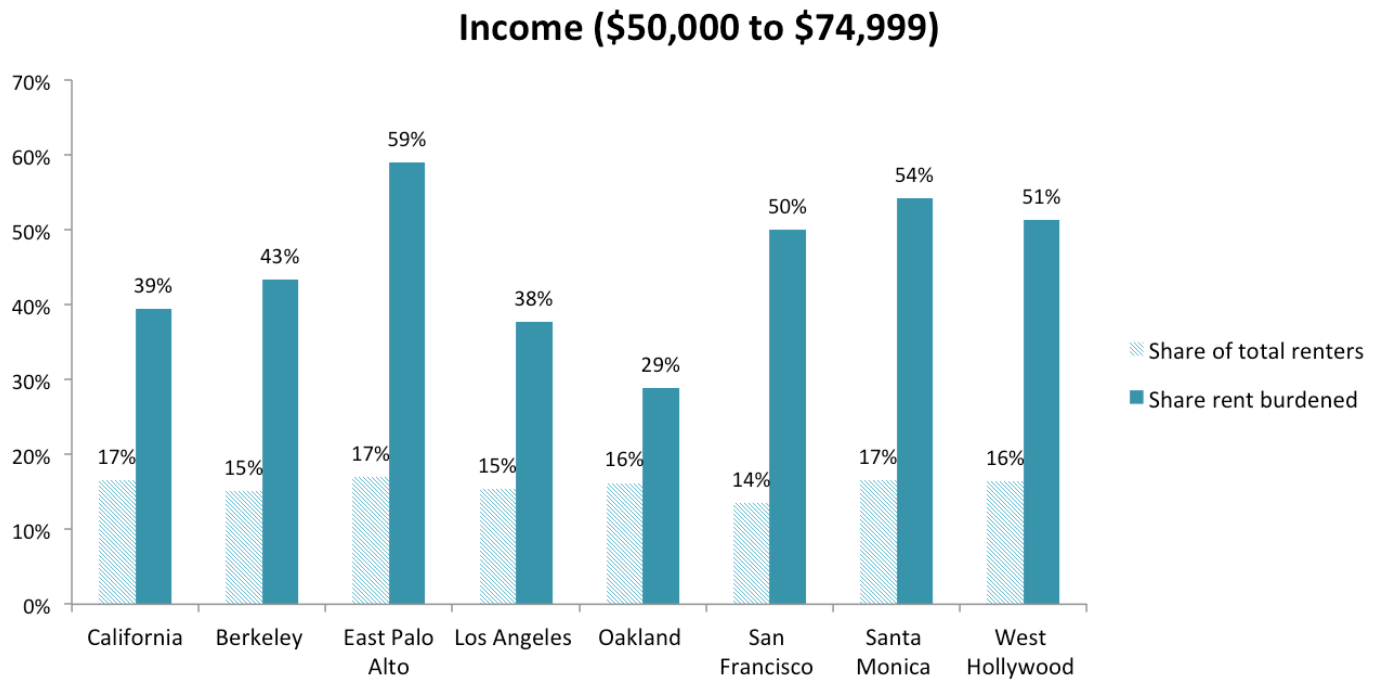


**Figure 3. Current Rent Burden in California and Select Cities For Households (Income \$35,000 to \$44,999), 2014**

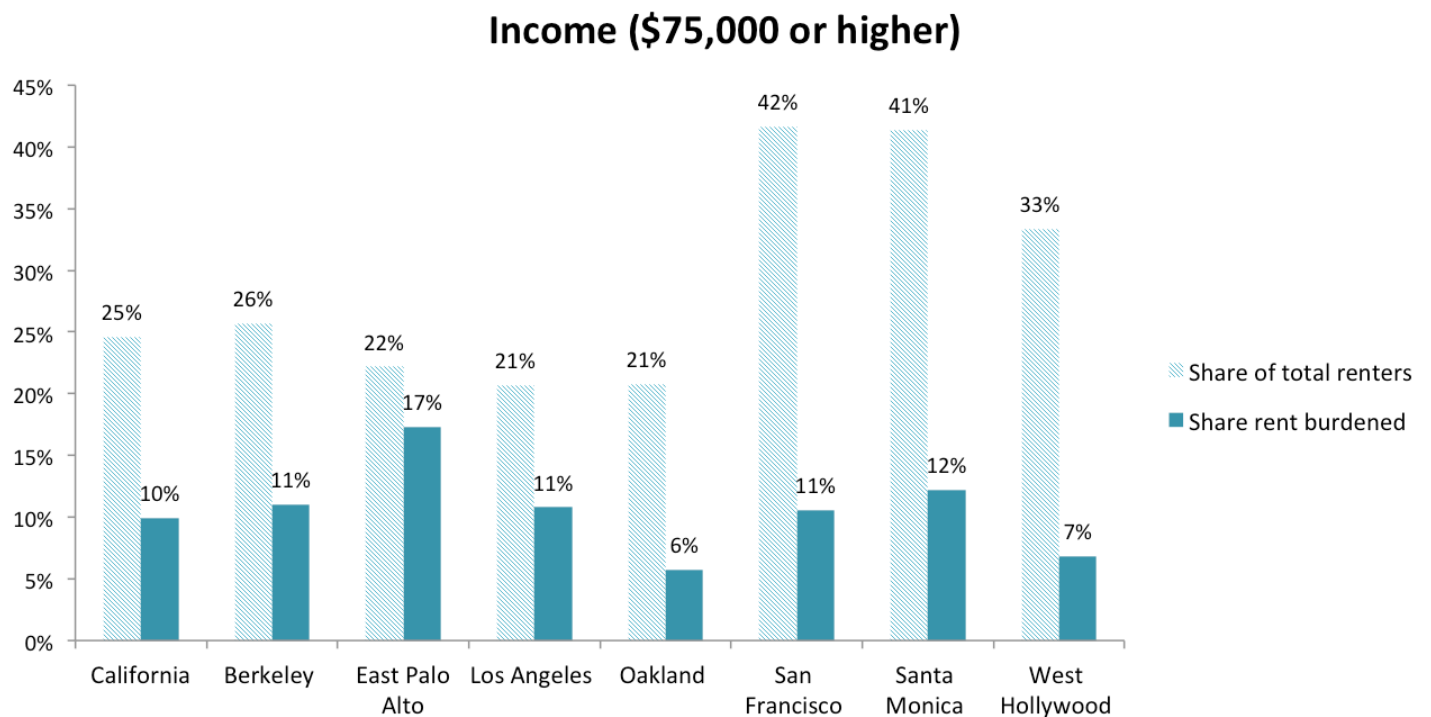


As household income increases, the share of renters who experience rent burden falls. However **75 percent of California's renters are in income brackets with a high risk of rent burden**. Even households in the highest income bracket (\$75k and above) have a ten percent prevalence of rent burden. As rents continue to rise faster than income, it is likely that rent burden will increase across income brackets.

**Figure 4. Current Rent Burden in California and Select Cities For Households (Income \$50,000 to \$74,999), 2014**



**Figure 5. Current Rent Burden in California and Select Cities For Households (Income \$75,000 or more), 2014**



## Rent Burden Increases Risk of Economic Displacement

**As rent burden increases, low and middle-income households struggle to make it on less and become increasingly vulnerable to displacement.** For the purposes of this report, displacement is defined as a loss of low-income households and households of color from a geographic area.<sup>19</sup> While this definition can facilitate an understanding of large demographic trends in a place, it cannot differentiate between people who choose to leave and people who were forcibly displaced. However, it does provide a proxy for how affordable and thereby inclusive a place is for low-income people and people of color.

The Urban Displacement project at the University of California Berkeley analyzed regional housing data to understand the current risk of displacement for low-income Bay Area residents. The main findings of this analysis were:

- In 2013, 48 percent of census tracts and more than 53 percent of low-income households lived in neighborhoods at risk of or already experiencing displacement and gentrification pressures.
- Neighborhoods with rail stations, historic housing stock, and rising housing prices are especially at risk of losing low-income households.
- The number of tracts at risk of displacement are 123% higher than the numbers already experiencing them, indicating that the transformation of the Bay Area will continue to accelerate.<sup>20</sup>

The systematic removal of low-income communities and communities of color from cities is increasing economic and racial inequality by further separating vulnerable people, not only from centers of economic opportunity, but from their homes and social networks. *Given that more than half of the 5.7 million renter households in California are rent burdened, the state is in the midst of an affordability crisis that requires government intervention.*<sup>21</sup>

Under current state law, tenants can be compensated for harassment if they have proof of the harassment, but this still requires tenants to take their landlords to

## Increased Risk of Eviction and Tenant Harassment

Displacement in California can occur as a result of economic eviction, legal eviction, and the illegal harassment of tenants by landlords. As housing prices skyrocket, the incentive to evict tenants through whatever means possible is increasing as well. Some localities have stronger tenant protections than those provided under California state-law, but as we are facing a statewide crisis, the question of how the state can better protect tenants is an important one; especially considering that existing rent control laws (under Costa Hawkins) incentivize eviction.

In hot housing markets, landlords have financial incentives to remove current tenants, whether legally or extra-legally. Landlords can raise rents on non-rent controlled units with sufficient notice (30 or 60 days) depending on the size of the increase. If the landlord raises rents above what the tenant can afford, they are economically evicted. Landlords can also legally evict a tenant with only three days notice if the tenant fails to pay rent on time, violates the rental agreement, damages the property, commits a nuisance, etc.<sup>22</sup> Similar to the incentive to economically evict a tenant, or to provide the 30 to 60 day no-cause notice, landlords may also have an incentive to exaggerate a tenant harm in order to be able to legally evict. Legal evictions have been steadily increasing in San Francisco over the past five years as 8,600 tenants in the City have received formal eviction notices.<sup>23</sup> Vacancy control eliminates this financial incentive by limiting rent increases to an annual adjustment that ensures the landlord gets a fair rate of return. Without vacancy control, landlords are incentivized to raise rents, ultimately profiting off of the housing shortage.

As median rents rise in a community, tenants also become more vulnerable to harassment by landlords who may be attempting to get a tenant to voluntarily leave their unit so they can raise rents. This incentive is particularly strong for landlords of rent-controlled units, as a landlord legally cannot raise rents until the tenant voluntarily leaves under vacancy decontrol (mandated by Costa Hawkins).<sup>24</sup> Despite these legal mechanisms for compensation, many tenants are unaware of their

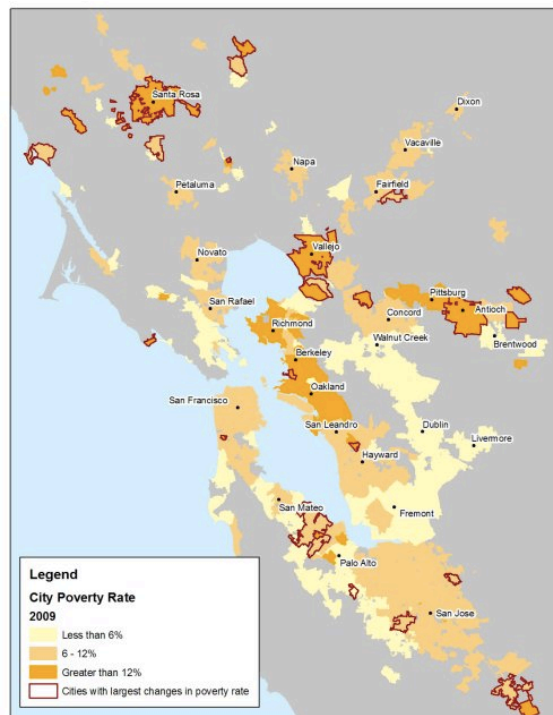
rights and may move out of an apartment instead of reporting a landlord for harassment.

Given the barriers for tenants to protect themselves in the face of landlords responding to strong financial incentives, the state needs to, at a minimum, allow local governments to do what they need to protect their tenants. The Costa Hawkins Rental Housing Act bans a form of rent control that can reduce these incentives, and permits a form of rent control that aggravates these incentives. To address displacement, legislators need to re-evaluate Costa Hawkins.

## Displacement & the Surbanization of Poverty

As renters, who are disproportionately people of color, are displaced from urban centers, poverty is suburbanized and cities become exclusively available to the highest income Californian's. Following decades of explicitly racist housing policies that facilitated white flight to the suburbs and disinvestment in urban centers, the geography of poverty was concentrated in cities with the largely white and affluent population living on the city's exterior. Current trends of gentrification and displacement are re-segregating people based on race and income by facilitating the re-entry of affluent individuals to the city and allowing the displacement of low-income people to the suburbs. A study by the Brookings Institute on poverty in America found that: "By 2008, suburbs were home to the largest and fastest-growing poor population in the country."<sup>26</sup> These trends are reflected in the Bay Area, where most cities with the largest growth in poverty in 2009 were located outside of major urban centers.

Figure 6. Spatial Growth in Poverty, Bay Area



Source: San Francisco Federal Reserve Bank, 2012

## Displacement is costly for individuals and the State

According to a report by the Legislative Analysts Office, tenants face the following consequences if they cannot afford a rent increase:

- Spend more of their income on housing
- Live in increasingly crowded units
- Spend less on other necessities
- Move to a place with lower housing costs<sup>27</sup>

High housing costs also have negative consequences for the state's economy:

- More households in poverty
- Lower homeownership rates (less wealth building)
- Crowded housing is bad for educational achievement and well-being
- High housing costs discourage talent from moving to CA, threatening California's future economic growth
- Increases the wear on transportation infrastructure as commute times increase
- Environmental repercussions of increased commute times
- Fewer workers in productive cities hinders economic growth<sup>28</sup>

The affordability crisis is therefore an issue of both economic prosperity and fairness. To ensure continued economic prosperity and racial and ethnic inclusion in California, the State must make immediate and on-going efforts to address affordability and the mounting risk of displacement that is inextricably linked to it.

## Construction Alone Will Not Solve the Problem

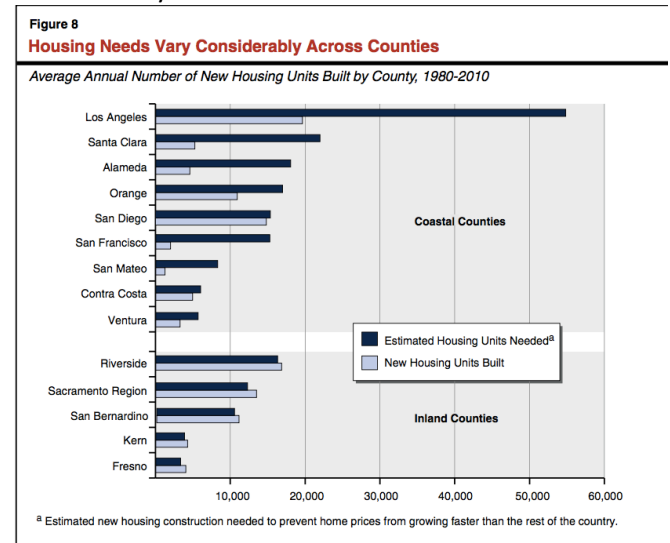
Most discussions of housing affordability focus on housing supply, particularly, the lack of new rental units. Housing supply issues are an essential element of a comprehensive anti-displacement strategy, but they are insufficient to address displacement generally, and particularly in the short term. According to the economic theory of supply and demand, increasing the supply of housing will reduce

the price, indicating that California should build more housing to address the affordability and displacement crisis. The Legislative Analysts Office in California has made similar recommendations in two reports that it released on rising housing costs in the past year. While increasing the supply of housing may slow the increase in price in the long-term, it is an insufficient strategy to address the displacement of low-income Californian's in the immediate present for the following reasons:

### 1. Significant barriers to construction in tight housing markets

The housing market in California has failed to build enough units to slow price increases and it is likely that this trend will continue into the foreseeable future. Coastal counties in particular are failing to build enough new housing. Figure 7 below shows the gap between the amount of housing units that were built compared to the amount that needed to be built to keep price increases in line with the national trend. On average, the state would need to build an additional 100,000 units per year to slow rapidly rising prices.<sup>29</sup>

Figure 7. LAO Report "Housing Needs Vary Considerably Across Counties"



Source: Legislative Analysts Office, March 2015

According to the LAO analysis, construction has slowed for a number of reasons including environmental regulations, density limitations, and community resistance.<sup>30</sup> These barriers to construction certainly need to be addressed as a part

of California's larger anti-displacement strategy as the state needs more new housing units to slow the rapid rise in housing prices in the long-term. However, changing environmental regulations and density codes will take considerable time and effort and displacement is accelerating in the immediate present.

Second, building affordable housing is cost prohibitive and while government funding for affordable housing is crucial to maintain the supply of affordable housing, it creates a significant barrier to building the quantity of housing needed to address this time sensitive crisis. According to the LAO report on housing price: "On top of the 100,000 to 140,000 housing units California is expected to build each year, **the state probably would have to build as many as 100,000 additional units annually**—almost exclusively in its coastal communities—to seriously mitigate its problems with housing affordability."<sup>31</sup> If California were to build affordable housing for the 1.7 million rent-burdened and low-income people in the state, it would cost in excess of \$250 billion.<sup>32</sup> If it assumed that California can build affordable units as quickly as new units, at a rate of 240,000 units per year, it would take 7 years to build enough new units to house the 1.7 million rent-burdened low-income people in the state. However, building affordable units is cost prohibitive and is unlikely to occur anywhere near the pace of new unit construction, so additional anti-displacement measures are needed.

## **2. New market rate units are not affordable for low-income renters (short-term)**

Despite the major finding of the LAO report: "Perspectives on Helping Low-Income Californians Afford Housing," that building new market rate units reduces displacement, the opposite may in fact be true. The LAO report found that census tracts in the Bay Area that had high rates of construction also had lower rates of displacement between 2000 and 2013.<sup>33</sup> However, shortly after the report was published, housing experts Alex Karner and Chris Benner challenged the findings:

"[The report] relies upon a single imperfect definition of displacement and doesn't distinguish between parts of the Bay Area that are growing rapidly and where land is cheap from the tight housing markets in San Francisco, Oakland, and San Jose. These three cities account for about a third of

new market-rate units in areas the report focuses on. But other top producers include cities on the urban fringe as well as unincorporated areas where displacement pressures are minimal. Grouping together these very different places can make it appear as though new market-rate units prevent displacement, when in fact the opposite might be true."<sup>34</sup>

The authors assert that building market-rate units only helps high income California's in tight rental markets.<sup>35</sup> A nationwide study of newly constructed multifamily units corroborates this concern: "...new units are primarily built for the high end of the market. In 2013, the median asking rent for newly constructed multifamily units was \$1,290, equivalent to about half of the median renter's monthly household income. At that rent level, over two-thirds of today's renter households could not afford this new unit at the traditional 30-percent-of income standard."<sup>36</sup>

## **3. New market rate units will not become affordable for low-income renters (long-term)**

There is little evidence that building market rate units in tight housing markets like in the San Francisco Bay Area and Los Angeles will alleviate the affordability crisis for low and middle-income households in the long-term. The argument that construction of market-rate units will eventually become affordable for lower income people is based on the economic theory called "filtering." It is theorized that as new units age, they lose value and enter the housing market for lower income households. However, filtering is less likely to occur in hot housing markets:

In gentrifying neighborhoods, filtering does not work at all, because land values and rents rise as the neighborhoods become more desirable and developers bid up land values. So lower-income households must look in other neighborhoods where services and schools are likely to be much weaker. Hence the gentrification process can reconstruct economic [and racial] segregation.<sup>37</sup>

While building new units might reduce the competition between high and lower income people for affordable housing in markets that are not as tight as those in the San Francisco Bay Area, it is unlikely to be a sufficient solution to the problem of affordability and displacement in California's hot housing markets.



To protect low and middle-income Californian's from the substantial pain of rent increases and the threat of displacement, the state must take a multifaceted

approach to the affordability crisis and protect renters in the short-term while building affordable units in the long-term.

# The Impact of Strong & Moderate Rent Control

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## Types of Rent Control in California

In California's history, there were two major periods of rent control passage, and the state is approaching a third. There has been an outpouring of tenant activism calling for rent control around the state, and a number of city councils have passed rent control ordinances within the last year, including Richmond, and Alameda. While Richmond's ordinance was suspended, tenant activists are putting it on the November 2016 ballot.

The first period was during the Great Depression, during which the government imposed price controls on housing and a number of other goods in an attempt to alleviate the pain of the economic crisis.<sup>38</sup> The form of rent control that emerged from this period is referred to as first generation rent control and is known for imposing price ceilings on rents. This form of rent control is largely responsible for the negative view that economists have of the practice as it resulted in severe policy trade-offs including maintenance decline.<sup>39</sup>

The second period spanned the 1970's and 1980's. In contrast to high apartment vacancy rates in the 1960's, construction slowed, vacancy went down, and prices began to outstrip inflation.<sup>40</sup> By 1981, 14 cities had residential rent control and over 1 million units were covered.<sup>41</sup> This second wave of rent control models is referred to as the second generation of rent control and typically includes annual rent adjustments, fair rate of return for landlords, and exemption of new construction to ameliorate some of the negative repercussions of the earlier rent ceiling model. In the cities with residential rent control in California, there was variation in the strength and type, broken down broadly into three categories:

1. Strong v. moderate rent control
2. Exemption of new construction v. no exemption
3. Exemption of single family homes v. no exemption

**Strong Rent Control (Vacancy control):** Also referred to as vacancy control, strong rent control requires that a unit remain under rent control upon the voluntary vacancy of a tenant. The rent stabilization board in each

city sets the base rental rate year, typically the year that rent control was passed in the locality, and provides annual adjustments that are calculated either in reference to inflation (consumer price index) or what is deemed a fair rate of increase for landlords to maintain a fair profit. However, rents can only be adjusted under the annual adjustment, or on a case-by-case basis. This is different than *vacancy decontrol*, which allows landlords to increase rents to market rate upon the voluntary vacancy or just eviction of a tenant. Only five cities in California had vacancy control before Costa Hawkins was passed: **Berkeley, Santa Monica, Cotati, West Hollywood, and East Palo Alto.** *Costa Hawkins affected rent control in these cities by banning vacancy control and requiring decontrol upon first vacancy after January 1, 1999.* In other words, this form of rent control no longer exists in California.

**Moderate Rent Control (Vacancy decontrol):** Moderate rent control cities refer to cities that have rent stabilization ordinances but permit vacancy decontrol, resetting of the rental rate to market rate, upon the voluntary leave of a tenant. Prior to Costa Hawkins, nine cities had vacancy decontrol: **Beverly Hills, Hayward, Los Angeles, Los Gatos, Oakland, Palm Springs, San Francisco, San Jose, and Thousand Oaks.** *Costa Hawkins did not affect these cities on the basis of moderate versus strong rent control because it required vacancy decontrol in cities that practiced rent control.*

**Exemption of New Construction:** Only one of the fourteen cities with residential rent control did not exempt new construction, East Palo Alto. Cities exempted new construction to compensate for the disincentive to construct new units that occurred under the first generation of policies. The remaining thirteen cities had exempted new construction when they passed their rent control ordinances. Costa Hawkins "exempts from local controls any residential real property which was issued a certificate of occupancy after February 1, 1995."<sup>42</sup> While this portion of law only immediately effected East Palo Alto, it also froze any previously existing exemptions so if cities exempted all new units built after 1980 in their initial rent control ordinance, they are unable to change the portion of their law under the Costa Hawkins Rental Housing Act.

**Exemption of Single-Family Homes:** Exempts from rent control single-family homes and other similar units. Costa Hawkins required that single-family homes be exempt from rent control. For cities that did not exempt single-family homes before the law was passed in 1995, the single family home could return to market rate upon first vacancy *after* January 1, 1999. This portion of the bill impacted: **Berkeley, East Palo Alto, Los Angeles, Oakland, San Francisco, Santa Monica and West Hollywood.**<sup>43</sup>

See Appendix 2 for details on the type of rent control, by city, prior to Costa Hawkins.

While most of the rent stabilization ordinances passed during this period of time included exemptions to ensure that construction was not impeded nor landlords unduly harmed, equity was the motivating force behind their passage. For example, the statement of purpose in Santa Monica’s rent stabilization ordinance was to: “...alleviate the hardship of the housing shortage and to ensure that owners received no more than a fair return.”<sup>44</sup> Berkeley went further and clarified who the policy was intended to benefit: “This legislation is designed to address the City of Berkeley’s housing crisis, preserve the public peace, health and safety, and advance the housing policies of the city with regard to low and fixed income persons, minorities, students, handicapped, and the aged.”<sup>45</sup>

## Impact of Strong Rent Control in California

### Average Impact

A study on the effects of vacancy control, a method of rent control that maintains the rental rate despite tenant turnover, in Santa Monica, Berkeley, East Palo Alto, and West Hollywood found that the policy had the following benefits while it was in effect from 1979-1999:

- Smaller increase in rents,
- Longer rental tenure,
- A shift from tenancy to ownership of units,
- A higher percentage of Latino renters,
- A higher percentage of the population under the age of 18.<sup>46</sup>

On average, the policy slowed the increase in median rent compared to non vacancy-controlled tracts. It also facilitated community stability by increasing the tenure

of tenants. Vacancy control did facilitate a shift towards ownership; meaning that rental units were taken off of the rental market and became owner occupied which may negatively impact tenants by reducing the stock of rental housing. Vacancy control was also associated with greater ethnic diversity by increasing the number of Hispanic and Latino residents compared to neighboring tracts without vacancy control. Finally, despite the loss of total families in both controlled and non-controlled areas, vacancy control was associated with a higher share of the population under the age of 18 than non-controlled areas. Vacancy control helped to maintain families with children.

### Impact – Berkeley

- ❖ Slowed the loss of units affordable to low-income people
- ❖ Kept rental rates low for primarily low and moderate income (non-student) households
- ❖ Increased community stability
- ❖ A 12 percent decrease in total rental units (3,309 converted)
- ❖ Higher rental vacancy rate

Compared to other cities in the Bay Area, Berkeley saw a number of unique rental trends that Steve Barton, the former Deputy Director of the Rent Stabilization Board, attributed to its rent control ordinance. For example, between 1980 and 1990 the nine-county Bay Area saw a 51 percent decline in the number of units that were considered affordable for low-income households and Berkeley saw a decrease of only 26 percent.<sup>47</sup> According to this analysis, the ordinance slowed the loss of low-income units relative to other cities in the Bay Area.

The units under rent control were primarily accessible to low and moderate income households who were able to benefit from lower and more stable rents. In Berkeley, low-income non-student households occupied 46 percent of total controlled units, 22 percent were occupied by students, and 32 percent were occupied by moderate and above moderate-income households.<sup>48</sup> Given that almost half of all rent control units were occupied by low-income people, the widespread myth that rent control disproportionately benefits high income people who don’t need it was not accurate in this case. Rent control also stabilized the living situation of people in Berkeley by increasing rental tenure – the number of

people who had been in their unit for six years or more increased by 13 percent between 1980 and 1990.<sup>49</sup> While rent control stabilized rents for many low-income people, it didn't eliminate rent-burden. Almost 70 percent of low-income households were rent-burdened in Berkeley at the height of its rent control ordinance, compared to 90 percent in 2014.<sup>50</sup>

Strong rent control protected low-income households from displacement compared to other cities in the Bay Area at the time.

In line with economic theory, the number of rental units declined in Berkeley from 1980 to 1990, primarily as a result of landlords converting single-family home rentals to owner occupancy, which accounted for one third of all converted units.<sup>51</sup> However, a study of the impact of strong rent control in West Hollywood (see below) suggests that this loss occurs most rapidly shortly after the policy is passed, and then declines in the later years. In anticipation of lost profits, landlords will withdraw units or convert them for owner occupancy in order to get a return on their investment in the short-term, but conversion will likely slow in the longer-term. Regardless, losing total rental units is a real short-term trade-off that policymakers need to consider when designing local rent control policies.

### Impact – Santa Monica

- ❖ Increased length of tenure
- ❖ Stopped the decline of households with children
- ❖ Lower rental vacancy rate
- ❖ All renter households saved money, the greatest savings were for low-income households.
- ❖ Weakened gentrification – maintained socioeconomic make-up of the city
- ❖ Protected senior citizens from displacement

First and foremost, strong rent control in Santa Monica stabilized rents and slowed the rise of rents in the area (see Appendix 1. Figure 1). According to an analysis by Levine and Heskin, the majority of these benefits went to low-income households.<sup>52</sup>

Without comparable reports from cities with strong rent control, the most significant finding from studies on

Santa Monica's rent control ordinance was the maintenance of the city's socioeconomic distribution – the city did not experience a loss of low-income households, which was attributed to the city's use of vacancy control.<sup>53</sup> In other words, vacancy control effectively stopped displacement as a result of gentrification.

Rent control in Santa Monica, however, was unable to stop the loss of Black and Latino households. Those communities continued to leave the city, and most of the in-migration during the strong rent controlled years, were by white households.<sup>54</sup> Further research about the factors that contributed to the displacement of Black and Latino households during this time period is needed. While affordability can slow the loss of households of color, it is important to stabilize additional factors that contribute to the loss of communities of color.

### Impact – West Hollywood

- ❖ Lower rents compared to neighboring census tracts
- ❖ Decrease in the share of renters who were rent burdened
- ❖ Rapid loss of rental stock in the short-term (9.8 percent in initial three years)
- ❖ Slower loss of rental stock in the long-term (3.4 percent in later six years)
- ❖ Longer rental tenure
- ❖ Lower vacancy rate

While no statistical evaluation has been done on the impact of vacancy control in the City of West Hollywood on its own, a housing analysis conducted by the University of Southern California's School of Urban Planning and Development in 1998 analyzed the impacts of rent stabilization on housing affordability in the city. Strong rent control in the City of West Hollywood effectively stabilized rents and kept them lower than rents in surrounding areas, outside of the city's jurisdiction (See appendix 5, Figure 3.).

In the study conducted by Dr. Banerjee of University of Southern California, census tracts in West Hollywood experienced almost 50 percent less growth in the median rent compared to neighboring tracts outside of the city. In the City of West Hollywood, the average

increase in median rents was 87 percent compared to a 135 percent increase in the surround areas.<sup>55</sup>

Strong rent control also reduced the rent burden of renters in the City of West Hollywood. In 1980, prior to strong rent control, approximately 50 percent of households were paying more than 30 percent of their income on rent. By 1990, the share of renters who were rent-burdened dropped to 46 percent, a 4 percent decline in the population that was rent burdened within 5 years of the laws passage.<sup>56</sup> The authors compared this decrease to rent burden in surrounding areas and attributed the decline to the rent stabilization ordinance.

Similar to Berkeley, the City of West Hollywood experienced a rapid loss of rental units shortly after the rent control ordinance was passed, affirming that a significant trade-off of rent control is loss of total units. Between 1987 and 1990 the city lost 9.8 percent of its rental stock (1,764 units).<sup>57</sup> The rate of decrease in rental units slowed significantly between 1990 and 1996, with a total loss of 549 units, or a 3.4 percent decline.<sup>58</sup>

Compared to the city of Los Angeles, renters in the City of West Hollywood had longer rental tenures, which represents greater housing stability. It could be argued that longer rental tenure is an indicator of less housing mobility but given the incentive structures at play in moderate versus strong rent regulated housing markets, it is unlikely that cities with moderate control have greater mobility. With moderate rent control, rents are re-set to market rate upon the start of a new tenancy, so tenants have a greater incentive to stay in their rent controlled unit because moving to a new unit requires that they pay market rent. West Hollywood also experienced a lower vacancy rate than surrounding cities, like LA who experienced an increase in the rental vacancy rate during the same time period.<sup>59</sup>

To summarize, strong rent control in West Hollywood had the following benefits for tenants: slowed the increase of rents, increased rental tenure, and reduced the share of households that were rent burdened. The policy had negative trade-offs including a rapid loss of

total rental units in the short-term, slowed loss of rental units in the longer-term, and a lower vacancy rate which can make it difficult for new renters to find housing.

## Impact of Moderate Rent Control

Moderate rent control in general ameliorates landlord concerns with rent control by allowing units to be de-controlled and then re-controlled once a tenant moves out. An analysis of Los Angeles' moderate rent control reveals that the compromises made on behalf of landlords, like including a vacancy decontrol policy, undermines tenant benefits and dilutes the impact of rent control on affordability.

An empirical analysis of Los Angeles's moderate rent control ordinance had two major findings:

- Majority of economic transfers (e.g. rent savings) from landlords to tenants are realized early in the law's life
- Legal provisions (exemptions) to protect landlords from the negative effects of rent control reduce the benefits of rent control to tenants.<sup>60</sup>

This analysis was a damning review of the potential for second generation laws to provide any benefits to tenants at all: "We find that second generation adjustments in rent control laws increase landlords' incentives only by eating into tenants' benefits. In the extreme, second generation controls are no controls at all."<sup>61</sup>

To summarize, strong rent control slowed or stopped the loss of low-income households in cities that practiced it, in the case of Berkeley it helped maintain racial and ethnic diversity, and while it did not stop the loss of Black and Latino households in Santa Monica, it did protect senior citizens and families with children from displacement. (For a summary of the impacts of different forms of rent control in California, see Appendix 5, Table 1.)

# The Politics of the Costa Hawkins Rental Housing Act (AB1164)

## The Legislative Process

The Costa-Hawkins Rental Housing Act (AB1164), introduced by Assembly Member Phil Hawkins (R), was passed by the legislature on July 24, 1995 and was signed by Governor Pete Wilson on August 3, 1995.<sup>62</sup> While this bill moved quickly through both houses when it was introduced in 1995, Assemblyman Jim Costa (D-Fresno) had been introducing a rent deregulation bill annually since 1983.<sup>63</sup> It took twelve years for Jim Costa's pre-emption of local rent control to pass, largely because of Senator David Roberti who would send the bill to the majority liberal Senate Judiciary Committee where it would inevitably die each year.<sup>64</sup> Under the new term limit laws passed in 1988, Senator Roberti termed out in 1995, removing the most significant barrier that the real estate industry had faced in Sacramento. In addition to Roberti's absence, Costa was elected to the Senate and Republicans won control of the Assembly, shifting Sacramento to the right. Further, Governor Pete Wilson (R) had been elected in 1994, and had opposed rent control when he was Mayor of San Diego.<sup>65</sup> It was this political climate that enabled the passage of a bill that Jim Costa and the Real Estate Industry had been trying to pass for 13 years. The California Apartment Association, the California Housing Council, and the California Association of Realtors sponsored the bill.<sup>66</sup>

In a comparative analysis of California and Massachusetts state-wide bans on strict rent control, Peter Drier found that: "Changes in housing market dynamics in the two states cannot explain the change in policy, since there was no significant change during the period under discussion here. Rather the key factors are political and ideological."<sup>67</sup> This is significant because the primary supporters of the bill, the real estate industry, argued that the bill would improve the housing market in these cities by incentivizing building, increasing supply, and ultimately bringing the costs down. Before this claim is evaluated, it is necessary to review the Bill's original intention.

As AB1164 was first introduced to the Assembly in February of 1995, it was not designed to deregulate

rent control but to repeal: "seven obsolete housing statues that observers believe are no longer useful" and primarily related to Mobile Homes.<sup>68</sup> However, the bill underwent significant amendments before it's final passage, including Costa's Senate bill (SB1257) that pre-empted local rent control laws. Before these major amendments were made by the Senate on July 20<sup>th</sup> the legislative intent of the bill was: "to streamline and improve state housing policy by repealing obsolete, outmoded and inoperative programs and statues."<sup>69</sup> This original version of the bill passed through both the State Assembly and the Housing and Community Development Committee without opposition.

However, less than three weeks before the Governor signed AB1164, the Senate amended the bill to include provisions from Senator Costa's SB1257 that pre-empted local rent control.

This new version of the bill faced opposition in both the Senate and the Assembly but ultimately passed both houses with the amendments regarding rent control intact.<sup>70</sup>

*"Changes in housing market dynamics in the two states cannot explain the change in policy, since there was no significant change during the period under discussion here. Rather the key factors are political and ideological."*

## Bill Analysis: Proponents v. Opposition

Proponents of AB1164 viewed the bill: “as a moderate approach to overturn extreme vacancy control ordinances which unduly and unfairly interfere into the free market.”<sup>71</sup> Some of the additional language from proponents of the bill, noted in the legislative history, claim that strict vacancy control laws:

- Deter construction of new rental housing (state-wide exemption of new construction needed to incentivize building).
- Deter private investment
- Encourage owners to take units off the market or sell the property
- Are extremely expensive and burdensome to administer
- Result in the availability of fewer affordable housing units to tenants.
- Prevents landlords from being able to make sufficient profit to repay loans, thus preventing perspective lenders from making loans.

By banning strict rent control, supporters of the bill hypothesized that the above assumptions about the impact of vacancy control would be reversed: they expected an increase in construction, more affordable housing, increased private investment, cost savings as a result of bureaucratic downsizing, and better maintenance of rental properties by owners. Finally, they declared that: “And no current tenants would become displaced nor would their rents rise.”<sup>72</sup>

Some organizations in support of the bill at this time include: *Coalition for Fair Rental Policy, Black Property Owners Association of Berkeley, Minority Property Owners Association, Apartment Associations, Rental*

*Property Associations, Mortgage Bankers Association, California Land Title Association.*<sup>73</sup>

The sole opponent of the Bill listed in the Governor’s chaptered bill file was the Golden State Mobilehome owners league. It was noted that the Western Center on Law and Poverty and “other low-income advocates” were in opposition to the Bill.<sup>74</sup> While the list of opponents on the bill itself is limited, tenant groups from Santa Monica, West Hollywood, Berkeley, East Palo Alto, and Cotati were present to protest the bill during public meetings in Sacramento. According to a political analysis of the laws passage: “The pro-rent control forces lacked the organizational infrastructure and grassroots constituency to mount a serious opposition effort.”<sup>75</sup> Despite a weak political response from tenant groups, the legislative history notes that opponents saw the bill as “an inappropriate intrusion into the right of local communities to enact housing policy to meet local needs.”<sup>76</sup> The opposition also noted that the areas primarily affected by the bill (Santa Monica, Berkeley, West Hollywood, East Palo Alto) were already built-out, meaning that it would be unlikely for construction rates to keep up with demand for affordable housing. They predicted that undermining local rent control would actually cause housing prices to skyrocket, further diminishing the supply of affordable housing for residents.

Given the analysis of the impacts of strong rent control, that it helped maintain a supply of affordable housing units in cities with vacancy control, the opponents of the Costa Hawkins Rental Housing Act correctly predicted the outcome of undermining the policy – loss of affordable units. Contrary to the assertion made by the bills proponents, that it would increase the supply of affordable housing and that no one’s rent would rise as a result, the bill resulted in a rise in median rents and higher risk of displacement.

# The Impact of Costa Hawkins (Qualitative)

## Summary of Impacts:

*While the impacts in each city were different due to variation in existing local policies, some of the shared impacts were:*

- Median rents increased above inflation
- Loss of units affordable to low and moderate-income people
- Increase in units affordable for high income people
- Fewer controlled units – loss of stabilization for elderly and disabled population
- Moderate decrease in tenant complaints about maintenance.

## Single-Family Homes No Longer Protected

When Costa Hawkins was passed, seven of the 14 cities with residential rent control covered single-family homes, including: Berkeley, San Francisco, Los Angeles, Oakland, Santa Monica, East Palo Alto, and West Hollywood. According to a bill analysis done by opponents of AB1164, the law resulted in 52,000 single-family homes and condominiums losing protection from rent control when the law went into effect (See Appendix 6).

There have also been many newly constructed single-family homes that aren't eligible for rent control under Costa Hawkins' single-family home and new construction exemption. For example, Oakland has 22,295 single-family home rentals and an estimated 18,058 of those units were built before 1980 (Oakland exempts new construction after 1983). The single-family exemption portion of Costa Hawkins effectively prevents the protection of more than 18,000 homes in Oakland.<sup>77</sup> Renters with larger families, who may need to rent single-family homes, are extremely vulnerable to displacement as median home prices rise with rents and their landlord can provide notice of a rent increase beyond what they can afford at any time.

Single-family homes are also uniquely vulnerable to rent instability given the recent rise of single family

home rent securitization as an asset class.<sup>78</sup> Wall Street bankers are buying up single-family homes. "The combination of increased rental demand and the large inventory of single-family homes under bank ownership has created an opportunity for large, well-capitalized investors to purchase these properties while values are low..." ultimately institutionalizing the single-family home rental market.<sup>79</sup> So as renters are increasingly vulnerable to displacement as a result of rapidly rising rents, they are also increasingly facing Wall Street landlords who have an entirely profit driven motive in the rental housing market.

## Impact – Berkeley

Impact of Costa Hawkins in Berkeley:

- ❖ Median rents increased above inflation in Berkeley
- ❖ Ninety percent of increased rents went to landlords in the form of profit – 6 percent is spent on maintenance, 4 percent on taxes
- ❖ Accelerated loss of units affordable to low-income people
- ❖ Fewer controlled units – loss of stabilization for elderly and disabled population
- ❖ Moderate decrease in tenant complaints

In Berkeley, vacancy decontrol resulted in an increase in the median rent. Since Costa Hawkins was implemented: "85 % of all rent stabilized apartments have turned over at least once and the rents have increased to the much higher levels typical of the Bay Area's dysfunctional housing market."<sup>80</sup> It is important to note that the increase of rents in Berkeley resulted in a transfer of wealth from tenants to landlords as tenants paid rents that ensured above a fair rate of return for landlords. Berkeley's rent stabilization board estimated that total rent payments in rent stabilized units were \$3 million annually in 2013 but would have been \$2 million if strong rent control were still the city-wide policy. Over all, about 90% of the increased rent is going to increased profits rather than being reinvested in building



improvements or in the community through increased tax payments.”<sup>81</sup> In effect, vacancy decontrol resulted in a transfer of wealth from tenants to landlords by allowing units to be decontrolled, and returned to market rate.

One benefit of vacancy decontrol was that it marginally decreased complaints about maintenance. With 6 percent of increased profit going towards maintenance costs, there was an 8 percent decrease in the total number of tenants reporting unresolved maintenance issues (from 83 to 75 percent) based on a 2009 tenant survey.<sup>82</sup>

In looking at the units in Berkeley that were never decontrolled, we are reminded that strong rent control benefits vulnerable populations. Units that had tenants move in prior to 1996 and had never been decontrolled and disproportionately house low-income people. More specifically, two-thirds of these units are occupied by low-income renters and one third of them house elderly or disabled citizens of Berkeley.<sup>83</sup>

To summarize, vacancy decontrol increased median rents in Berkeley, increased landlord profits, and reduced the number of units that disproportionately benefitted low-income, elderly, and tenants with disabilities. The positive trade-off in Berkeley was a moderate improvement in maintenance.

## Impact – Santa Monica

### Impact of Costa Hawkins in Santa Monica:

- ❖ Median rents increased above inflation
- ❖ A 99 percent decline in the number of units affordable to extremely low income people
- ❖ A 1,800 percent increase in units available to high income people
- ❖ Fewer controlled units – loss of stabilization for vulnerable populations

In Santa Monica, the socioeconomic make-up of the city transformed as unit affordable to low and moderate-income people declined substantially. Since

1998, Santa Monica has seen a dramatic decline in the number of units that are available for extremely low-income, very low-income, and low-income households. As units get flipped to market rate, they are affordable to moderate and higher income households, the only income categories that have seen an increase in the number of units available to them. Santa Monica has experienced a 99 percent loss of units for extremely low-income households in conjunction with a 1,861 percent increase in the number of units available to higher income individuals (See Appendix 4. Table 1).<sup>84</sup>

By default, as units become more expensive, the income needed to afford them has also increased. The Santa Monica Rent Control board published a study in 2014 comparing the annual income needed to afford median rent both with and without vacancy control. To calculate what the median rent would have been without Costa Hawkins, the Board added the annual rent adjustments under the base rent year specified in the original local ordinance up until 2014. For example, the income needed to afford a 2-bedroom in Santa Monica today is 100 percent higher than it would have been if the state hadn’t banned vacancy control. If Costa Hawkins had not passed, a household making \$43,100 in 2014 could have afforded the median rent of a one-bedroom apartment in the City today. Under vacancy decontrol, that same household would need to make \$38,350 more, a total of \$81,450 a year to afford a one-bedroom apartment (See Appendix 4. Table 2). To put that number in context, given the current minimum wage of \$10.50 in Santa Monica, a household would need to work almost 7,800 hours to afford rent in a one-bedroom apartment. For two minimum wage earning adults, that would mean approximately 10.5 hour days for all 365 days of the year.

## Impact – West Hollywood

The Costa Hawkins Rental Housing Act banned West Hollywood’s practice of vacancy control and single-family home rent control. The Housing Assessment report by USC that detailed the impact of rent stabilization in the City of West Hollywood predicted that the city would see an increase in rents, which would ultimately result in fewer units available to low and middle income residents. Within one year of full Costa Hawkins implementation, the City of West

Hollywood noted changes in affordability: “The impacts of vacancy decontrol on affordability of rental housing have been significant. When vacancy decontrol was fully implemented in 1999, the rents of voluntarily vacated units rose an average of over 20 percent in just one year.”<sup>85</sup> Without vacancy control, rising rents made the city less affordable for lower income residents. (See Appendix 4. Table 3.)

Similar to the impact of Costa Hawkins in Berkeley and Santa Monica, the City of West Hollywood experienced an increase in median rents and reduction in affordability as a result of the law. It can also be assumed that the City lost benefits associated with strong rent control beyond maintaining affordability, including longer rental tenure, and stable housing.

## Cities Cannot Update Exemptions of New Construction

By freezing local exemptions of new construction in place, Costa Hawkins also pre-empts the coverage of newly constructed units from rent control. While Berkeley exempted units built after 1980 in its local ordinance, Costa Hawkins requires that units built after 1995 are exempted in other cities but it froze Berkeley’s exemption so no units built between 1980 and 1995 can be controlled in Berkeley. This effectively reduces the number of units that can be covered. If Berkeley were allowed to update its exemption to 1995, it could newly cover a minimum of 1,541 additional units that were built between 1980 and 1990 (see appendix 6, Table 2.).

## Summary

The research on the impact of vacancy decontrol in the above cities focused primarily on how the law impacted tenants and housing affordability on a broad level. The studies did not, for example, consider whether the law facilitated construction of rental units, or incentivized the conversion of properties from owner to renter occupied housing. Empirically, there is no evidence to suggest that rent stabilization reduces new construction, likely because local policies exempt new construction. Following a survey of the empirical literature on rent stabilization, an economist concluded: “...none provides any persuasive evidence that temperate rent control ordinances inhibit the new construction of rental housing, an hypothesis that must be regarded as unproven.”<sup>86</sup> While it is reasonable to assume that Costa Hawkins incentivized landlords to stay in the rental market, the law made the city less affordable for low and middle-income people despite other potential impacts on supply.

The authors and sponsors of the Costa Hawkins Rental Housing Act relied on the logic of the free market to predict that removing the regulation of vacancy control would incentivize construction, ultimately increasing the supply of affordable housing without raising rents. Not only did Costa Hawkins fail to increase the supply of affordable housing, it aggravated the loss of low-income households and contributed to the displacement of low-income and elderly people from their homes.

# The Impact of Costa Hawkins (Quantitative)

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## Summary:

Generally, in places with strong rent control prior to 1995, Costa Hawkins is associated with the loss of Black and Latino residents, and the increase in the non-Hispanic white population. It also contributed to a slight decline in the elderly population. In terms of housing characteristics, it is associated with an increase in median rent and an increase in owner occupied units.

In places with moderate rent control prior to 1995, it is also associated with the loss of Black and Latino residents, and an increase in the non-Hispanic white population. The number of children decreased, while families increased indicating an influx of smaller households or a decline in larger households.

## Methods:

This analysis uses a statistical method called a difference-in-difference model to estimate the impact of the Costa Hawkins Rental Housing Act on a number of key variables. The difference-in-difference model determines the impact of a policy change or “treatment” on a group of individuals by controlling for time and geographic fixed effects when compared to an untreated group or “control group”.

This model requires a control group, a set of cities that were not impacted by Costa Hawkins, to act as a counterfactual. By differencing the trends of the dependent variables of interest (e.g. median rent) before and after the law, for both the control and treatment group, we can isolate the effect of the treatment (AB1164). Control variables were added to the model in order to control variation that occurred as a result of population change, and median housing value.

Given that the law impacted cities differently depending on their local rent control laws prior to AB1164’s implementation in 1999, the analysis is split into two parts with different treatment groups, but the same model. In the first model, the treatment cities are those that had strong rent control prior to the passage of Costa Hawkins, including: Santa Monica, East Palo Alto, West Hollywood, and Santa Monica. In the second model, the

treatment cities include cities that had moderate rent control prior to Costa Hawkins, including: Oakland, San Francisco, and Los Angeles.

## Description of the Data:

*For the more technical reader, I have included a description of the data used, and a full table of variables in the Detailed Methodology Below.*

This analysis includes data from 2,809 census tracts within 121 cities in California, located within four counties (Alameda, Los Angeles, San Francisco and San Mateo counties). The data for this analysis came from the Neighborhood Change Database, which geographically adjusts historical census data and American Community Survey data for analyses across time. The Neighborhood Change Database adjusted historical data to the 2010 census boundaries. This analysis used data from the decennial census for 1980, 1990, and 2000 and data from the ACS (5-year estimates) for 2010.

While Costa Hawkins was passed in 1995, it wasn’t fully implemented until January 1, 1999. Given the staggered rollout of the law, the years 1980 and 1990 are control years, and the years 2000 and 2010 are treatment years.

## Findings (Model 1)

In model one, the “treated cities” or cities impacted by the policy are Santa Monica, Berkeley, West Hollywood, and East Palo Alto.

Costa Hawkins is associated with the following statistically significant impacts:

- 2.4 percent decrease in the share of the population that is Black or African American,
- 9.4 percent decrease in the share of the population that is Hispanic or Latino,
- 17 percent increase in the share of the population that is non-Hispanic white population,
- 1.3 percent decrease in the share of the population that is over 65 years old,
- 15 percent increase in the median household income,
- 6.7 percent increase in median gross rent,
- 3.8 percent reduction in share of households that were renter occupied.

*For tables of the findings, please see Appendix 8. All findings with three asterisks are statistically significant at the 0.01 percent level.*

In general, Costa Hawkins is associated with a decline in the Black and Latino population, the elderly population, and an increase in the white population. The law is also associated with an increase in median household income, which could occur as a result of an influx of higher income residents. The law was also associated with a loss in the share of households that were renter occupied, as opposed to an increase. Although strong rent control facilitated a loss of renter occupied units, these findings suggest that Costa Hawkins also aggravated the loss of these units. Given the incentive of tenants to stay in an apartment longer if a city has moderate rent control, landlords may have still preferred to take units off of the market to make a greater profit. Costa Hawkins is also associated with an almost 7 percent increase in median rents from 2000 to 2010.

Most of these findings are in opposition to the benefits of strong rent control. However, the finding about loss of rental units as a result of Costa Hawkins was unexpected

and requires more research to understand why this might have happened.

## Findings (Model 2)

In model two, the “treated cities” or cities impacted by the policy are Oakland, Los Angeles, and San Francisco.

Costa Hawkins is associated with the following statistically significant impacts:

- 6.6 percent decrease in the share of the population that is Black or African American,
- 22.5 percent decrease in the share of the population that is Hispanic or Latino,
- 31.3 percent increase in the share of the population that is non-Hispanic white,
- 2.7 percent decrease in the share of people under the age of 18,
- 6.6 percent increase in total families
- 27.5 percent increase in median household income,
- 1.9 percent decrease in rental vacancy,
- 5.3 percent decrease in the share of renter occupied households.

*For tables of the findings, please see Appendix 9.*

These findings suggest that single-family home exemptions in these three treatment cities had significant impacts on the share of the population that was Latino and Black. Second, while a decrease in the child population and an increase in the number of families seem contradictory, this likely occurred as a result of an increase in the proportion of the population with small household sizes and a loss of the population with larger household sizes impacted by the law. This trend occurred in Oakland where there was a small decrease in the number of family households (86,000 to 83,000) compared to a 10 percent decline in the number of family households with children.<sup>87</sup>

Finally, the impact of Costa Hawkins on these cities is similar to those in model 1, as it was associated with a decline in renter occupied units. While Costa Hawkins did not have a statistically significant association with decreased rental vacancy rate in Model 1, it is associated with a two percent decline in the rental vacancy rate, meaning that there are fewer available units at any given time.

## Policy Recommendations

This analysis illustrates the potential benefits of strong rent control as it relates to affordability and displacement, and the negative impact that vacancy decontrol has had on the affordability of cities for low and middle-income people. Given the findings of this report, and the need to act quickly to stem displacement, it is recommended that state do the following in order of preference:

### **Repeal the Costa Hawkins Rental Housing Act**

**(AB1164):** Amidst a severe housing crisis, local governments in California find themselves constrained in their ability to address the displacement of low-income people and people of color. In addition to exempting single-family homes and new construction, Costa Hawkins bans strong rent control, a policy that has the potential to stem displacement and effectively slow the growth of rents. While strong rent control can have negative outcomes, short-term use of emergency controls is needed in cities and regions where rent increases are destabilizing residents and exacerbating displacement. For this reason, repealing Costa Hawkins would allow these cities to decide on the most appropriate policy response dependent upon the unique conditions of their city. Repealing the law would allow cities to update their exemptions of new construction if desired, put single-family homes under rent control, and enact vacancy control if needed. Given the loss of total rental units in Berkeley when vacancy control as being enacting, cities should consider protections against conversions to ensure that rental units are not lost. Again, this recommendation would face considerable political backlash from landlords and the real estate industry that fought for 13 years for the passage of the law. As a number of city councils, including Berkeley and Oakland, have called for a repeal of the law, it is clear that local governments are aware of the need to repeal it in the short-term. However, the state has yet to respond to these calls to action. If the legislature fails to repeal a law that prevent local governments from protecting tenants from displacement, the Governor of California should step in as follows:

**Declare a State of Emergency and temporarily freeze rents in cities experiencing rapid displacement:** If the legislature fails to repeal or amend the Costa Hawkins rental housing act, the Governor of California should issue a state of emergency and impose temporary rent

freezes in cities experiencing displacement. This would be the most effective strategy in terms of slowing economic displacement, however, there would be considerable opposition from landlords and the real estate industry. Further, depending on it's length, a rent freeze could disproportionately harm mom and pop landlords who could experience more direct pain as a result of limiting rent increases. Given the complexity of the rental housing market by place, it would be possible to maintain the effectiveness of rent freezes while reducing harm to specific populations if local governments were unconstrained by Costa Hawkins and could enact more nuanced policies. This policy alternative would be difficult to implement, and would likely impose considerable costs on small landlords without decentralizing administration. If the state legislature cannot take bold action in repealing the law, the Governor has that responsibility, which would likely include negative trade-offs for small landlords.

### **Amend the Costa Hawkins Rental Housing Act** **(AB1164):**

**Update exemption of new construction clause:** Allow cities that exempted new construction in their original rent control ordinances to update the year of that exemption to the year specified in AB1164 (1995). This would effectively bring thousands of new units under rent control in cities that had rent control prior to 1995 (14 cities) and exempted new construction in their original ordinance (13 cities). As the exemption of new construction clause was intended to remove the negative impact that rent control had on the incentive to build, it is reasonable to update the exemption and stabilize rents in some buildings built after 1995.

**Repeal exemption of single-family homes:** Costa Hawkins exempts single-family homes from rent control. As 37 percent of all rental units in California are single-family homes, 2.1 million units are not eligible for the local rent protections that communities may adopt in light of the current affordability and displacement crisis. If just the single-family home exemption were repealed (and units built after 1995 remained exempt) 1.8 million single family homes would be eligible for rent protection.<sup>88</sup> In addition, cities that included single-family homes under rent control in their original ordinance could choose to again expand coverage to those homes and provide rent stability for those families in the short-term.

*For an estimate of the total units that would be newly protected if either the single-family home exemption, or new construction exemption were repealed, see Appendix 6.*

**Establish a third generation of rent control in cities with high risk of displacement:** With a better understanding of the impacts of strong versus moderate rent control, it is time to consider a third generation that capitalizes on the benefits while reducing the costs of both. Strong rent control effectively slows displacement by stabilizing rents and acting as a wealth transfer from landlords to tenants in the short-term. These benefits lessen over time by creating a dis-incentive for landlords to stay in the rental market, reducing total rental units. Moderate rent control creates housing stability for those who remain in their units, but incentivizes mis-matching as tenants hold on to units for longer than they otherwise would as any new housing that they seek will be market-rate. A third generation of rent control may impose strong rent control in response to an affordability crisis, and return to moderate control when housing prices stabilize and the incentive to hold onto units is not as severe.

It is recommended that the policy-makers begin to consider designing a third generation of controls given that the demand for housing in California is unlikely to subside in the near future.

## Conclusion

Given that displacement is a massive crisis in California's major cities, and is likely to accelerate, the state needs to respond by either implementing a state of emergency and temporarily freezing rents, or enabling local governments to do so through a repeal of the Costa Hawkins Rental Housing Act. If thoughtfully implemented, rent stabilization can effectively stem displacement in the short-term while local jurisdictions work to increase the supply of affordable housing in their communities.

While the state should also invest in the construction of affordable housing units for a more comprehensive anti-displacement strategy, it should at a minimum not aggravate the displacement crisis by preventing local governments from enacting meaningful and effective anti-displacement policies in this time of immediate need.

# Detailed Methodology

## Difference-in-Difference Models

The difference-in-difference model is used to determine the impact of a policy change or “treatment” on a group of individuals by controlling for *time and geographic fixed effects*. The model compares the average change over time in a dependent variable between a treatment and control group. In this case, the policy change is the Costa Hawkins Rental Housing Act and the treatment group is comprised of cities that had a form of rent control and were affected by the law.

This model requires a control group, a set of cities that were not impacted by Costa Hawkins, to act as a counterfactual. By differencing the trends of the dependent variables of interest (e.g. median rent) before and after the law, for both the control and treatment group, we can isolate the effect of the treatment (AB1164). Control variables were added to the model in order to control variation that occurred as a result of population change, and median housing value.

Given that the law impacted cities differently depending on their local rent control laws prior to AB1164’s implementation in 1999, the analysis is split into two parts with different treatment groups, but the same model. In the first model, the treatment cities are those that had strong rent control prior to the passage of Costa Hawkins, including: Santa Monica, East Palo Alto, West Hollywood, and Santa Monica. In the second model, the treatment cities include cities that had moderate rent control prior to Costa Hawkins, including: Oakland, San Francisco, and Los Angeles.

Table 12. Case Studies

Jurisdiction (City)	County	Pre-Costa Hawkins Rent Control Policy	Post- Costa Hawkins Rent Control Policy	Model #
<b>Berkeley</b>	Alameda	Strong	Moderate	Model 1
<b>East Palo Alto</b>	San Mateo	Strong	Moderate	Model 1
<b>Santa Monica</b>	Los Angeles	Strong	Moderate	Model 1
<b>West Hollywood</b>	Los Angeles	Strong	Moderate	Model 1
<b>Oakland</b>	Alameda	Moderate	Moderate	Model 2
<b>Los Angeles</b>	Los Angeles	Moderate	Moderate	Model 2
<b>San Francisco</b>	San Francisco	Moderate	Moderate	Model 2

Source: Author’s analysis of Rent Stabilization ordinances by city<sup>1</sup>

## Description of the Data

This analysis includes data from 2,809 census tracts within 121 cities in California, located within four counties (Alameda, Los Angeles, San Francisco and San Mateo counties). The data for this analysis came from the Neighborhood change database, which geographically adjusts historical census data and American Community Survey data for analyses across time. Given that this analysis was using census tracts to understand the impact of AB1664 on the city-level, it was necessary for census tracts to represent a consistent geography in order to isolate changes that resulted from the law and other exogenous factors, as opposed to changes that resulted from shifting geography. The Neighborhood Change Database adjusted historical data to the 2010 census boundaries. This analysis used data from the decennial census for 1980, 1990, and 2000 and data from the ACS (5-year estimates) for 2010.

While Costa Hawkins was passed in 1995, it wasn’t fully implemented until January 1, 1999. Given the staggered rollout of the law, the years 1980 and 1990 are control years, and the years 2000 and 2010 are treatment years.

<sup>1</sup> Note: Although Cotati was the fifth California city that had strong rent control prior to Costa Hawkins, it was too variant from other treated cities to include it in this analysis.

<sup>2</sup> Note: Shares exceed one hundred percent as ACS only report non-Hispanic white and Hispanic or Latino, but does not calculate the non-Hispanic Black population, for example. For this reason, some individuals were double counted, causing the total share of rent to be 131.

## Description of Dependent Variables

- Share of population (Black or African American)
- Share of population (non-Hispanic white)
- Share of population (Hispanic or Latino)
- Share of population (Asian or Pacific Islander)
- Share of population (Other race)
- Share of population (Two or more races)
- Share of population (65+ years old)
- Share of population (under 18 years old)
- Log (Total Families): natural log of the total number of families
- Median gross rent (adjusted to 2010 dollars)
- Median Household Income (adjusted to 2010 dollars)
- Rent Burden (Median gross rent divided by median household income)
- Rental vacancy rate (Percent of rental units vacant)
- Share of total housing units (rentals)

## Basic Model

For proportional dependent variables (e.g. gross income percent of household income)

$$y_{it} = \beta_0 + \beta_1 \text{Costa\_Hawkins}_i + \beta_2 \text{city\_treat}_{it} + \beta_3 \text{CostaHawkins\_city}_{it} \\ + \beta_4 \text{city\_treat\_year}_{it} + \beta_5 \log(\text{mdvalhs\_i})_i + \beta_6 \log(\text{trctpop})_{it} + \varepsilon_{it}$$

## Limitations & Future Models

One of the major limitations of this analysis is the difficulty of understanding the impact at the place level given the small number of treated cities. While the danger of endogeneity as a result of the cities not being randomly assigned is parsed out in the difference-in-difference method, my model is affected by heterogeneous treatment effect, as the cities themselves are so different. Despite containing a relatively larger population of resident activists compared to other cities in the state, comparing Berkeley to West Hollywood is fraught with complications. First, the treatment cities all had different renter demographics, housing occupancy characteristics, among many other variables prior to the law, making it highly likely that the law impacted the cities differently. The difference-in-difference estimator provides an estimate of the average effect of treatment across the treated cities and should be supplemented with a case-by-case analysis of rent stabilization in each city.

Second, this analysis was limited by the available data. With only four time periods, the model was unable to incorporate phase-in effects and instead averages the treatment effect across a ten-year period of time. The policy may have had differential impact within the first 0-3 and then 3-7 year periods, but the model was limited by the available data.

For a difference-in-difference estimator to be a trustworthy model, the parallel trends assumption must hold, meaning that the treatment and control groups should have parallel trends across the models dependent variables. A number of variables did not meet the parallel trends requirement in this analysis, so a variable was added to the model that controlled for year specific trends in the treatment group to compensate for this.



Given the uniqueness of the treatment cities, future models should explore a synthetic control or spatial lag method to more effectively isolate the treatment effect on the treated cities. Future models should also use census data from the summary 1 files, and aggregate tracts within a city up to the place level as opposed to using the Neighborhood change database, because there variables are limited and this analysis could not include distribution of incomes as a dependent variable.

TABLE 1. Control Variables

Variable	Description	Description
Costa_Hawkins	Dummy variable: 1 if year is 2000 or 2010, 0 if year 1980 or 1990	Treatment time period
City_treat	Dummy variable: 1 if city is treated 2 if city is not treated	Treated cities
City_treat_year	For treated cities: 1980 if year=1980 1990 if year=1990 2000 if year=2000 2010 if year=2010	Controls for trends in the dependent variable that are specific to treated cities by year
<b>CostaHawkins_city</b>	Dummy Variable: 1 if year is 2000 and 2010 <b>and</b> the city is treated	<b>Term that isolates the impact of the law:</b> interaction between Costa_hawkins and city_treat
CH_city_phasein	Dummy Variable: 1 if year=2010 and city_treat=1	Only used in the analysis of construction, this variable represents the impact of the law in 2010, changing the CostaHawkins_city variable to represent the impact of the law in 2000.
logtrctpop	Natural log of tract population	Controls for population changes
logmdvalhs_i	Natural log of median housing value, adjusted for inflation	Controls for exogenous increases in housing price
logindemp	Natural log of the civilian population over the age of 16 that is employed	Controls for variation related to economic trends influencing employment
logeduc	Natural log of the population over 25 that has a bachelor's or professional degree	

# Appendices

## Appendix 1. Demographics of Renters in California

Table 1. Housing Tenure in California (2010-2014)

Housing Tenure	Total Units (2010)	Percent (2010)	Total Units (2014)	Percent (2014)	Percent Change (2010-2014)
Owner-occupied	7,112,050	57%	6,908,925	55%	-2%
Renter-occupied	5,280,802	43%	5,708,355	45%	+2%
<b>Total Occupied housing units</b>	<b>12,392,852</b>	<b>100%</b>	<b>12,617,280</b>	<b>100%</b>	

Source: Author's Tabulation, American Community Survey, 2000 & 2014<sup>89</sup>

Table 2. Share of Renter Occupied Households by Age of Householder (2014)

Geography	Total Renter Occupied Units	Age 15-24	Age 25 to 34	Ages 35-44	Ages 45-54	Ages 55 and above
<b>California (State)</b>	<b>5,708,355</b>	<b>7%</b>	<b>26%</b>	<b>23%</b>	<b>19%</b>	<b>25%</b>
<b>Berkeley</b>	<b>26,476</b>	<b>23%</b>	<b>29%</b>	<b>14%</b>	<b>12%</b>	<b>22%</b>
<b>East Palo Alto</b>	<b>4,376</b>	<b>5%</b>	<b>31%</b>	<b>22%</b>	<b>24%</b>	<b>19%</b>
<b>Los Angeles</b>	<b>835,503</b>	<b>6%</b>	<b>26%</b>	<b>24%</b>	<b>19%</b>	<b>25%</b>
<b>Oakland</b>	<b>93,806</b>	<b>5%</b>	<b>27%</b>	<b>23%</b>	<b>17%</b>	<b>28%</b>
<b>San Francisco</b>	<b>221,143</b>	<b>5%</b>	<b>31%</b>	<b>20%</b>	<b>15%</b>	<b>28%</b>
<b>Santa Monica</b>	<b>33,931</b>	<b>5%</b>	<b>25%</b>	<b>22%</b>	<b>18%</b>	<b>30%</b>
<b>West Hollywood</b>	<b>16,998</b>	<b>4%</b>	<b>33%</b>	<b>18%</b>	<b>18%</b>	<b>27%</b>

Source: Author's tabulation, 2014 American Community Survey (5 year), "Tenure by Age of Householder"

Table 3. Share of Total Renter Occupied Households by race/ethnicity (2014)<sup>2</sup>

Geography	Non-Hispanic white	Hispanic or Latino	Black or African American	American Indian or Native Alaskan	Asian Pacific Islander	Other Race	Two or More Races
<b>California (State)</b>	<b>40%</b>	<b>35%</b>	<b>9%</b>	<b>1%</b>	<b>12%</b>	<b>13%</b>	<b>4%</b>
<b>Berkeley</b>	<b>54%</b>	<b>9%</b>	<b>12%</b>	<b>0%</b>	<b>20%</b>	<b>3%</b>	<b>5%</b>
<b>East Palo Alto</b>	<b>11%</b>	<b>56%</b>	<b>17%</b>	<b>0%</b>	<b>12%</b>	<b>19%</b>	<b>3%</b>
<b>Los Angeles</b>	<b>31%</b>	<b>41%</b>	<b>13%</b>	<b>1%</b>	<b>13%</b>	<b>20%</b>	<b>3%</b>
<b>Oakland</b>	<b>27%</b>	<b>19%</b>	<b>33%</b>	<b>1%</b>	<b>16%</b>	<b>8%</b>	<b>4%</b>
<b>San Francisco</b>	<b>52%</b>	<b>13%</b>	<b>7%</b>	<b>0%</b>	<b>24%</b>	<b>5%</b>	<b>4%</b>
<b>Santa Monica</b>	<b>73%</b>	<b>11%</b>	<b>4%</b>	<b>0%</b>	<b>8%</b>	<b>1%</b>	<b>4%</b>
<b>West Hollywood</b>	<b>77%</b>	<b>13%</b>	<b>2%</b>	<b>0%</b>	<b>4%</b>	<b>6%</b>	<b>5%</b>

Source: Author's tabulation, 2014 American Community Survey (5 year), "Tenure by Race/Ethnicity of Householder"

<sup>2</sup> Note: Shares exceed one hundred percent as ACS only report non-Hispanic white and Hispanic or Latino, but does not calculate the non-Hispanic Black population, for example. For this reason, some individuals were double counted, causing the total share of renter households by race/ethnicity to exceed one hundred percent.

Table 4. Racial/Ethnic Demographics of Total Population (2014)

Geography	Non-Hispanic white	Hispanic or Latino	Black or African American	American Indian or Native Alaskan	Asian Pacific Islander	Other Race	Two or More Races
<b>California (State)</b>	39%	38%	6%	0.4%	14%	0.2%	3%
<b>Berkeley</b>	56%	11%	8%	0.3%	20%	0.4%	5%
<b>East Palo Alto</b>	7%	62%	14%	0.0%	15%	0.4%	2%
<b>Los Angeles</b>	28%	49%	9%	0.2%	12%	0.3%	2%
<b>Oakland</b>	27%	26%	26%	0.4%	17%	0.3%	4%
<b>San Francisco</b>	41%	15%	6%	0.2%	34%	0.5%	3%
<b>Santa Monica</b>	68%	15%	4%	0.0%	10%	0.2%	4%
<b>West Hollywood</b>	75%	13%	3%	0.3%	5%	0.4%	3%

Source: Author's tabulation, 2014 American Community Survey (5 year), "Hispanic or Latino Origin by Race"

Table 5. Share of Households that Rent within Racial/Ethnic Groups

Geography	non-Hispanic white	Hispanic or Latino	Black or African American	American Indian or Native Alaskan	Asian Pacific Islander	Other Race	Two or More Race
<b>California (State)</b>	36%	57%	65%	55%	43%	62%	54%
<b>Berkeley</b>	50%	70%	68%	63%	73%	85%	76%
<b>East Palo Alto</b>	56%	69%	56%	N/A	59%	65%	59%
<b>Los Angeles</b>	51%	72%	72%	69%	64%	78%	68%
<b>Oakland</b>	49%	69%	68%	70%	60%	73%	64%
<b>San Francisco</b>	65%	73%	75%	79%	54%	78%	74%
<b>Santa Monica</b>	71%	82%	89%	100%	71%	77%	90%
<b>West Hollywood</b>	77%	85%	91%	30%	74%	87%	88%

Source: Author's tabulation, 2014 American Community Survey (5 year), "Tenure by Race/Ethnicity of Householder"<sup>3</sup>

<sup>3</sup> Note: The total number for renter households of each race/ethnic group was divided by the total number of households for that same group, which equals the share of households that are renter occupied within each race/ethnic group

## Appendix 2. Rent Control Laws Before Costa Hawkins (By City)

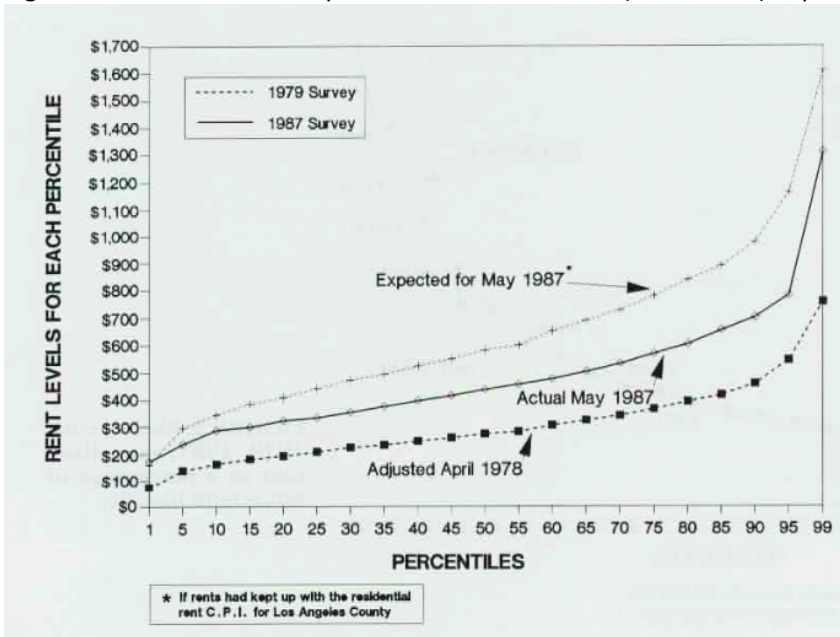
Table 1. Rent Control Laws prior to Costa Hawkins

City	Rent Control	New Construction	Single Family Homes
<b>Berkeley</b>	Strong Rent Control (1980)	Exempted-All units built after June 30th, 1980	Rent Controlled
<b>Beverly Hills</b>	Moderate (3/27/79)	Exempted – All units built after 1979	Exempted
<b>Cotati</b>	Strong Rent Control (1979)	Partial Exemption	Exempted
<b>East Palo Alto</b>	Strong Rent Control (1988)	Exempted – all units built after April 1988	Rent Controlled
<b>Hayward</b>	Moderate (2/19/80)	Exempted- all units built after July 1, 1979 units	Partial Exemption
<b>Los Angeles</b>	Moderate (5/1/78)	Exempted- all units built after 1978	Partial Exemption (duplexes and condos exempt)
<b>Los Gatos</b>	Moderate (10/27/80)	Partial exemption	Exempted
<b>Oakland</b>	Moderate (1983)	Exempted – all units built after 1983	Rent Controlled
<b>Palm Springs</b>	Moderate (1980)	Exempted- all units built after April 1979	Exempted
<b>San Francisco</b>	Moderate (June 13, 1979)	Exempted – all units built after June 13, 1979	Rent Controlled
<b>San Jose</b>	Moderate (1979)	Exempted – all units built after September 7, 1979	Exempted
<b>Santa Monica</b>	Strong Rent Control (04/1979)	Exempted – all units built after April 1979	Rent Controlled
<b>Thousand Oaks</b>	Moderate (05/1981) – only applies to people living in their unit since 1987	Exempted	Exempted
<b>West Hollywood</b>	Strong Rent Control (June 27, 1985)	Exempted – all units built after July 1, 1979	Rent Controlled

Source: Author's analysis of city rent ordinances<sup>90</sup>

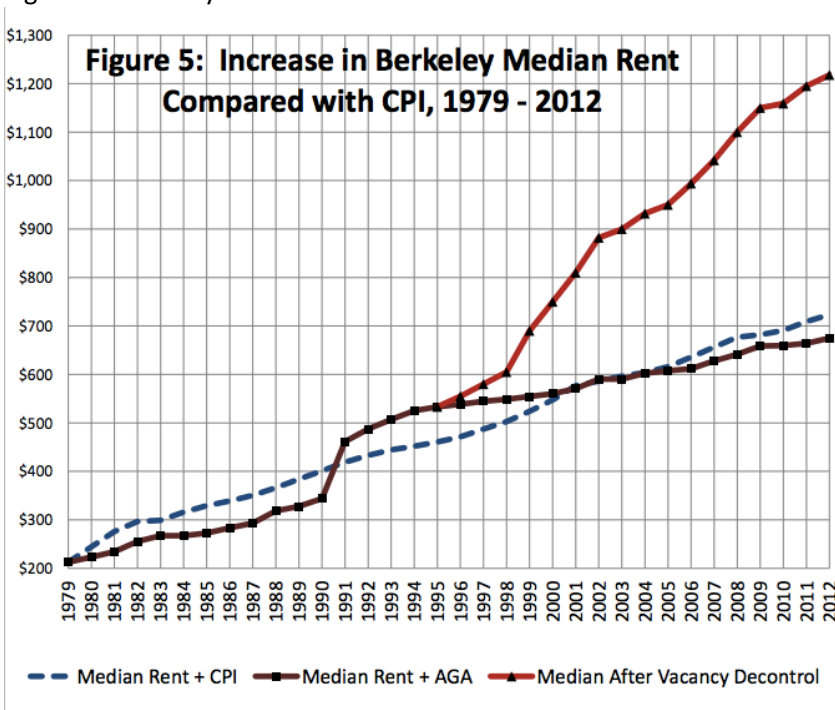
### Appendix 3. Impact of Costa Hawkins on Rents (Berkeley, Santa Monica, West Hollywood)

Figure 1. Santa Monica - Expected and Actual Rents (1978-1987) expected on basis of residential rent CPI



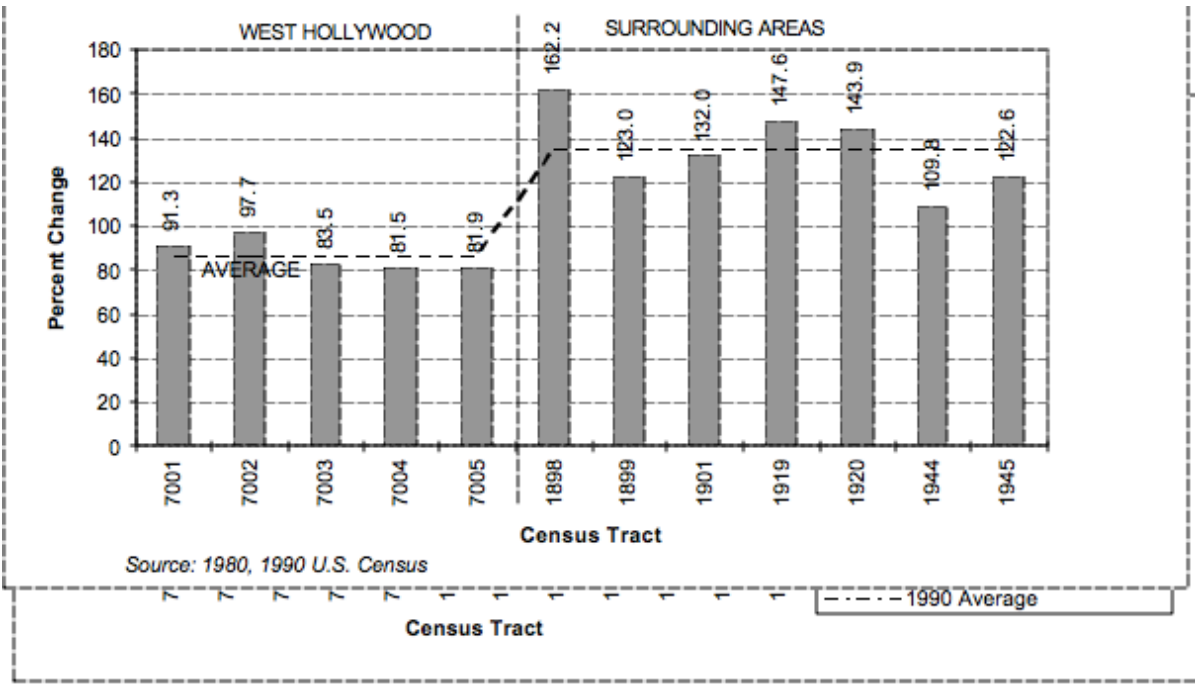
Source: Ned Levine, J. Eugene Grigsby III, and Allan Heskin, "Who Benefitted from Rent Control? Effects on Tenants in Santa Monica, California," APA Journal, Spring 1990, pg. 143.

Figure 2. Berkeley - Median Rent Increased with Inflation Under Vacancy Control



Source: Berkeley Rent Stabilization Board, "Rent Stabilization and the Berkeley Rental Housing Market 15 years after vacancy decontrol," 2013

Figure 3. Percent Change in Median Rent 1980-1990 for West Hollywood and Surrounding Areas



Source: Dr. Tridib Banerjee et al., "City of West Hollywood Housing Study," Presented by University of Southern California School Of Urban Planning and Development, June 30, 1998

## Appendix 4. Impact of Costa Hawkins on Affordability

Table 1. Santa Monica - Comparison of Affordability of Market-Rate Rental Units by Income Category, 1998 versus 2014

Income Category	1998		2014		Change (+/-)
	Units	%	Units	%	
Extremely Low (30%)	1,224	6.5	8	0	-99.3%
Very Low (50%)	3,675	19.6	140	0.7	-96.2%
Low (60%)	4,760	25.4	227	1.2	-95.2%
Low (80%)	6,290	33.5	682	3.6	-89.2%
Moderate (110%)	2,439	13.0	2,804	14.9	15.0%
Higher (>110%)	783	4.2	15,356	81.8	1861.2%

Source: Santa Monica Rent Control Board, 2015<sup>4</sup>

Table 2. Income Needed to Afford a Market-Rate Unit in Santa Monica

No. of Bedrooms	HUD Affordability Factor	Household Size Adjustment Factor	Without Vacancy Decontrol		With Vacancy Decontrol		Income Difference
			Median MAR	Income Needed	Median MAR	Income Needed	
0	0.3	0.7	\$740	\$42,286	\$1,227	\$70,114	\$27,829
1	0.3	0.8	\$862	\$43,100	\$1,629	\$81,450	\$38,350
2	0.3	0.9	\$1,082	\$48,089	\$2,166	\$96,267	\$48,178
3+	0.3	1.0	\$1,380	\$55,200	\$2,802	\$112,080	\$56,880

Source: Santa Monica Rent Control Board, 2015<sup>5</sup>

Table 3. City of West Hollywood – Comparison of Pre and Post- Costa Hawkins Rents

Number of Bedrooms	Pre-Costa Hawkins	Income Needed to Afford Pre-Costa Hawkins Rent <sup>6</sup>	Market Rents (2008)	Income Needed to Afford 2008 Market Rent <sup>7</sup>
0	\$1,028	\$41,117	\$1,234	\$49,360
1	\$1,044	\$41,746	\$1,502	\$60,080
2	\$1,387	\$55,479	\$1,945	\$77,800
<b>Average</b>	\$1,157	\$46,273	\$1,572	\$62,880

Source: City of West Hollywood Rent Stabilization and Housing Department, 2009.

<sup>4</sup> Santa Monica Rent Control Board, *2014 Consolidated Annual Report*, March 12, 2015, pg. 20.

<sup>5</sup> Ibid., pg. 19. Note: Calculation:  $MAR / [.30 \text{ affordability factor}] / [\text{household size adjustment factor}] \times 12 \text{ months} = \text{income needed}$ .

<sup>6</sup> Note: Pre-Costa Hawkins with General Adjustments and two vacancy increases.

<sup>7</sup> Note: Based on 30% of household income as rent expense

## Appendix 5. Impact of Rent Control – Summary of Literature

Table 1. Summary of Strong and Moderate Rent Control Impact (Qualitative Review)

City	Source	Impact Summary
<b>Strong Rent Control:</b> East Palo Alto, West Hollywood, Santa Monica, Berkeley	Allan D. Heskin, Ned Levine & Mark Garrett (2000) The Effects of Vacancy Control, Journal of the American Planning Association, 66:2.	Benefits to tenants: Lower rents, greater racial/ethnic diversity, larger youth population  Ambiguous Impacts: Longer rental tenure, units shifting from tenancy to home ownership
<b>Strong Rent Control:</b> Berkeley	Stephen E. Barton, "The Success and Failure of Strong Rent Control in the City of Berkeley, 1978 to 1995," <u>Rent Control: Regulation and the Rental Housing Market</u> , (Rutgers: New Jersey, 1998).	Benefits to tenants: Lower rents, slowed loss of low-income units, maintenance costs maintained  Ambiguous impacts: Conversion of single family homes from rentals to owner occupied, longer rental tenure  Negative impacts: Higher vacancy rate, loss of rental units, landlords lost profit
<b>Strong Rent Control:</b> Santa Monica	Ned Levine, J. Eugene Grigsby III, and Allan Heskin, "Who Benefitted from Rent Control? Effects on Tenants in Santa Monica, California," APA Journal, Spring 1990	Benefits to tenants: Savings via lower rental rates, sustained socioeconomic distribution, protected low-income tenants from displacement, protected senior citizen population, stopped loss of families with children  Ambiguous Impacts: Ordinance was unable to stop loss of communities of color  Negative Impacts: None listed
<b>Strong Rent Control:</b> <b>West Hollywood</b>	Dr. Tridib Banerjee et al., "City of West Hollywood Housing Study," Presented by University of Southern California School Of Urban Planning and Development, June 30, 1998	Benefits to Tenants: Slowed rent growth, longer rental tenure, decrease in share of renters who were rent burdened.  Negative Impacts: Rapid loss of total rental units in the short-term, reduced loss of rental units in the longer-term, lower vacancy rate.
<b>Moderate Rent Control:</b> Los Angeles	Michael P. Murray et al., "Analyzing Rent Control: The Case of Los Angeles," RAND corporation, February 1988	Benefits to tenants: short-term wealth transfer from landlords  Negative impacts: Reduced maintenance



## Appendix 6. Number of Single Family Homes that lost rent protection under Costa Hawkins

Table 1. Estimated Impact of Costa Hawkins Upon First Vacancy (Bill Analysis)

City	Number of single-family homes	Apartment Units set to market rate (upon first vacancy)
<b>Berkeley</b>	2,200	25,200
<b>Beverly Hills</b>	Exempted	N/A
<b>Cotati</b>	Exempted	N/A
<b>East Palo Alto</b>	1,000	2,800
<b>Hayward</b>	Partial Exemption	N/A
<b>Los Angeles</b>	10,900	N/A
<b>Los Gatos</b>	Exempted	N/A
<b>Oakland</b>	5,000	N/A
<b>Palm Springs</b>	Exempted	N/A
<b>San Francisco</b>	27,000	N/A
<b>San Jose</b>	Exempted	N/A
<b>Santa Monica</b>	3,700	34,500
<b>Thousand Oaks</b>	Exempted	N/A
<b>West Hollywood</b>	2,200	17,300

Source: AB1164 Bill Analysis (August 4, 1995)<sup>91</sup>

## Appendix 7. Rental Units That Could Become Stabilized If Exemptions were Repealed

Table 1. Estimated Units built prior to and after 1995 (by city)<sup>8</sup>

Geography	Year of Local New Construction Exemption	Single Family Rentals (Built pre 1995)	Single Family rentals (Built post 1995)	Multi-family rentals (built pre 1995)	Multi-family rentals (built post 1995)
<b>California</b>	N/A	1,781,408	333,493	3,031,243	615,785
<b>Alameda city</b>	1995	3,509	405	11,374	826
<b>Berkeley</b>	1980	4,510	187	19,474	2,619
<b>East Palo Alto</b>	1988	1,464	267	2,080	718
<b>Los Angeles</b>	1978	170,478	10,507	593,202	88,784
<b>Oakland</b>	1983	20,844	1,451	64,121	8,545
<b>San Francisco</b>	1979	28,373	1,356	175,829	18,703
<b>Santa Monica</b>	1979	2,860	207	28,358	3,181
<b>West Hollywood</b>	1979	1,064	94	15,405	728

Table 2. Increase in rental units under control if exemption in Berkeley updated from 1980 to 1995

City	Current Exemption	Rental Units under rent control (current)	Increase in Units under rent control if exemption were adjusted to 1990	Total Rent Controlled Units with updated exemption
<b>Berkeley<sup>9</sup></b>	Pre 1980	19,000	Min 1,541	<b>20,541</b>

Source: Author's Tabulation of 2013 American Community Survey, 5 year estimates

<sup>8</sup> Note: This is a rough estimate. The American Community Survey reported construction data from 1980-1999, so to estimate the units built from 1980 to 1995, the total number was multiplied by 0.75, which assumes that the rate of rental construction was consistent across the 20 -year period.

<sup>9</sup> Berkeley: Kelekian, J. & Barton, S. "Rent Stabilization and the Berkeley Rental Housing Market 15 years after Vacancy Decontrol," Berkeley Rent Stabilization Board,, January 28, 2013, p. 20. For New Units Under Rent Control if Exemption were adjusted: Estimates from 2013 American Community Survey (5-year) of "Year Unit was built by tenure: 1980-1990"

## Appendix 8. Impact of Costa Hawkins on Cities with Strong Rent Control (Model 1)

Table 1. Effect of Costa Hawkins on Racial and Ethnic Diversity (Model 1)

VARIABLES	Black or African American	Hispanic	non-Hispanic white	Native American or Alaskan Native	Other race	API
Costa_Hawkins	-0.00274 (0.00205)	0.0535*** (0.00734)	-0.119*** (0.00688)	-0.00145*** (0.000141)	0.000445*** (0.000163)	0.0593*** (0.00259)
City_treat	1.921 (1.395)	-12.37*** (3.429)	14.03*** (2.855)	-0.00425 (0.154)	0.208 (0.207)	1.981 (1.751)
City_treat_year	-0.000916 (0.000694)	0.00618*** (0.00172)	-0.00703*** (0.00143)	2.16e-06 (7.74e-05)	-0.000105 (0.000104)	-0.00102 (0.000880)
CostaHawkins_city	<b>-0.0238***</b> (0.00903)	<b>-0.0941***</b> (0.0231)	<b>0.172***</b> (0.0212)	<b>9.16e-05</b> (0.00148)	<b>0.00249</b> (0.00159)	<b>-0.0173</b> (0.0124)
logindemp	-0.0559*** (0.0161)	-0.358*** (0.0747)	0.362*** (0.0690)	-0.000109 (0.000623)	0.000582** (0.000276)	0.0525*** (0.0128)
logmdvalhs_i	-0.0679*** (0.00537)	-0.211*** (0.0191)	0.201*** (0.0186)	-0.00136*** (0.000194)	0.000120 (0.000155)	0.0673*** (0.00661)
logtrctpop	0.0547*** (0.0164)	0.398*** (0.0725)	-0.418*** (0.0668)	-0.000731 (0.000667)	-0.000733** (0.000346)	-0.0356** (0.0141)
Constant	0.913*** (0.0843)	2.408*** (0.284)	-1.365*** (0.276)	0.0284*** (0.00392)	0.00217 (0.00313)	-0.837*** (0.101)
Observations	4,431	4,431	4,431	4,431	4,431	4,431
R-squared	0.108	0.391	0.404	0.057	0.005	0.093

Robust standard errors in parentheses

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Table 2. Effect of Costa Hawkins on Age and Family Characteristics (Model 1)

VARIABLES	Share of Population (65+)	Share of Population Under 18	Log of Total Families
Costa_Hawkins	0.00839*** (0.00122)	-0.00400 (0.00300)	0.0155* (0.00915)
City_treat	2.310*** (0.858)	-1.149 (1.422)	2.077 (12.02)
City_treat_year	-0.00115*** (0.000431)	0.000537 (0.000714)	-0.00119 (0.00604)
CostaHawkins_city	<b>-0.0128**</b> (0.00630)	<b>-0.00450</b> (0.0101)	<b>-0.119</b> (0.130)
logindemp	0.00141 (0.00735)	-0.0980*** (0.0324)	0.543*** (0.0982)
logmdvalhs_i	0.0429*** (0.00291)	-0.0581*** (0.00793)	0.00645 (0.0240)
logtrctpop	-0.00270 (0.00756)	0.113*** (0.0312)	0.472*** (0.0927)
Constant	-0.441*** (0.0434)	0.815*** (0.117)	-1.241*** (0.341)
Observations	4,431	4,431	4,431
R-squared	0.159	0.442	0.904

Robust standard errors in parentheses

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Table 3. Effect of Costa Hawkins on Occupancy and Financial Characteristics of Housing (Model 1)

VARIABLES	Log Median Household Income	Log Median Gross Rent	Vacancy Rate - Rental Units	Share Households (Renter occupied)
Costa_Hawkins	-0.0609*** (0.00639)	-0.0229*** (0.00637)	-0.0172*** (0.00142)	-0.0107*** (0.00370)
City_treat	13.91** (5.968)	-26.46*** (4.585)	-0.187 (1.166)	-8.787*** (2.175)
City_treat_year	-0.00723** (0.00299)	0.0131*** (0.00230)	8.49e-05 (0.000586)	0.00453*** (0.00109)
CH_city_phasein				
CostaHawkins_city	<b>0.155**</b> <b>(0.0711)</b>	<b>0.0668*</b> <b>(0.0365)</b>	<b>0.0134</b> <b>(0.00905)</b>	<b>-0.0382**</b> <b>(0.0159)</b>
logeduc	0.212*** (0.00907)	0.0772*** (0.00752)		
logindemp	0.000514 (0.0517)	0.0871* (0.0478)	0.00172 (0.00443)	-0.0568** (0.0286)
logmdvalhs_i	0.258*** (0.0170)	0.245*** (0.0117)	-0.00252 (0.00265)	-0.128*** (0.0114)
logtrctpop	-0.229*** (0.0462)	-0.155*** (0.0416)	-0.00798 (0.00540)	0.0753** (0.0313)
Constant	8.385*** (0.240)	4.104*** (0.169)	0.137*** (0.0435)	1.880*** (0.185)
Observations	4,429	4,410	4,431	4,431
R-squared	0.563	0.458	0.035	0.103

Robust standard errors in parentheses

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

## Appendix 9. Impact of Costa Hawkins on Cities with Moderate Rent Control (Model 2)

Table 1. Effect of Costa Hawkins on Racial and Ethnic Diversity (Model 2)

VARIABLES	Black	Hispanic or Latino	non-Hispanic white	Native American or Alaskan Native	Other race	API
CostaHawkins	-0.0105*** (0.00219)	0.0529*** (0.00565)	-0.111*** (0.00604)	-0.00131*** (0.000202)	0.000286* (0.000168)	0.0586*** (0.00270)
city_treat	-5.280*** (0.616)	-31.93*** (1.743)	34.76*** (1.534)	0.0684 (0.0712)	-0.300*** (0.0536)	5.974*** (0.758)
city_treat_year	0.00269*** (0.000310)	0.0161*** (0.000877)	-0.0175*** (0.000771)	-3.50e-05 (3.58e-05)	0.000151*** (2.69e-05)	-0.00300*** (0.000381)
CostaHawkins_city	<b>-0.0659***</b> <b>(0.00507)</b>	<b>-0.225***</b> <b>(0.0130)</b>	<b>0.313***</b> <b>(0.0117)</b>	<b>0.00142**</b> <b>(0.000683)</b>	<b>-0.00183***</b> <b>(0.000370)</b>	<b>0.00421</b> <b>(0.00544)</b>
logindemp	-0.152*** (0.0167)	-0.358*** (0.0480)	0.446*** (0.0512)	0.00121 (0.000916)	0.00130*** (0.000265)	0.0546*** (0.0108)
logmdvalhs_i	-0.0587*** (0.00663)	-0.188*** (0.0212)	0.198*** (0.0203)	-0.00140** (0.000641)	-0.000214* (0.000126)	0.0475*** (0.00719)
logtrctpop	0.155*** (0.0168)	0.404*** (0.0470)	-0.502*** (0.0490)	-0.00252* (0.00134)	-0.00127*** (0.000307)	-0.0437*** (0.0117)
Constant	0.689*** (0.100)	2.070*** (0.305)	-1.257*** (0.284)	0.0338*** (0.0126)	0.00563** (0.00224)	-0.534*** (0.106)
Observations	7,601	7,601	7,601	7,601	7,601	7,601
R-squared	0.159	0.355	0.470	0.052	0.013	0.069

Robust standard errors in parentheses

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Table 2. Effect of Costa Hawkins on Age and Family Characteristics (Model 2)

VARIABLES	Share of Population (65+)	Share of Population Under 18	Log of Total Families
CostaHawkins	0.0104*** (0.00126)	-0.0103*** (0.00266)	0.00206 (0.00883)
city_treat	2.733*** (0.442)	-4.269*** (0.609)	12.17*** (2.270)
city_treat_year	-0.00137*** (0.000222)	0.00213*** (0.000306)	-0.00616*** (0.00114)
CostaHawkins_city	<b>0.00612*</b> <b>(0.00334)</b>	<b>-0.0271***</b> <b>(0.00470)</b>	<b>0.0658***</b> <b>(0.0166)</b>
logindemp	-0.00319 (0.00671)	-0.148*** (0.0248)	0.324*** (0.0825)
logmdvalhs_i	0.0378*** (0.00434)	-0.0508*** (0.00851)	-0.0107 (0.0233)
logtrctpop	-0.00502 (0.00719)	0.167*** (0.0236)	0.688*** (0.0781)
Constant	-0.324*** (0.0638)	0.653*** (0.120)	-1.158*** (0.330)
Observations	7,601	7,601	7,601
R-squared	0.128	0.490	0.873

Robust standard errors in parentheses

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Table 3. Effect of Costa Hawkins on Housing Occupancy and Financial Characteristics (Model 2)

VARIABLES	Log Median Household Income	Log Median Gross Rent	Vacancy Rate - Rental Units	Share Households (Renter occupied)
CostaHawkins	-0.0650*** (0.00741)	-0.0307*** (0.00664)	-0.0186*** (0.00147)	-0.0112*** (0.00340)
city_treat	37.34*** (4.678)	-5.271** (2.663)	-2.432*** (0.372)	-8.907*** (1.259)
city_treat_year	-0.0189*** (0.00235)	0.00259* (0.00134)	0.00122*** (0.000187)	0.00456*** (0.000632)
CostaHawkins_city	0.275*** (0.0371)	-0.0328 (0.0216)	-0.0187*** (0.00292)	-0.0532*** (0.00937)
logeduc	0.188*** (0.0156)	0.0817*** (0.00952)		
logindemp	0.0795 (0.0553)	0.182*** (0.0445)	-0.00243 (0.00340)	-0.0419* (0.0222)
logmdvalhs_i	0.298*** (0.0495)	0.196*** (0.0259)	-0.00268 (0.00191)	-0.0988*** (0.0118)
logtrctpop	-0.251*** (0.0686)	-0.232*** (0.0446)	-0.00324 (0.00403)	0.0578** (0.0253)
o.city_treat				
CH_city_phasein				
Constant	7.608*** (0.817)	4.635*** (0.422)	0.133*** (0.0324)	1.542*** (0.193)
Observations	7,594	7,563	7,601	7,601
R-squared	0.554	0.469	0.050	0.140

Robust standard errors in parentheses

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

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## NOTES

<sup>1</sup> Andrew G. Berg and Jonathan D. Ostry, *Inequality and Unsustainable Growth, Two Sides of the Same Coin?* Staff Discussion Note (Washington, DC: International Monetary Fund, 2011)

<http://www.imf.org/external/pubs/ft/sdn/2011/sdn1108.pdf>; Jonathan D. Ostry, Andrew Berg, and Charalambos G. Tsangarides, *Redistribution, Inequality, and Growth*, Staff Discussion Note (Washington, DC: International Monetary Fund, 2014)

<http://www.imf.org/external/pubs/ft/sdn/2014/sdn1402.pdf>; Joe Maguire, *How Increasing Inequality is Dampening U.S. Economic Growth, and Possible Ways to Change the Tide* (New York, NY: Standard & Poor's Financial Services LLC, 2014)

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<http://www.clevelandfed.org/Research/workpaper/2006/wp06-05.pdf>; PolicyLink, *An Equity Profile of the San Francisco Bay Area Region: Summary*, April 22, 2015 (<https://equityatlas.atavist.com/equity-profile-bay-area>).

<sup>2</sup> Devin O'Brien, "Zumper National Rent Report: February 2015", March 3, 2015 (<https://www.zumper.com/blog/2015/03/zumper-us-rent-report-february-2015/>).

<sup>3</sup> Peter Dreier: "Rent Deregulation in California and Massachusetts: Politics, Policy, and Impacts," New York University, May 14, 1997, pg. 18, ([http://www.nycrgb.org/downloads/research/pdf\\_reports/dreier.pdf](http://www.nycrgb.org/downloads/research/pdf_reports/dreier.pdf)).

<sup>4</sup> *Ibid.*

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<sup>5</sup> Joint Center for Housing Studies, "Americans Rental Housing: Evolving Markets and Needs," Harvard University, 2013, p. 2

<sup>7</sup> Author's tabulation, 2014 American Community Survey (5 year), "Tenure by Age of Householder"

<sup>8</sup> Author's analysis, 2014 American Community Survey (5 year), "Tenure by Age of Householder" and "Age and Sex".

<sup>9</sup> Mac Taylor, "California's High Housing Costs: Causes and Consequences," California Legislative Analysts Office, March 17, 2015, pg. 27.

<sup>10</sup> Author's tabulation, 2014 American Community Survey (5 year), "Tenure by Housing Costs as a Percentage of Household Income in the past 12 months".

<sup>11</sup> Jonathan D. Ostry, Andrew Berg, and Charalambos G. Tsangarides, *Redistribution, Inequality, and Growth*, Staff Discussion Note (Washington, DC: International Monetary Fund, 2014) <http://www.imf.org/external/pubs/ft/sdn/2014/sdn1402.pdf>;

<sup>12</sup> Mac Taylor, "California's High Housing Costs: Causes and Consequences," California Legislative Analysts Office, March 17, 2015, pg. 32.

<sup>13</sup> Centers for Disease Control and Prevention, "Health Effects of Gentrification," National Center for Environmental Health, August 13, 2013 (<http://www.cdc.gov/healthyplaces/healthtopics/gentrification.htm>).

<sup>14</sup> Dreier, Peter. "Rent Deregulation in California and Massachusetts: Politics, Policy, and Impacts." 1997. Paper prepared for the "Housing '97" conference sponsored by New York University School of Law, Center for Real Estate and Urban Policy, and the NYC Rent Guidelines Board, New York, May 14, 1997. Pg. 21.

<sup>15</sup> See California State Legislature, *Bill Analysis of AB 1164*, Office of the Senate Floor Analyses, July 20, 1995, Date Accessed: February 27, 2016 ([http://www.leginfo.ca.gov/pub/95-96/bill/asm/ab\\_1151-1200/ab\\_1164\\_cfa\\_950720\\_205814\\_sen\\_floor.html](http://www.leginfo.ca.gov/pub/95-96/bill/asm/ab_1151-1200/ab_1164_cfa_950720_205814_sen_floor.html)).

<sup>16</sup> Author's calculation, American Community Survey (5-year estimates), "Housing Tenure by year structure was built by units in structure". As construction between the years 1980 and 1999 were reported as a single number, I multiplied that number by 0.75 to get a rough estimate of the units built prior to 1995.

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<sup>18</sup> California Housing Partnership Corporation, “How California’s Housing Market is Failing to Meet the Needs of Low-income families: Recommendations to the leaders of the state of California,” February 2014, pg. 4. (<http://chpc.net/wp-content/uploads/2015/11/9-CHPCHousingNeedReport020814FINAL.pdf>).

<sup>19</sup> Miriam Zuk, “Regional Early Warning Signs for Displacement: Typologies Final Project Report,” *University of California Berkeley*, July 23, 2015.

<sup>20</sup> Zuk, M., & Chapple, K. (2015). Urban Displacement Project (<http://www.urbandisplacement.org/map>).

<sup>21</sup> For number of renter households; U.S. Census Bureau, 2014 American Community Survey (5-year estimate), “Tenure”. For number of renter households that are under rent-burdened, U.S. Census Bureau 2014 American Community Survey (5-year estimate), “Gross rent as a percentage of household income by tenure.”

<sup>22</sup> Code of Civil Procedure Section 1161(2)-(4).

<sup>23</sup> San Francisco Anti-Displacement Coalition, “San Francisco’s Eviction Crisis,” 2015, p. 12. (<http://www.antievictionmappingproject.net/FINAL%20DRAFT%204-20.pdf>).

<sup>24</sup> California Civil Code 1954.50

<sup>25</sup> California Civil Code 1940.2.

<sup>26</sup> Emily Garr & Elizabeth Kneebone, “The Suburbanization of Poverty, Trends in Metropolitan America,” The Brookings Institute, January 20, 2010 (<http://www.brookings.edu/research/papers/2010/01/20-poverty-kneebone>).

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<sup>28</sup> Taylor, Mac “California’s High Housing Costs: Causes and Consequences,” California Legislative Analysts Office, March 17, 2015, pgs. 24 -34.

<sup>29</sup> *Ibid.*, pg 4.

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<sup>30</sup> *Ibid.*, pg. 15-20.

<sup>31</sup> *Ibid.*, pg 4.

<sup>32</sup> *Ibid.*

<sup>33</sup> Mac Taylor, “Perspectives on Helping Low-Income Californians Afford Housing,” Legislative Analysts Office (LAO), February 9, 2016

<sup>34</sup> Emily Badger, “How to Make Expensive Cities Affordable to Everyone Again,” *The Washington Post*, February 19, 2016,

<sup>35</sup> Emily Badger, “How to Make Expensive Cities Affordable to Everyone Again,” *The Washington Post*, February 19, 2016, (<https://www.washingtonpost.com/news/wonk/wp/2016/02/19/how-to-make-expensive-cities-affordable-for-everyone-again/>).

<sup>36</sup> Joint Center for Housing Studies, *The State of the Nations Housing 2015*, Harvard University, 2015, p. 26 (<http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/jchs-sonhr-2015-full.pdf>).

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<sup>40</sup> Peter Dreier: “Rent Deregulation in California and Massachusetts: Politics, Policy, and Impacts,” New York University, May 14, 1997, pg. 19, ([http://www.nycrgb.org/downloads/research/pdf\\_reports/dreier.pdf](http://www.nycrgb.org/downloads/research/pdf_reports/dreier.pdf)).

<sup>41</sup> *Ibid.*, pg. 18.

<sup>42</sup> The Costa-Hawkins Rental Housing Act, CAL. CIV. CODE §§ 1954.50-1954.535

<sup>43</sup> See AB1164 Bill Analysis, July 25, 1995 ([http://www.leginfo.ca.gov/pub/95-96/bill/asm/ab\\_1151-1200/ab\\_1164\\_cfa\\_950725\\_172019\\_asm\\_floor.html](http://www.leginfo.ca.gov/pub/95-96/bill/asm/ab_1151-1200/ab_1164_cfa_950725_172019_asm_floor.html)).

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<sup>45</sup> Berkeley Rent Stabilization Board, "Section 13.76.020", Date Accessed March 7, 2016 (<http://www.ci.berkeley.ca.us/ContentDisplay.aspx?id=9296>).

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<sup>49</sup> Ibid.

<sup>50</sup> Ibid. For Rent Burden of Low-income households in 2014, see Chart 1.

<sup>51</sup> Ibid., pg. 98.

<sup>52</sup> Ned Levine, J. Eugene Grigsby III, and Allan Heskin, "Who Benefitted from Rent Control? Effects on Tenants in Santa Monica, California," *APA Journal*, Spring 1990, pg. 144.

<sup>53</sup> Ibid., pg. 148.

<sup>54</sup> Ibid., pg. 149.

<sup>55</sup> Dr. Tridib Banerjee et al., "City of West Hollywood Housing Study," Presented by University of Southern California School Of Urban Planning and Development, June 30, 1998, pg. II. B-22.

<sup>56</sup> Ibid., pg. II. B-23.

<sup>57</sup> Dr. Tridib Banerjee et al., "City of West Hollywood Housing Study," Presented by University of Southern California School Of Urban Planning and Development, June 30, 1998, pg. II. B-25.

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<sup>59</sup> Ibid., pg. II B-28.

<sup>60</sup> Michael P. Murray et al., "Analyzing Rent Control: The Case of Los Angeles," RAND corporation, February 1988 (<https://www.rand.org/content/dam/rand/pubs/papers/2008/P7363.pdf>).

<sup>61</sup> Ibid., pg. 2.

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<sup>62</sup> California State Legislature, *Complete Bill History: A.B. No. 1164*, [Leginfo.ca.gov](http://www.leginfo.ca.gov), Date Accessed: February 29, 2015 ([http://www.leginfo.ca.gov/pub/95-96/bill/asm/ab\\_1151-1200/ab\\_1164\\_bill\\_history.html](http://www.leginfo.ca.gov/pub/95-96/bill/asm/ab_1151-1200/ab_1164_bill_history.html)).

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<sup>64</sup> Ibid., pg. 21.

<sup>65</sup> Ibid., pg 22.

<sup>66</sup> California Governors Chaptered Bill File, Assembly Bill No. 1164, Chapter 331, pg. 7 (1995).

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<sup>68</sup> California State Legislature, *Senate Committee Bill Analysis: AB1164*, [Leginfo.ca.gov](http://www.leginfo.ca.gov), February 23, 1995, Date Accessed: February 29, 2015 ([http://www.leginfo.ca.gov/pub/95-96/bill/asm/ab\\_1151-1200/ab\\_1164\\_cfa\\_950223\\_124115\\_sen\\_comm.html](http://www.leginfo.ca.gov/pub/95-96/bill/asm/ab_1151-1200/ab_1164_cfa_950223_124115_sen_comm.html)).

<sup>69</sup> Ibid.

<sup>70</sup> California State Legislature, *Complete Bill History: A.B. No. 1164*, [Leginfo.ca.gov](http://www.leginfo.ca.gov), Date Accessed: February 29, 2015 ([http://www.leginfo.ca.gov/pub/95-96/bill/asm/ab\\_1151-1200/ab\\_1164\\_bill\\_history.html](http://www.leginfo.ca.gov/pub/95-96/bill/asm/ab_1151-1200/ab_1164_bill_history.html)).

<sup>71</sup> California State Legislature, *Bill Analysis: AB1164, July 20, 1995*, [Leginfo.ca.gov](http://www.leginfo.ca.gov), Date Accessed: February 29, 2016 ([http://www.leginfo.ca.gov/pub/95-96/bill/asm/ab\\_1151-1200/ab\\_1164\\_cfa\\_950725\\_172019\\_asm\\_floor.html](http://www.leginfo.ca.gov/pub/95-96/bill/asm/ab_1151-1200/ab_1164_cfa_950725_172019_asm_floor.html)).

<sup>72</sup> California Governors Chaptered Bill File, Assembly Bill No. 1164, Chapter 331, (1995).

<sup>73</sup> For full list, see California State Legislature, *Bill Analysis: AB1164, July 20, 1995*, [Leginfo.ca.gov](http://www.leginfo.ca.gov), Date Accessed: February 29, 2016 ([http://www.leginfo.ca.gov/pub/95-96/bill/asm/ab\\_1151-1200/ab\\_1164\\_cfa\\_950725\\_172019\\_asm\\_floor.html](http://www.leginfo.ca.gov/pub/95-96/bill/asm/ab_1151-1200/ab_1164_cfa_950725_172019_asm_floor.html)).

<sup>74</sup> California Governors Chaptered Bill File, Assembly Bill No. 1164, Chapter 331, pg. 11 (1995).

<sup>75</sup> Peter Dreier: "Rent Deregulation in California and Massachusetts: Politics, Policy, and Impacts," New York University, May 14, 1997, pg. 22,

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<sup>76</sup> California State Legislature, AB 1164 *Bill Analysis, Concurrence in Senate Amendments*, July 25, 1995, Date Accessed February 26, 2016 ([http://www.leginfo.ca.gov/pub/95-96/bill/asm/ab\\_1151-1200/ab\\_1164\\_cfa\\_950725\\_172019\\_asm\\_floor.html](http://www.leginfo.ca.gov/pub/95-96/bill/asm/ab_1151-1200/ab_1164_cfa_950725_172019_asm_floor.html)).

<sup>77</sup> Calculation based on American Community Survey (5-year ACS); Oakland has an estimated **93,806 rental units** in 2014 and 75,243 single-family homes in Oakland (both attached and detached units). Thirty percent of all single-family homes are occupied by renters, an estimated 22,295 units. Of all rental units (single family and multi-family) 81% of those renter occupied units were built before **1980**, a total of 75,579 units. To estimate the number of single family homes built before 1980, (22,295 single family homes rental units) \* 81 percent built before 1980 = **18,058 single family home units built before 1980**.

<sup>78</sup> Alex Kangelaris, "Why the Single-Family Rental Securitization Trend May Last," *National Mortgage News*, June 6, 2014 (<http://www.nationalmortgagenews.com/blogs/hearing/why-the-single-family-rental-securitization-trend-may-last-1041930-1.html>).

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<sup>80</sup> Kelekian, J. & Barton, S. "Rent Stabilization and the Berkeley Rental Housing Market 15 years after Vacancy Decontrol," Berkeley Rent Stabilization Board,, January 28, 2013, p. 17 ([http://www.cityofberkeley.info/uploadedFiles/Rent\\_Stabilization\\_Board/Level\\_3\\_-\\_General/Summary%20of%20Economic%20Studies%20Part%20I.pdf](http://www.cityofberkeley.info/uploadedFiles/Rent_Stabilization_Board/Level_3_-_General/Summary%20of%20Economic%20Studies%20Part%20I.pdf)).

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<sup>82</sup> Kelekian, J. & Barton, S. "Rent Stabilization and the Berkeley Rental Housing Market 15 years after Vacancy Decontrol," Berkeley Rent Stabilization Board, January 28, 2013, p. 19 ([http://www.cityofberkeley.info/uploadedFiles/Rent\\_Stabilization\\_Board/Level\\_3\\_-\\_General/Summary%20of%20Economic%20Studies%20Part%20I.pdf](http://www.cityofberkeley.info/uploadedFiles/Rent_Stabilization_Board/Level_3_-_General/Summary%20of%20Economic%20Studies%20Part%20I.pdf)).

<sup>83</sup> *Ibid.*, pg. 17.

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<sup>84</sup> Santa Monica Rent Control Board, *2014 Consolidated Annual Report*, March 12, 2015, pg. 20.

<sup>85</sup> "City of West Hollywood Housing Element Technical Background Report," West Hollywood Rent Stabilization and Housing, March 2010 (<http://www.weho.org/Home/ShowDocument?id=5330>).

<sup>86</sup> Downs, Anthony, "Residential Rent Control, an Evaluation," The Brookings Institution, Urban Land Institute, 1996.

<sup>87</sup> City of Oakland Housing Element 2015-2023, pg. 112 (<http://www2.oaklandnet.com/oakca1/groups/ceda/documents/report/oak050615.pdf>).

<sup>88</sup> Authors analysis of American Community Survey data (2014 5-year sample): "Tenure by year structure was built by units in structure". Note: As Costa Hawkins exempted units built after 1995 and the ACS reports construction in 19-year spans, it was assumed that construction rates were equal between 1980 to 1999. To estimate how many of the units were built before 1995, the number of units built between 1980 and 1999 was multiplied by 0.75.

<sup>89</sup> United States Census, American Community Survey: 2014 (5-year estimates) "Housing Tenure" (<http://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?src=CF>).

<sup>90</sup> Berkeley: Cotati: Chapter 19.12 of Cotati's Municipal code, repealed December 19, 1998, see case law about the repeal ([http://caselaw.findlaw.com/us-9th-circuit/1296196.html#footnote\\_1](http://caselaw.findlaw.com/us-9th-circuit/1296196.html#footnote_1)); East Palo Alto, Ordinance No. 076 passed April 1988 (<http://www.cityofepa.org/DocumentCenter/View/149>). Hayward: Los Angeles: Ordinance No. 152.120 (<http://www.caltenantlaw.com/larso.PDF>). Los Gatos: Rental Dispute Resolution Ordinance (<http://www.town.losgatos.ca.us/DocumentCenter/View/118>). Oakland: Palm Spring: Rent Control Ordinance (<http://www.ci.palm-springs.ca.us/government/departments/community-economic-development-department/rent-control>). San Francisco: San Francisco Administrative Code 37.3 (<http://sfrb.org/sites/default/files/FileCenter/Documents/1498-600%20Ordinance%206-14-15.pdf>). San Jose: Apartment Rent Ordinance (ARO), Chapter 17.23 (<https://www.sanjoseca.gov/DocumentCenter/View/1162>). Santa Monica: Thousand Oaks: West Hollywood: Rent Stabilization Ordinance (RSO) (<http://www.weho.org/residents/rent-stabilization-housing/rent-stabilization/tenant-faqs/what-properties-are-covered-by-rent-stabilization>).

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<sup>91</sup> AB1164 Chaptered Bill Text  
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