## Rent Control – Pro

## Eclectic Rant: Time for a Study of the Effects of Rent Control

*By Ralph E. Stone*

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Twelve cities in California have rent control laws, including Berkeley, Oakland, and San Francisco. Berkeley's "Rent Stabilization and Eviction for Good Cause Ordinance" was passed in 1980; Oakland's "Residential Rent Adjustment Program" was passed in 2007; and San Francisco's "Rent Ordinance" was passed in 2007. Enough time has passed to justify an independent empirical study of the effects of rent control, if any, on the quantity and quality of housing stock in these three cities. Why not start with Berkeley, Oakland, or San Francisco?

About 53 percent of housing units in Berkeley are occupied by tenants/renters. Berkeley has the strictest [rent control](http://www.ci.berkeley.ca.us/ContentDisplay.aspx?id=5668) in the nation. It has rent ceilings, requires just cause for eviction, and forces landlords to pay interest payments on security deposits.

About 55 percent of housing units in Oakland are occupied by tenants/renters. Under Oakland's Residential Rent Adjustment Program, tenants may only be given one rent increase in any 12-month period, and the rent increase cannot take effect earlier than the tenant's anniversary date. Tenants may file a petition to challenge a rent increase that they believe to be in violation of the "Residential Rent Adjustment Ordinance." Tenants can only be evicted for just cause.

About 62 percent of housing units in San Francisco are occupied by tenants/renters. All San Francisco properties with a first Certificate of Occupancy that was issued prior to June 13th, 1979 are [subject to rent control](http://www.sfrb.org/index.aspx?page=962). If a rental unit was in regular use prior to June 13th, 1979, but does not have a Certificate of Occupancy -- an illegal unit -- the San Francisco Rent Board will still find the unit subject to rent control. This means rents can only be raised by certain amounts per year, which is tied to inflation. Tenants can only be evicted for one of fourteen "just causes."

The percentage of renters in Berkeley, Oakland, and San Francisco is much higher than the national average where about one-third of United States households live in rental housing

Many economists argue that rent control reduces the quality and quantity of affordable housing. San Francisco rent control advocates argue that these studies are inapplicable because San Francisco is unique: the City has limited space to expand -- 49 square miles; the City is densely populated; and San Francisco zoning and anti-growth ordinances restrictions inhibit the addition of new housing. This means that without rent control, San Francisco will add too few units to make a significant dent in the City's housing shortage. To prevent an exodus of the middle class workforce due to lack of affordable housing would have dire consequences on the City’s economy. The ability of this work force to be able to live a middle class life style and afford shelter is essential. Thus, the argument goes, for San Francisco as a whole to prosper, some form of rent control is essential. A study would examine the validity of this argument.

Clearly, rent control can combat out-of-control housing prices. It allows tenants to devote a smaller percentage of their income to rent allowing them to spend their money elsewhere. This is extremely beneficial for low income or fixed income renters, especially during a recession. But how has rent control effected the general population of renters and potential renters?

Rents serve to compensate housing providers of existing housing units and developers of new units for the cost of providing shelter and provide economic incentives needed to attract new investment in rental housing, as well as maintaining existing housing stock. Has rent control inhibited new construction in Berkeley, Oakland, and San Francisco, or led to the deterioration of existing housing by abandonment of unprofitable property or by condominium conversions or Ellis Act evictions?

One [study](http://www.stjohnandassociates.net/propertyManagementArticles/SJA-BerkStaMonicaRCProgDistImpact.pdf), using 1980 and 1990 Census data, showed Berkeley's rent control program resulted in a 10 percent reduction in rental housing stock over the decade.

A more up-to-date study is needed.

"The San Francisco Housing DataBook" was released in 2002. When San Francisco Supervisor Amos Brown called for a report on how rent control had devastated the housing market, the Board of Supervisors voted the proposal down. Instead, the "DataBook" became an affordable housing study, not a study on the effects of rent control on housing stock. Obviously, the Board of Supervisors did not want to touch a hot button issue like rent control.

A study of the effects of rent control in Berkeley, Oakland, and San Francisco on the quantity and quality of housing stock in these three cities would be useful to inform politicians and the general public about rent control issues. Of course, any attack on rent control would be vigorously opposed by the tenant union in each city.

Source: Stone, Ralph E. “Eclectic Rant Time for a Study of Rent Control,” *The Berkely Planet.* <http://www.berkeleydailyplanet.com/issue/2011-07-06/article/38072?headline=Eclectic-Rant-Time-for-a-Study-of-the-Effects-of-Rent-Control--By-Ralph-E.-Stone>. Accessed 21 July 2014.

# Why rent control works

By tim

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I shouldn't even bother to talk about this, because all it will do is stir up the trolls, but I'm getting sick of all the talk about rent control being a source of San Francisco's housing problem. The latest is [an editorial in the Business Times,](http://www.bizjournals.com/sanfrancisco/print-edition/2013/05/10/few-benefit-from-sfs-blind-faith-in.html) [1] which I buy to read J.K. Dineen's stories about commercial real-estate, among other things. I should treat it like the Wall Street Journal; nobody takes the Journal's editorial page seriously.

But the BT is just putting in print the argument that I'm hearing from the neo-libertarians who seem to be more and more populous in this town. And it goes like this:

Rent control distorts the market, which should be controlled by supply and demand. When you have rent control, evil tenants can stay in one place a really long time, thus "reducing urban vitality by discouraging mobility." They can save their money for something other than rent. And it's deeply unfair to landlords, because, as the BT notes:

By artificially limiting the return a building’s owner can generate on his investment, it discourages him from spending to maintain or upgrade the city’s housing stock. Rent increases are ordained not by supply and demand but by the city’s rent board. Legally, controlled rents can only go up each year by a fraction of the inflation rate. The ability to recoup costs of improvement or maintenance are also tightly curtailed. Costs are subject to no such limitations, so generally as a rent-controlled landlord, the longer you do it, the further behind you get.

Actually, rents go up by the percentage of the inflation rate that's due to housing. The ability to recoup maintenance costs are not "tightly curtailed." But more important, this notion that landlords "get further behind" because they can't raise the rent assumes that most landlords -- and their bankers -- are idiots.

When you buy a piece of rental property, you typically have to prove to the bank that the rental income from the place is adequate to cover the mortgage, the taxes, the insurance, and upkeep, the same way a person buying a home has to prove that he or she has adequate income to pay the costs. When banks make loans the borrowers can't repay, you get the mortgage crisis we've seen -- but most of those units were single-family homes.

If I buy a rental property, the rent that's coming in TODAY is matched with the price I'm paying TODAY. If the rents are too low to cover the cost, I have no business buying the place. And the bank has no business loaning me the money.

In San Francisco, unless you're a complete moron, you buy rental property knowing, as the banker does, exactly what the current tenants are paying, and understanding, as the banker does, that the law won't let me raise those rents by more than a modest amount each year. You're making a profit at those rent levels; if not, you shouldn't buy the place.

Now: Under Prop. 13, your property taxes can't go up by much more than the rent goes up each year. And if you aren't a speculative gambler (if you are, you have no rights anyway), you almost certainly have a fixed-rate mortgage. So your biggest "costs" are just as constrained as the rents you get. Meanwhile, your property continues to appreciate in value as the tenants pay your mortgage and taxes.

I know a lot of landlords in San Francisco, and the honest ones all say that owning rental property is a great deal -- for the owner. There are probably some poor landlords who either (a) made bad business decisions or (b) were subject to some awful disaster and now find themselves unable to make ends meet. But they are not common.

Here's the bottom line: Rent control prevents landlords from making speculative profits when the housing market booms. It also allows [non-wealthy people to live here, for long periods of time, and become part of the San Francisco community](http://www.sfbg.com/2012/10/16/sf-stories-laura-fraser) [2]. Housing stability INCREASES "urban vitality." That's the point.

Real, effective rent control would include limits on rent increases when a property becomes vacant. Berkeley had that in the 1980s. It didn't cause urban blight or landlords abandoning buildings; instead, it helped create the Gourmet Ghetto and a thriving local business scene because tenants had more money to spend. It was a great success, until the state outlawed it.

Oh, and don't tell me it discourages new construction: All new construction, since 1979, is exempt from rent control in San Francisco.

Rent control is, I will admit, bad for people who see housing as a speculative commodity, to be traded with little regard for its function as a basic human right. But I see housing more as a regulated utility -- private owners have the right to a regular, acceptable return on investment, but not to excessive profits. Tenants have the right to live in the same place their entire lives, as long as they pay the (stable) rent and don't become a nuisance.

These are good things for a city. The only problem with San Francisco rent control is that it isn't strong enough.

Attack me, trolls. Or better, make a civil counter-argument that doesn't start with "The problem with Tim is ...." Cuz we all know about my problems.

Source: Tim. “Why Rent Control Works,” *San Francisco Bay Guardian.* May 13, 2013.<http://www.sfbg.com/print/politics/2013/05/13/why-rent-control-works>. Accessed 21 July 2014.