

RENT CONTROL ISSUES AND IMPACTS 2003

Prepared for

California Apartment Association (CAA)

980 Ninth Street, Suite 2150

Sacramento, CA 95814

916/447-7881

FAX 877/999-7881

Prepared by

Sacramento Regional Research Institute,

A Joint Venture of SACTO and CSUS

400 Capitol Mall, Suite 1860

Sacramento, CA 95814

916/491-0444

FAX 916/441-2312

Dr. Robert Fountain, Director
Ryan Sharp, Research Director
Olivia Knight, Deputy Research Director
Chad Angaretis, Research Analyst
Tanya Monroe, Research Analyst

Key Findings

This study was designed to assess the objectives of restrictive rent control policies with the resulting locational characteristics. The results were measured using a variety of population and housing variables focusing on two cities that have implemented restrictive rent control policies, Berkeley and Santa Monica, as well as their related comparison counties, Alameda and Los Angeles. Some of the key findings resulting from this study include:

- Housing stock trends illustrate that rent control may be a disincentive to maintain and construct residential rental properties. The rent control cities experienced negative growth in both rental housing units and aggregate rental rooms, while their respective counties saw growth in both rental units and rooms.
- Trends in certain population age groups demonstrate that decreases in the supply of rental housing under rent control ultimately push some age groups out of the rental housing market. Both the young adult and elderly populations—two groups which rent control ordinances are intended to benefit—in Berkeley and Santa Monica experienced negative growth. Rent control ordinances may be indirectly promoting growth within an the 35 to 64 year old age group due to the effects on owner-occupied housing.
- While only modest in some cases, both cities have lost low-income rental households at a greater rate than their respective counties, demonstrating that rent control neither ensures nor supports economic diversity. Overall, the low-income populations (below \$20,000 per year) of the rent control cities decreased at a greater rate than the same groups in their home counties.
- Female-headed household trends imply that rent control may encourage property owners to favor tenants who appear to be better able to pay the rent, however racial and ethnic diversity impacts of rent control ordinances are difficult to pinpoint due to Census redefinitions. Female-headed households with no husband present decreased in Berkeley and Santa Monica at the same time this group increased in Alameda and Los Angeles Counties.
- Rent control provides mixed rental price benefits to renters, but the derived benefits may not be effectively reaching the target population. The City of Berkeley consistently demonstrated monetary rental benefits, while Santa Monica only experienced benefits in 1980. Economic and demographic trends among the groups targeted by rent control show that the benefits are not adequately reaching these populations.

KEY FINDINGS

- Educational attainment patterns show that rent control ordinances may promote gentrification to the detriment of the lower-educated population. Population trends in Berkeley and Santa Monica appear to produce an overall population more likely to be college graduates than high school graduates or lower compared to Alameda and Los Angeles Counties.
- Partial deregulation of rent control ordinances in the mid-1990s had clear positive effects on several population and housing factors, which further illuminates the potential negative effects of strict rent control policies.

Overall, the analysis demonstrates that restrictive rent control policies specifically within Berkeley and Santa Monica do not appear to meet their intended goals. The population groups for which the policies were designed to address seem to be receiving minimal benefits from the policies, and appear to be migrating out of the two cities in an effort to find housing elsewhere.

There are four main areas where rent control policies' impacts can potentially be observed. These main areas are shown below along with the overall effect (positive or negative) that rent control has had on these areas and the specific section of the report that discusses each main area.

Rent Control's Impact On:	Effect	Applicable Report Section
Size of the resident population	Negative	"Population"
Quantity of rental housing stock	Negative	"Housing Stock"
Household composition and demographics	Negative	"Cultural and Ethnic Diversity" and "Educational Attainment"
Economic issues	Negative	"Economic Issues" and "Rent Control as a Benefit"

TABLE OF CONTENTS

	Page
KEY FINDINGS	<i>ii</i>
TABLE OF CONTENTS	<i>iv</i>
INTRODUCTION	1
HOUSING STOCK	4
Table 1: Percent Change in Total Renter-Occupied Housing Units	4
Table 2: Percent Change in Renter-Occupied Housing Units by Type	6
Table 3: Percent Change in Aggregate Rooms in Renter- and Owner-Occupied Housing	8
POPULATION	11
Table 4: Percent Change in Total Population by Age Comparisons	11
ECONOMIC ISSUES	15
Table 5: Percent Change in Annual Income for Rental Households	15
CULTURAL AND ETHNIC DIVERSITY	18
Table 6: Percent Change in Households by Race of Householder Living in Renter-Occupied Housing	19
Table 7: Percent Change in Female Householders with No Husband Present	20
RENT CONTROL AS A BENEFIT	23
Table 8: Comparisons of Median Rents and Rental Price Benefits	23
EDUCATIONAL ATTAINMENT	25
Table 9: Educational Attainment	26

Introduction

Rent Control Policies

Rent control is a government-imposed restriction, applicable to rental units in certain areas, in which a ceiling is placed on the amount a landlord can charge a tenant for rent. This control has been an issue of intense debate in the past and has continued to stir debate in recent years. Those who favor rental rate ceilings believe that the laws provide tenants with increased protection against evictions, preserve residential housing that is affordable to the low- and moderate-income population, and maintain community diversity. Those who oppose rent control laws typically believe that the rental restrictions produce an excess of demand for rental units over available supply, decrease incentive for suppliers of housing to enter the rental market (the combination of these two factors producing rental housing shortages), and indirectly change the economic and demographic make-up of rent control communities.

One of the first extensive uses of rent control was in New York City during World War II, when temporary price controls were put in place to combat wartime inflation. During the late 1960s and early 1970s, inflation became a major economic and political issue again when the City of Boston implemented rent control measures. In 1971 President Nixon, trying to control inflation, imposed temporary wage and price controls that froze rental rates in the process. After the imposed wage and price controls expired, many cities retained rent control measures and some began making them permanent laws. Approximately 125 municipalities throughout the country have rent control laws dating from the 1971 price controls. During the late 1970s, with inflation still an issue, the cities of Berkeley and Santa Monica (among many) adopted restrictive rent control ordinances. During the 1980s a political backlash occurred as 31 states, including Idaho, Florida, Texas, and Vermont, adopted laws and constitutional amendments banning rent control. In the 1990s several cities in Massachusetts abandoned rent control after a statewide campaign ballot initiative passed in 1994. Additionally, in 1995, the California Legislature passed the Costa-Hawkins Rental Housing Act that was intended to partially deregulate or moderate some of the more extreme rent control laws throughout California.

Two California Cities with Rent Control—Berkeley and Santa Monica

In June of 1980, the City of Berkeley passed the Rent Stabilization and Eviction for Good Cause Ordinance. This law set rental regulations on most residential units in Berkeley and increased eviction protection for tenants. The ordinance was enacted in order to maintain affordable rental housing and protect community diversity in the City. The law set up a commissioned board that certifies rental ceilings and sets annual rental adjustments. Rental adjustments allow the landlord to increase the rental ceiling in compensation for inflation and maintenance costs. Owners of rental property within Berkeley are required to register with the rental board and pay annual registration fees that are intended to cover the cost of the program.

The City of Santa Monica voted to amend their City Charter and established rent control measures in April of 1979. An elected board was set up to administer and enforce the rent control laws. The goals of this amendment were similar to those in Berkeley—control rental costs and preserve residential housing. Like Berkeley, most rental housing was covered by the initial law, which included apartment buildings, single-family homes, and condominiums. Santa Monica also has initiated a voluntary program that assists low-income persons obtain rental housing. The Incentive Housing Program sets up regulating agreements with participating landlords that allows them to raise rents of non-low-income rental units in order to keep ceilings on their dedicated low-income dwellings.

The Costa-Hawkins Rental Housing Act

Partial deregulation of statewide rent control in California was enacted with the passing of the Costa-Hawkins Rental Housing Act in 1995. This Act did not completely prohibit rent control, but required counties or cities with rent control laws to adhere to provisions set within the Rental Housing Act. The main points of this Act include:

- Housing constructed after 1995 must be exempt from rent controls.
- New housing types previously exempt from rent control must remain exempt.
- Single-family homes and units (such as condominiums) that qualify (based on title characteristics and tenancy termination factors) are exempt from rent controls.
- Rental owners have the ability to establish their own rental rates when occupancy changes occur (with some restrictions).

Rent Control Issue Areas

Several key questions arise regarding the impact of rent control on population and housing factors such as:

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

Study Objectives and Methodology

The Sacramento Regional Research Institute (SRRI) was engaged by the California Apartment Association (CAA) to conduct a study in order to gain an understanding of the effects that rent control has had over the past two decades in the Cities of Berkeley and Santa Monica. This study partially revises the *Rent Control Issues and Impacts* study completed by the California State University, Sacramento Real Estate & Land Use Institute in June of 1994. The earlier study focused on the same two cities for the time period of 1980 to 1990. This study updates many of the elements in the earlier study and examines a few new elements. For purposes of simplification, Berkeley and Santa Monica were chosen as subject rent control cities because of their use in the original impact study, their similar rent control restrictions, and the time of implementation of their rent control laws.

As stated above, Santa Monica's and Berkeley's restrictive rent control policies were put in place to meet the perceived needs of their communities. Goals of these policies include assisting lower-income groups, protecting affordable rental housing and rental housing stocks, and maintaining the cultural and economic diversity of the communities. This report focuses on testing whether progress towards these stated goals has occurred over the last twenty years. In doing so, SRRI used United States Census Bureau data for population and housing from the 1980, 1990, and 2000 Censuses.

Since comparing population and housing statistics for Berkeley and Santa Monica alone allows for little comparison or fair representation, the home Counties for these two Cities, Alameda and Los Angeles, will be used as a relative comparison gauge (similar to the earlier report). By comparing each rent control city's percent changes with the overall county's percent changes, a fair and complete picture of the impact of rent control may be achieved without any external economic, social, or demographic factors skewing the data. Comparing changes in an absolute sense would not offer accurate information, however by using relative comparisons between the City of Berkeley and Alameda County as well as the City of Santa Monica and Los Angeles County, unique changes or differences may be explained by the data analysis.

The impacts of rent control can be measured in Berkeley and Santa Monica due to the implementation of these measures just prior to the 1980 Census. Data from 1980 will show the make-up of the two cities and counties as rent control laws came into effect, and data from the 1990 and 2000 Censuses will reflect the changes that have occurred since. By comparing these relative changes within each decade and over the twenty-year period, changes within Berkeley and Santa Monica that are in contrast to those of the two comparable counties can be attributed to factors such as restrictive rent control laws or related changes. Although Berkeley and Santa Monica have similar population totals and rent control laws, the fact that they have very different economic composition, ethnic and age make-up, and income levels is an aid in determining if rent control has had the intended impact towards their stated goals. If similar trends in population and housing are followed in both cities, the implication of rent control as a leading cause for these changes is strong.

Housing Stock

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

Total Rental Housing Units

If the above assumption were correct, it would be expected that, in the rent control cities of Berkeley and Santa Monica, there would be decreases in total rental housing units. At the same time, the counties that these two cities reside within would not experience similar reductions. There is a general economic belief that price ceilings placed upon a product will lead to a decrease in the supply of that product in a climate where returns will be minimized accompanied by an increase in demand. Based on this belief, it would be expected that in Berkeley and Santa Monica, over time, there would be a pattern of minimal, stagnant, or decreasing rental housing counts due to the effects of rent control. Similarly, in the related counties, the rental housing count growth figures should not resemble those of the cities.

TABLE 1
PERCENT CHANGE IN TOTAL RENTER-OCCUPIED HOUSING UNITS

	Percent Change 1980-1990				Percent Change 1990-2000				Percent Change 1980-2000							
	Berkeley		Alameda		Santa Monica		Los Angeles		Berkeley		Alameda		Santa Monica		Los Angeles	
Total Units*	-12.10%	12.05%	-4.90%	10.07%	5.29%	5.80%	-4.01%	5.51%	-7.45%	18.56%	-8.71%	16.14%				

Sacramento Regional Research Institute, May 2003
 Data Source: U.S. Census Bureau, 1980, 1990, and 2000 Censuses
 *Note: Includes mobile home, boat, RV, etc.

Table 1 demonstrates that the rates of change numbers seem to support this rent control assumption that rent control is a disincentive to maintain and construct residential rental properties. Looking at the first decade (1980 to 1990) after the rent control amendments and ordinances were enacted, total rental housing counts for Berkeley fell by nearly 12 percent. In Alameda County, the numbers were reversed, showing an approximately 12 percent increase in total rental housing units from 1980 to 1990. A similar pattern is reflected in the growth rates in total rental housing counts for the City of Santa Monica and Los Angeles County. Between 1980 and 1990 Santa Monica’s rental units fell by about five percent. At the same time, Los Angeles County saw an increase of nearly 10 percent.

The decade of 1990 to 2000 saw similar total rental housing changes. These changes were evident within Santa Monica and Los Angeles County; however, in Berkeley there was a reversal in the downward trend of rental housing stock. After a nearly 12 percent

decrease in the previous decade, rental housing rebounded in Berkeley with an approximately five percent increase—an increase nearly matching Alameda County’s gain for the 1990s. There are three plausible reasons for this trend reversal in the 1990s. Reversals in Berkeley may be due to market reaction to the steep decline in rental housing during the 1980s. The supply of rental housing may have dropped off faster than demand, leading to a market correction in supply. Additionally, essential to this market reaction, there was the passage in 1995 of the Costa-Hawkins Rental Housing Act, which reduced the restrictions of rent control imposed during the 1980s, and was a potential incentive for the suppliers of rental housing to get back into the market. Finally, the rental housing turnaround was potentially affected by the technology boom of the 1990s in Northern California, especially in Silicon Valley, that created a strong economy within the area. In Santa Monica there were similar growth trends as the previous decade, as the decrease in rental housing stock each decade are evenly distributed. Clearly, Santa Monica did not experience the same factors as Berkeley during the 1990s.

The twenty-year trend for the city and county housing stock totals resembles what is expected in the rent control assumption. From 1980 to 2000, even with lowering of some rent control restrictions during the 1990s, total rental housing stock in both Berkeley and Santa Monica fell by nearly seven and nine percents, respectively. The counties, on the other hand, showed extensive overall growth as Alameda increased over 18 percent and Los Angeles saw a nearly 16 percent increase over the twenty-year period.

The overall trend in the rent control Cities of Berkeley and Santa Monica for renter-occupied housing units showed negative growth as their respective counties demonstrated positive growth. These findings keep are in line with the rent control assumption—rent control is a disincentive to maintain and construct residential rental properties. The differing comparative changes between the cities and counties imply that rent control was a major contributor to the differences.

Rental Housing by Structure Type

Following the assumption further, it would be expected that, in the rent control Cities of Berkeley and Santa Monica, with the declines in total rental housing units there would be overall decreases or lack of growth in many of the structure types seen in the rental housing market as compared to the county figures. The structures most important for review are the smaller single rental unit attached and detached houses. These are more easily converted from renter to owner-occupied housing and vice versa, and may provide an understanding of the trends created by rent control. All other types of rental structures require more initial capital investment, and a long-term outlook on investment returns. These units are also more difficult to convert from renter to owner-occupied and vice versa. Table 2 contains the breakdown by structure types for rental housing in the subject areas.

HOUSING STOCK

TABLE 2
PERCENT CHANGE IN RENTER-OCCUPIED HOUSING BY TYPE OF UNIT

<i>Renter-Occupied Housing Unit Structure</i>	Percent Change 1980-1990				Percent Change 1990-2000				Percent Change 1980-2000			
	<i>Berkeley Alameda</i>		<i>Santa Monica Los Angeles</i>		<i>Berkeley Alameda</i>		<i>Santa Monica Los Angeles</i>		<i>Berkeley Alameda</i>		<i>Santa Monica Los Angeles</i>	
Single, detached	-25.53%	7.15%	-11.24%	3.73%	16.46%	6.31%	16.94%	5.36%	-13.27%	13.91%	3.80%	9.29%
Single, attached	-29.02%	24.56%	-22.39%	28.69%	49.46%	3.30%	30.02%	17.66%	6.09%	28.67%	0.91%	51.43%
2-units	-10.01%	6.09%	14.71%	5.03%	-12.11%	-0.84%	-2.31%	-1.54%	-20.91%	5.20%	12.06%	3.41%
3-4 units	-17.64%	7.65%	6.85%	8.27%	8.41%	6.85%	-14.50%	2.39%	-10.72%	15.03%	-8.64%	10.85%
5-9 units	-11.57%	13.15%	-8.84%	10.95%	2.31%	1.14%	1.90%	2.92%	-9.53%	14.43%	-7.11%	14.19%
10-49 units	1.34%	13.42%	-4.01%	12.55%	-0.94%	-3.87%	-6.37%	-1.51%	0.38%	9.03%	-10.13%	10.85%
50 or more units	-46.88%	7.78%	-15.19%	-0.14%	88.04%	48.24%	-7.38%	38.00%	-0.12%	59.77%	-21.45%	37.80%

Sacramento Regional Research Institute, May 2003

Data Source: U.S. Census Bureau, 1980, 1990, and 2000 Censuses

Analyzing the period from 1980 to 1990, single-detached and single-attached renter-occupied units dramatically decreased in both Berkeley and Santa Monica. These numbers may have been a market response to the implementation of rent control, as suppliers may have begun switching units over from renter-occupied to owner-occupied and slowing construction of new units. In Berkeley, total single unit rental structures fell by over 26 percent as compared to Alameda County's increase of over 10 percent. In the City of Santa Monica, the same trend occurred as both types of single unit rentals fell by nearly 14 percent and Los Angeles County saw an approximately nine percent increase. Large apartment rentals also fell in both cities. In Berkeley, the drop was nearly 47 percent in 50 unit or larger structures, and Santa Monica saw a close to 15 percent decrease. Berkeley also saw a large decline in three to four unit structures of about 18 percent during the 1980s.

In the period from 1990 to 2000, some of the more dramatic declines of the 1980s were reversed. Single rental unit structures, which saw extreme declines in the previous decade, demonstrated positive growth in both cities. Berkeley saw growth of over 22 percent in single rental unit structures and Santa Monica saw a nearly 20 percent increase. The Costa-Hawkins Rental Housing Act stated that single-family homes and condominiums that had separate titles were exempt from local rent control laws, thus potentially affecting single rental unit structures and explaining the reversals that occurred in single unit rental housing in both rent control cities during the 1990s after such great declines in the 1980s. The decreased supply that occurred during the 1980s restrictive rent control measures was changed in the 1990s as improved market conditions in both cities brought rental-housing suppliers back into the market. It is also interesting to note that after the strict rent control laws in Berkeley and Santa Monica were reduced, substantial rental housing growth occur. The three to four unit structures and large complexes (50 or more units) in Berkeley also rebounded, but this is partially due to an increase of building activity related to the University of California, Berkeley, which constructed large group quarters housing units for students as well as several smaller structures. Santa Monica, without major college construction, saw continuing declines in

large rental complexes as the City experienced a decrease of another seven percent. In the counties, extensive growth within the large (50 or more) unit rental segment rose in Alameda by over 48 percent and 38 percent in Los Angeles during the 1990s.

Overall, during the twenty-year period from 1980 to 2000 both counties fared far better than the rent-controlled cities in nearly all renter-occupied structure types. Specifically, from 1980 to 2000, Alameda County saw a nearly 17 percent increase in single-unit rental housing structures and close to 60 percent in large apartment complexes. In contrast, Berkeley experienced a decline of over nine percent in single-unit rental structures and had a minimal decline in large apartment complexes even with the University of California related projects. Los Angeles County saw major gains over the twenty years in the same two structure types. They gained about 18 percent in both types of single rental housing and nearly 38 percent in large apartment complex structures. Santa Monica had a relatively small gain in single-unit rental structures of close to three percent as compared to Los Angeles County, but had a drastic decrease of over 21 percent in the 50 unit or larger structures.

The decreasing numbers in many renter-occupied structure types within the rent control cities, again, follows the assumption that rent control is a disincentive to maintain or construct rental housing. The twenty-year trend in structure types further clarifies the uniqueness within the rent control cities in negative growth that is not seen within either county. During a period, which included an economic boom in California, this overall negative structure growth in Berkeley and Santa Monica can be attributed to unique factors like rent control.

Aggregate Room Comparison in Renter- and Owner-Occupied Housing

Declines in the rent-controlled cities over the past two decades in rental housing units and many rental structures types would suggest that total rooms available in rental housing would also decrease. If properties shifted from renter- to owner-occupied, it is also possible to assume that an increase in total rooms for owner-occupied housing would result. Analyzing the changes in the aggregate number of rooms in renter- and owner-occupied housing can help to identify the affects of rent control in the two subject cities. This analysis can be used to show if older structures are being converted from one type of use to another, and if newer structures tend to be established for use in one of the two sectors.

HOUSING STOCK

TABLE 3
PERCENT CHANGE IN AGGREGATE ROOMS IN RENTER- AND OWNER- OCCUPIED HOUSING

Aggregate Rooms*	Percent Change 1980-1990				Percent Change 1990-2000				Percent Change 1980-2000			
	Berkeley	Alameda	Santa Monica	Los Angeles	Berkeley	Alameda	Santa Monica	Los Angeles	Berkeley	Alameda	Santa Monica	Los Angeles
Total	-0.53%	12.10%	2.57%	6.21%	1.27%	7.29%	-1.52%	2.16%	0.73%	20.27%	1.02%	8.50%
Renter-occupied	-15.13%	10.47%	-7.44%	4.45%	0.80%	-0.46%	-6.59%	1.32%	-14.46%	9.96%	-13.54%	5.82%
Owner-occupied	13.38%	13.02%	24.01%	7.36%	1.60%	11.58%	6.59%	2.70%	15.20%	26.11%	32.19%	10.25%

Sacramento Regional Research Institute, May 2003

Data Source: U.S. Census Bureau, 1980, 1990, and 2000 Censuses

*Note: SRRRI made adjustments to the data to provide consistency between Census years.

Table 3 shows the total number of rooms found within both housing unit sectors for all four of the subject areas and demonstrates that renters may have been replaced by owners in the rent-controlled cities. Starting with the 1980 to 1990 time period in Berkeley, the numbers are consistent with the overall rental housing declines. Total rooms in rental-occupied units fell by over 15 percent, while the owner-occupied sector saw increases of above 13 percent. In Alameda County, the total room numbers show positive growth for both sectors, increasing nearly 10 percent for rentals and 13 percent for owner-occupied housing. The numbers for Santa Monica and Los Angeles County mirror those of Berkeley and Alameda County. Santa Monica experienced a decrease in renter-occupied rooms of about seven percent, while owner-occupied increased by approximately 24 percent. Los Angeles County, like Alameda, produced gains in both housing sectors. The room aggregates for the 1980s strengthen the argument that rent control has negative effects on rental housing stock. Both counties showed positive growth in renter and owner-occupied housing, while the restrictive rent control cities saw positive growth only in owner-occupied housing units.

From 1990 to 2000 the growth in aggregate rooms follows the patterns demonstrated in rental housing units. One of the numbers that stands out is Berkeley's positive gain in rental housing rooms of about one percent for this decade, while, at the same time, Santa Monica saw another loss of over six percent. As previously discussed, Berkeley had a major rebound during the 1990s in rental housing structures of single rental units and those larger than 50 units (following heavy declines in both structure types during the 1980s). This rebound was most likely due to changes created by the Costa-Hawkins Rental Housing Act and a boom in the economy of the Bay Area. This turnaround potentially helped produce the overall one percent gain in total rental rooms. Large gains in Berkeley during the 1980s of nearly 13 percent in total owner-occupied rooms, may explain why this sector saw slowing growth during the 1990s at a little over one percent. Santa Monica, during the 1990s, continued to show decreases in rental housing rooms of over six percent. Santa Monica's market saw similar percentage declines as the 1980s. Again, because of changes in rent control laws, Santa Monica saw large growth in single unit rental housing, which may have kept their aggregate rental room totals from being decreased further. Owner-occupied room totals for Santa Monica increased by over six

percent for this decade, following previous gains. Los Angeles County continued to show slight growth in both total housing room sectors.

Examining the room number totals over twenty-years will help illustrate the overall trends—while total rooms for both sectors in Berkeley and Santa Monica did increase, they did so at a much slower rate than did the counties in which they reside. Berkeley demonstrated a nearly one percent increase over the period from 1980 to 2000, while Alameda County showed an approximately 20 percent increase. The numbers for Santa Monica show a close to one percent increase while Los Angeles County experienced over eight percent growth. One of the big reasons for this gap in total rooms is the renter-occupied sector. As Alameda County was showing a 10 percent increase in rental rooms over the twenty-years, Berkeley’s renter-occupied rooms fell close to 14 percent. Santa Monica follows the same trend showing a close to 13 percent decrease in rental rooms, while Los Angeles County experienced a nearly six percent increase. Even with the large drops in renter-occupied rooms within the rent control cities, the owner-occupied room numbers showed great gains in both cities. This suggests that the drop in renter rooms was not due to any widespread citywide economic downturns, but from the impacts of rent control. Berkeley saw its owner-occupied rooms increase by over 15 percent from 1980 to 2000, and Santa Monica saw a gain of close to 32 percent. This last number even outpaced Los Angeles County, which saw above a 10 percent gain.

As would be expected with total renter-occupied housing units and structure types in decline in the rent control cities, and on the rise in the two counties, total rooms available to those within the rental housing market declined in both Berkeley and Santa Monica. These same numbers rose in Alameda and Los Angeles Counties, demonstrating the effects of rent control on aggregate rooms, and reflecting the rent control assumption.

Housing Stock Conclusion

Conclusion: Housing stock trends illustrate that rent control may be a disincentive to maintain and construct residential rental properties.

The rent control laws in the Cities of Berkeley and Santa Monica are not providing growth numbers in renter-occupied housing that are similar to their home counties. The tremendous growth numbers in renter-occupied housing units and aggregate renter and owner occupied rooms within the counties, the similar growth in aggregate owner rooms for the rent control cities, and the large decreases in renter-occupied housing units and aggregate rental rooms in Berkeley and Santa Monica, suggest that the assumption that rent control may be a disincentive to maintain and construct residential rental properties is correct. The Cities of Berkeley and Santa Monica have failed to keep pace with percentage growth in rental housing units within their related counties. Additionally, only after partial deregulation, did positive rental housing growth occur further demonstrating the potential negative impact of strict rent control ordinances. Rent

HOUSING STOCK

control appears to be keeping existing rental unit prices below the free market levels, but not promoting growth or retention of renter-occupied housing stock. It seems the only sustained housing unit growth that rent control is promoting within Berkeley and Santa Monica is in the owner-occupied sector, which may be indirectly benefiting from negative renter-occupied housing growth numbers in the two cities. Since rent control is aimed at preserving and providing additional rental units to persons in the rental housing market, these rental housing numbers clearly show that rent control is having the opposite effect on these markets. Areas not directly reflecting rent control policies, like those of Alameda and Los Angeles County, are providing more robust growth in their rental housing markets.

Population

Assumption: Decreases in the supply of rental housing under rent control pushes some age groups out of the rental housing market.

If this assumption is correct, the declines in renter-occupied structures and aggregate rooms within the Cities of Berkeley and Santa Monica from 1980 to 2000 would be expected to create decreases within population groups that appear most likely to be consumers of rental housing units. These population groups consist of the young (15 to 34 year olds), and elderly (65 years and over). Table 4 contains the city-county population comparisons by age groups. It appears that declines in available rental housing caused by rent control have forced some within these two age groups out of the rental housing market in Berkeley and Santa Monica. As the available housing is reduced, these two groups, especially the lower income within them, have had to move elsewhere. These market conditions have also created disincentives for some within these age groups to move to the cities of Berkeley and Santa Monica and incentives for out-migration.

**TABLE 4
PERCENT CHANGE IN TOTAL POPULATION BY AGE COMPARISONS**

Population Group	Percent Change 1980-1990				Percent Change 1990-2000				Percent Change 1980-2000			
	Berkeley	Alameda	Santa Monica	Los Angeles	Berkeley	Alameda	Santa Monica	Los Angeles	Berkeley	Alameda	Santa Monica	Los Angeles
Total	-0.58%	15.72%	-1.60%	18.53%	0.02%	12.86%	-3.25%	7.40%	-0.57%	30.61%	-4.79%	27.31%
Less than 5 years	16.19%	31.61%	14.37%	31.18%	-17.26%	1.69%	-10.87%	0.07%	16.19%	33.83%	1.93%	31.26%
5-14 years	-11.43%	9.14%	-21.04%	13.48%	6.01%	24.31%	17.12%	24.02%	-11.43%	35.68%	-7.52%	40.74%
15-24 years	-10.81%	-12.05%	-37.84%	0.64%	-1.42%	4.25%	-21.43%	-3.12%	-10.81%	-8.31%	-51.16%	-2.50%
25-34 years	-21.87%	19.16%	-6.89%	32.88%	-5.86%	-6.19%	-9.50%	-12.08%	-21.87%	11.79%	-15.74%	16.83%
35-64 years	30.28%	28.69%	22.90%	21.50%	7.24%	26.44%	7.02%	19.14%	30.28%	62.71%	31.53%	44.75%
More than 64 years	0.68%	18.46%	-1.70%	15.16%	-6.01%	9.15%	-15.52%	8.33%	0.68%	29.30%	-16.96%	24.76%

Sacramento Regional Research Institute, May 2003
Data Source: U.S. Census Bureau, 1980, 1990, and 2000 Censuses

During the decade of 1980 to 1990, the total populations of Berkeley and Santa Monica experienced minimal negative growth rates of 0.5 and 1.6 percents, respectively. At the same time, the total populations increased by nearly 16 percent in Alameda County and over 18 percent in Los Angeles County. The combined 15 to 34 year old age group experienced a nearly 33 percent decrease in Berkeley and close to a 45 percent decline in Santa Monica. The same combined age group saw an increase in both counties—about seven percent in Alameda and nearly 34 percent in Los Angeles. The 35 to 64 age group was one of the only groups with large population gains for both rent control cities. Rent

POPULATION

control appear to have played a part in the growth of this 35 to 64 age group as supplies of owner-occupied rooms within the two cities jumped, providing incentive for those within the group to stay, or move into, the cities. Meanwhile, in the senior category of 64 and older, while the rent control cities showed little or no growth, the two counties had large percent gains of over 18 percent (Alameda) and 15 percent (Los Angeles). This elderly group is one of the two groups who may be most directly affected by rent control.

In the next decade of 1990 to 2000, similar patterns of population growth are repeated for the cities and counties. The total overall population growth for Berkeley showed stagnant growth. Santa Monica continued to show negative growth of nearly three percent. Both counties showed continued large population gains of close to 13 percent in Alameda and about seven percent in Los Angeles. The 15 to 34 age group continued to decrease in both cities with Berkeley experiencing an over 7 percent decline and Santa Monica losing nearly 31 percent of this age group. During this time period both counties experienced declines in the same group—while Alameda saw close to a two percent decline in the 15 to 34 group, Los Angeles County also saw a 15 percent decrease. However, both rent-controlled cities experienced greater declines in this combined age group. For the two cities, again during the 1990s, the only other measurable growth was within the 35 to 64 age group that saw strong gains for the second straight decade increasing by nearly seven percent in both Berkeley and Santa Monica. Although the numbers for this age group are increasing slower than in the counties, it must be taken into account that they are increasing at a fast rate while the young and elderly populations within the two rent control cities are declining rapidly. Senior populations in both cities also declined for the second straight decade. Both Alameda and Los Angeles Counties saw growth above eight percent for the age group of 64 or older from 1990 to 2000. At the same time, Berkeley experienced a decline of six percent, and Santa Monica saw a decline of nearly 15 percent. The trends for the both the 1980s and 1990s show that the population age groups that are most intended to benefit from rent control measures, young adults and the elderly, were both in consistent decline over the two decades.

For the overall twenty-year period, populations for Berkeley and Santa Monica were in decline. Santa Monica experienced a close to five percent drop and Berkeley lost 0.57 percent of its population. Although these declines were modest, the comparative figures for Alameda County (with an over 30 percent population increase), and Los Angeles County (nearly 27 percent population increase) over the same period display a drastic difference. The counties showed mixed growth in the age groups containing 15 to 34 year olds. However, in relative terms, both of the rent control cities showed consistent negative growth in the same age groups over the twenty years. Comparatively, Berkeley lost close to 33 percent and Alameda County gained over three percent, while Santa Monica experienced a decrease of nearly 67 percent and Los Angeles County saw about 14 percent growth. For both of these cities, the losses in the 15 to 34 year old population was compensated with tremendous gains in 35 to 64 year olds which showed growth of nearly 30 percent in Berkeley and over 31 percent in Santa Monica. For the elderly, the numbers are consistent with the rent control assumption that rent control pushes some groups out of the market. As the counties saw tremendous growth in the 64 and older populations, Berkeley and Santa Monica had minimal or negative growth.

POPULATION

There is a major age group that may be indirectly benefiting from the effects of rent control—35 to 64 year olds. The age group is commonly seen as more likely to have a set career path, have families, and own a home. In the State of California in 2000, this group made up close to 64 percent of all owner-occupied households. The same group for Alameda County made up nearly 67 percent of the total owner-occupied households, and for Los Angeles County this number was close to 64 percent. In both Berkeley and Santa Monica, this age group was the only one with any substantial growth over the twenty-year period with consistent growth during the 1980s and 1990s in the two cities. Despite negative total population growth (also in nearly all other age categories), the 35 to 64 age group growth within Berkeley and Santa Monica were well over 30 percent. As declines in the supply of renter-occupied housing occurred after the implementation of rent control, the supplies of owner-occupied housing increased. This suggests that a larger proportion of new housing was built for owner-occupied use, while some of the housing used for rentals prior to the introduction of rent control shifted to owner-occupied use. This owner-occupied housing supply increase has benefits for those in the market most like to purchase housing—the 35 to 64 year olds. This implies that the rent control laws in Berkeley and Santa Monica are indirectly promoting growth within an age and housing group that was not intended.

Population age groups are an important statistic as they show the changing demographics within a city, and where a city may have to focus its attention to stop negative trends. For any city the youth and younger generations hold the economic and social keys to the future. However, for Berkeley and Santa Monica, the future is staying away or moving away. The greatest declines for both cities occurred in the age groups of 15 to 24 and 25 to 34. These groups represent young families, college students, and those most recently entering the work force—those more likely to rent rather than own a home. For the Counties of Alameda and Los Angeles, of all renters within the two Counties, this age group makes up a large percent of the total renters. In the year 2000 Alameda's 15 to 34 year old population made up about 39 percent of rental households, and in Los Angeles County the number was close to 38 percent. These county rental numbers are consistent with the State of California which showed that 15 to 34 year olds made-up over 38 percent of all renters in the year 2000.

It could be argued that a drop in the college student populations may have caused the decline of over 32 percent in Berkeley and 67 percent in Santa Monica within this 15 to 34 year old population. However, Census data shows that college students in Berkeley and Santa Monica did not make up a significant amount of the drop in the 15 to 34 age group. In both cities, the percent of the population enrolled in college was steady over the 1980 to 2000 period. In Berkeley, the college student to population ratio remained around 27 percent while in Santa Monica this ratio stayed at about 10 percent over the twenty-year period. The consistent proportion of college students to population-ratio shows that there is a constant replacement of students and they were not a major contributor to the population declines in this age group. The 15 to 34 age group and college enrollment numbers demonstrate that the large population drops in the two rent control cities within this age group are most likely coming from the low income and less-

educated. It appears that these lower income and less educated groups are being forced out of the rental housing markets in Berkeley and Santa Monica. These groups may not be able to afford to purchase a home or potentially cannot find rental housing. Due to the 15 to 34 age group decline (as the population rate among college students remains steady), and because they represent the largest percent of renters, a conclusion can be made that college students are indirectly benefiting from rent control as the majority of college students are also more likely to rent. The college group had stable population numbers, even as others within their age group declined, and even as renter-occupied housing also fell dramatically. As the supply of rental housing has fallen, the lower income and less educated groups appear to have found it increasingly more difficult to find places to rent and have begun moving out of Berkeley and Santa Monica. Therefore, rent control has had a negative fiscal impact on the younger non-college population.

Population Conclusion

Conclusion: Trends in certain population age groups demonstrate that decreases in the supply of rental housing under rent control ultimately push some age groups out of the rental housing market.

The rent control laws in Berkeley and Santa Monica Cities are not promoting overall population growth numbers, especially within the young adult and the elderly age groups, comparable to their home counties. This follows the stated assumption that rent control could potentially have a negative impact on some portions of the population. The strong growth rates in nearly all age categories within Alameda County and Los Angeles County, compared with the declining rates in nearly all of the age groups in Berkeley and Santa Monica, illustrate the impacts of rent control on the population. As a whole, it appears that restrictive rent control has not met the goals set out within the Cities of Berkeley and Santa Monica. The population age groups that are supposed to benefit from rent control are decreasing in size, while the counties show completely opposite trends. The decline of the 15 to 34 year old age groups in the rent control cities are of particular interest, and are affecting the greater economic and social structure of these two cities in ways that rent control policies may not have intended.

Economic Issues

Assumption: Rent control does not support economic diversity.

This assumption indicates that rent control policies might lead to gentrification—upgrading of properties to the exclusion of low-income persons—due to the effects of rent control on rental housing stock. If the goal were to maintain economic diversity by controlling rents, then it could be expected that the percentage of rental households earning lower annual incomes (below \$20,000) would remain constant in Berkeley and Santa Monica or, under best circumstances, increase somewhat. The respective counties might see decreases in lower income groups as those households would move to rent-controlled cities or those groups would remain fairly constant. However, if the opposite population shift occurs, this would lend support to gentrification and show the economic diversity is not supported by rent control policies.

The data in Table 5 contains information on income levels for rental households with an annual income of less than \$20,000 a year for Berkeley and Santa Monica and their home counties for 1980, 1990 and 2000. It is important to note for comparison purposes that if these numbers are adjusted for inflation, \$10,000 and \$20,000 in 1980 would amount to about \$15,862 and \$31,723 in 1990. Also, \$10,000 and \$20,000 in 1990 would amount to about \$13,175 and \$26,350 in 2000.

TABLE 5
PERCENT CHANGE RENTAL HOUSEHOLDS
WITH ANNUAL INCOME LESS THAN \$20,000

Income Group	Percent Change 1980-1990				Percent Change 1990-2000				Percent Change 1980-2000			
	Berkeley Alameda		Santa Monica	Los Angeles	Berkeley Alameda		Santa Monica	Los Angeles	Berkeley Alameda		Santa Monica	Los Angeles
Less than \$10,000	-49.64%	-47.99%	-54.11%	-48.07%	-30.95%	-24.78%	-22.07%	-8.47%	-65.23%	-60.88%	-64.24%	-52.47%
\$10,000 - \$19,999	-36.39%	-33.23%	-50.58%	-32.22%	-21.34%	-25.60%	-24.49%	-7.12%	-49.96%	-50.32%	-62.68%	-37.05%

Sacramento Regional Research Institute, May 2003
Data Source: U.S. Census Bureau, 1980, 1990, and 2000 Censuses

From 1980 to 1990, Berkeley lost almost 50 percent of renters with an annual income of less than \$10,000 and over 36 percent of households with an income between \$10,000 and \$19,999. Alameda County also lost close to 48 percent in the under \$10,000 group and a little over 33 percent in rental households earning under \$19,999 (and more than \$10,000). Santa Monica, similar to Berkeley, lost almost 55 percent of rental households earning less than \$10,000 during the 1980s. It also lost close to 51 percent of renters in the \$10,000 to \$19,999 category. Los Angeles County mirrored the same trend as Alameda County—between 1980 and 1990, 48 percent of households with less than \$10,000 were lost and over 32 percent with an annual household income between

\$10,000 and \$19,999. The data shows that there were slightly greater losses of lower income renters in the cities compared to the counties.

During the next decade, Berkeley lost fewer households with an income below \$10,000 with a decrease of 31 percent. The city also lost over 21 percent of rental households with an annual income of \$10,000 to \$19,999. Alameda County shows the same trend losing fewer households with less than \$10,000 income per year (close to 25 percent) and experienced a nearly 26 percent decline in households with an income of \$10,000 to \$19,999. Some of these losses and slowed declines in both the Berkeley and Alameda County may be due to the economic boom in the Bay Area that took place in the decade of 1990 to 2000. Santa Monica saw a decrease in rental households of 22 percent in the lowest income group and lost an additional 24 percent in households with an annual income of \$10,000 to \$19,999. In comparison, Los Angeles County saw a decrease of over eight percent in rental households with an income of less than \$10,000 and lost seven percent in the next income group. Berkeley as well as Santa Monica continued to lose more renters than their comparative counties. Only households with an annual income between \$10,000 and \$19,999 decreased at a slower rate in Berkeley than in Alameda County. The cities practicing rent controls continued to lose low-income households at a higher rate than the comparison counties and provide some support for the assumption that rent control does not maintain economic diversity. Despite slowing negative growth, Berkeley had slightly greater losses of lower income rental households than Alameda County, and Santa Monica experienced significantly greater losses of this income group compared to Los Angeles County.

In Berkeley as well as in Santa Monica, the rental households earning less than \$10,000 per year decreased by over 60 percent between 1980 and 2000. Households with an annual income between \$10,000 and \$19,999 decreased by 50 percent in Berkeley and nearly 63 percent in Santa Monica. Similarly, the counties also lost renters in the lowest income groups. Households earning an annual income of less than \$10,000 decreased by 61 percent in Alameda County and by over 52 percent in Los Angeles County. Households earning an income of \$10,000 to \$19,999 saw declines of 50 percent in Alameda County over the twenty-year period—nearly the same rate as Berkeley. Los Angeles County lost households in that income group by roughly one-third that of Santa Monica with a decrease of close to 37 percent. Examining the total low income category (below \$20,000 per year), over the twenty-year period, Berkeley experienced a decline only slightly larger than its related county (Alameda), however Santa Monica saw decreases in this income group well above those of Los Angeles County.

Economic Issues Conclusion

Conclusion: While only modest in some cases, both cities have lost low-income rental households at a greater rate than their respective counties, suggesting that rent control neither ensures nor supports economic diversity.

It appears that the rent control ordinances implemented in Berkeley and Santa Monica neither ensure nor support economic diversity—an overall goal of rent control policies. Both rent-controlled cities have lost renters in the lowest income groups over the past 20 years at a greater rate than Alameda and Los Angeles Counties. As the data suggests, rent control does not benefit lower income groups and economic diversity is not guaranteed in the cities practicing rent control. Both Berkeley and Santa Monica have lost renters earning less than \$10,000 a year during every decade. A significant drop occurred during the 1980 to 2000 time span. During those two decades, over 60 percent of these low-income households have been lost. In the next income group, \$10,000 to \$19,999, Berkeley lost a substantial amount of households (about 50 percent), while Santa Monica saw greater declines of almost 63 percent. Thus, Berkeley is almost on par with its county in terms of losing households in the lowest income groups during the twenty-year span. Santa Monica is losing lower income renters at a higher rate than its county since the implementation of rent control in 1979. Given these rental household trends, it appears that rent controls do not protect economic diversity and may be leading to gentrification.

Cultural and Ethnic Diversity

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

Race of Householder

As resources become scarce, generally, the value of the resource increases. Specifically, if the supply of rental housing declines and the demand remains constant, then it can be assumed that the price of rental housing will ultimately increase in response. Since rent control imposes a barrier to increased prices unrelated to natural market responses, rental property owners might enhance their credit checking activities relative to prospective residents to increase the probability that rent will be paid. Further, property owners might also turn to non-price tenant selection methods in order to reduce costs or losses. Examples of non-price methods may include tenant selection based on perceived qualities including ethnic or marital status, or income stability unrelated to rent-paying ability. This activity may further foster gentrification, adversely affecting households with low incomes and, therefore, potentially reducing cultural and ethnic diversity. It would be expected that in Berkeley and Santa Monica, over time, there would be a decrease in the groups that appear less likely to be able to pay rent with stable or increased growth in the groups that appear most likely to be able to pay rent. In the comparative counties, these trends would not directly be reflected over the same time periods. In examining the assumption, the impacts of restrictive rent control on household composition and female-headed households will be analyzed.

Table 6 contains information for persons living in renter-occupied housings by total renters, race, and ethnicity for only the years 1980 and 1990. The Census data for the year 2000 was not available (as of May 2003) for renter-occupied housing by race. As a result, the 1990 to 2000 and 1980 to 2000 percentage change comparisons used in other sections of this report was not possible. Additionally, a further analysis constraint exists in making accurate comparisons due to Census reclassifications of ethnic and racial categories for each Census. In both study cities, Berkeley and Santa Monica, the American Indian, Eskimo and Aleut rental population is quite small, and while changes took place in this category, conclusions should not be drawn based on this group.

TABLE 6
PERCENT CHANGE IN HOUSEHOLDS BY RACE OF
HOUSEHOLDER LIVING IN RENTER-OCCUPIED HOUSING

<i>Racial and Ethnic Category</i>	Percent Change 1980-1990			
	<i>Berkeley</i>	<i>Alameda</i>	<i>Santa Monica</i>	<i>Los Angeles</i>
Total Renters	-9.57%	14.26%	-3.83%	12.73%
White Renters	-22.29%	0.54%	-6.99%	-5.89%
Black Renters	-8.52%	15.41%	5.65%	10.48%
Asian & Pacific Islander	67.55%	117.56%	49.57%	105.04%
Hispanic Renters	33.44%	41.04%	8.75%	48.97%
Am. Indian, Eskimo, Aleut	28.93%	18.83%	-18.56%	-8.55%

Sacramento Regional Research Institute, May 2003

Data Source: U.S. Census Bureau, 1980, 1990, and 2000 Censuses

Note: Corresponding data is not available for the year 2000 Census

With the introduction of rent controls in Berkeley and in Santa Monica in 1979, the following decade (1980 to 1990) showed some initial decreases in the total renting population. Berkeley lost over nine percent of total renters while Alameda County gained over 14 percent. Similarly, Santa Monica lost close to four percent of its total renter population and its corresponding County, Los Angeles, experienced an increase in total renters of nearly 13 percent.

In Berkeley, the White and Black renter population both decreased with White renters falling by over 22 percent. These declines, especially those of the White population, can partially be explained by the great changes in California's ethnic make-up that began in the 1970s. Since the 1970s, the Hispanics and Asian and Pacific Islander groups have increasingly made up larger percentages of California's total population, and many changes in racial and ethnic compositions in California can partially be explained by this pattern. All other racial and ethnic renter categories in Berkeley experienced relatively high growth rates. Santa Monica saw a decrease in White renters while the other categories had positive growth. On the other hand, Alameda County and Los Angeles County increased their total renter populations. In fact, Alameda County experienced a gain in every racial and ethnic category. Los Angeles County mirrored the trend from Santa Monica with a decrease in White renters and increases in the other racial and ethnic categories. The adoption of rent controls appears to have had no negative effect on Asian and Pacific Islanders and Hispanic renters. All of the foregoing populations showed increases during 1980 and 1990 in Berkeley and Santa Monica.

Overall, rent control appears to have had an impact on the renter population (in total). Both cities saw negative growth in total renters, while their respective counties faced growth above 10 percent. Data related to specific racial and ethnic categories is not as conclusive, and in some cases are due to the overall changing composition of the State of California. If it is assumed that White renters are seen as better able to pay rent than the

other racial and ethnic groups, then the assumption that landlords may favor tenants who appear better able to pay rent is not supported. Although along with these declines in the White renter population, there were most likely other decreases in the White, low-income population. It further appears that diversity in the two cities actually shifted to include more groups other than White renters. However, this trend cannot be examined over the 1990 to 2000 decade or the twenty-year period due to inconsistent and unavailable data. It is difficult to make a solid conclusion related to rent control using this data, but it does appear that rent control is impacting the total renter population in a negative manner, but may be increasing racial and ethnic diversity. It is important to note that this racial diversity may only be reflected in the renter population, and not in the entire household population.

Female-Headed Households with No Husband Present

Since female-headed households with no husband present have traditionally been viewed as lower income and may appear less able to pay rent, it would then follow (based on the assumption) that rent controls will have negative effects on this group. Following the assumption further, it would be expected that in cities where rent control is practiced, households headed by single females would either decrease somewhat or remain stagnant.

Table 7 contains information on the percent change in female householders with no husband present and reflects total households only (racial and ethnic data for rental households is not available). This table shows that, overall, female-headed households declined in Berkeley and Santa Monica while Alameda and Los Angeles Counties saw increases in this household type.

TABLE 7
PERCENT CHANGE IN FEMALE HOUSEHOLDERS WITH NO HUSBAND PRESENT

Households	Percent Change 1980-1990				Percent Change 1990-2000				Percent Change 1980-2000							
	Berkeley		Alameda		Santa Monica		Los Angeles		Berkeley		Alameda		Santa Monica		Los Angeles	
Female-headed	-6.44%	17.39%	-16.69%	16.58%	-18.86%	0.77%	-13.76%	13.05%	-24.09%	18.29%	-28.16%	31.79%				

Sacramento Regional Research Institute, May 2003
 Data Source: U.S. Census Bureau, 1980, 1990, and 2000 Censuses
 Note: Data is for both renter and owner households.

In Berkeley, the number of households headed by females with no husband present declined between 1980 and 1990 by almost six percent. Alameda County, on the other hand, demonstrated an increase of nearly 17 percent during that time frame. The City of Santa Monica also lost about 17 percent female householders with no husband present, while Los Angeles County experienced the opposite—a nearly 17 percent gain. The total

female householder population decrease in both cities accompanied by increases in their respective counties during the 1980s points to the potential impacts of rent control.

During the next decade, Berkeley lost even more female-headed households than the 1980 to 1990 decade, and Santa Monica demonstrated the same trend. While Berkeley and Santa Monica lost total female-headed households, nearly 19 and 14 percents, respectively, their home counties gained total households headed by single females during the 1990s. Alameda County experienced a slight gain of almost one percent, while Los Angeles County saw a nearly 13 percent increase. This data shows that even after the rent control ordinances had been in effect for almost 20 years, they did not adequately maintain the typically lower income female-headed households.

Looking at the 20-year span from 1980 to 2000, Berkeley as well as Santa Monica lost over 20 percent of their total female-headed households. Their home counties, Alameda County and Los Angeles County, on the other hand, gained total female-headed households at nearly 18 and 32 percents, respectively. During the 20-year time frame, rent control demonstrated no positive effect for female-headed households in Berkeley and Santa Monica considering the large declines seen in both cities accompanied by large increases in the counties.

In general, rent control does not appear to benefit single female householders. For each of the time frames analyzed, the number of total female-headed households decreased in the cities while they increased in their comparison counties. Since it is commonly assumed that households with only one income are not as likely to be able to pay rent as households with two incomes, it supports the assumption that landlords would favor tenants who appear to be better able to pay if rental household demand remains the same or increases. Declines seen in any segment of the female-headed household population provide may provide evidence that rent control policies are not preserving the make-up of the female head of household population or protecting groups in lower-income brackets.

Cultural and Ethnic Diversity Conclusion

Conclusion: *The female-headed household trends imply that rent control may encourage property owners to favor tenants who appear to be better able to pay the rent, however the effects of rent control on racial and ethnic diversity cannot be wholly determined.*

The limited data available for racial and ethnic groups does not seem to support the assumption. White renters are decreasing in the cities practicing rent control, while other specific racial and ethnic groups in these cities are increasing. It is important to note that the total renter population in both cities decreased while this population in the respective home counties increased during the 1980s. Additionally, changes in racial and ethnic composition have been a characteristic of the entire State of California since the 1970s.

On the other hand, the assumption seems to hold true when coupled with other economic and demographic data discussed in this report as well as female-headed household trends. Specifically, female-headed households with no husband present are decreasing in Berkeley and Santa Monica at the same time they are increasing in the cities' counties.

As the most culturally and ethnically diverse state in the country, California greatly benefits from the blend of different peoples. Viewed "across the board," rent controls do not appear to preserve this diversity. While Census reclassifications of ethnic and racial categories make accurate comparisons difficult, other data suggest that the adoption of rent controls in Berkeley and Santa Monica has spurred gentrification. The notable decline in female-headed households with no husband present in rent control cities illustrates the shift of this population group toward locations without rent control. The significant decreases in Berkeley and Santa Monica coupled with the increases in Alameda and Los Angeles Counties during the same time period illustrate that rent controls have the opposite effect than the intended protection of gender-diversity, historically disadvantaged by lower incomes.

The effects of rent controls on ethnic diversity are not as apparent in the available data. While there was a measurable decline in White and Black renters in Berkeley, only White renters decreased in Santa Monica. Also, other ethnicities showed significant increases after the adoption of rent controls in Berkeley and Santa Monica that were similar to increases in Alameda and Los Angeles Counties during the same time period. As previously mentioned this may indicate increased racial and ethnic diversity, however it cannot be determined from the available data whether these other ethnic groups benefited from rent controls or if the increases were the result of larger population growth or the general changes that California has undergone in its racial and ethnic make-up.

Rent Control as a Benefit

Assumption: Rent control does not actually provide rental price benefits to renters.

An important economic issue directly related to rent control is the question of the actual monetary benefit to renters from rent control ordinances. Other sections of this report show that the ordinances may fail to benefit lower income groups, as both cities are losing lower income renters. If rent control creates a benefit, then the size of the benefit and who pays it become important questions that need to be addressed. Table 8 contains median rent information as well as analysis of the amount of annual benefits to renters that arise from the differences in median rents between the cities and the counties.

TABLE 8
COMPARISON OF MEDIAN RENTS
AND RENTAL PRICE BENEFITS

Comparisons		Berkeley	Alameda	Santa	Los
				Monica	Angeles
Median Rent					
	1980	\$245	\$266	\$319	\$276
	1990	\$426	\$626	\$532	\$626
	2000	\$740	\$852	\$792	\$704
Annual Benefit*					
	1980	\$6,974,352		(\$17,616,756)	
	1990	\$58,828,800		\$36,682,560	
	2000	\$34,595,904		(\$32,968,320)	
Annual Benefit to Renters					
	1980	\$252		(\$516)	
	1990	\$2,400		\$1,128	
	2000	\$1,344		(\$1,056)	

Sacramento Regional Research Institute, May 2003

Data Source: U.S. Census Bureau, 1980, 1990, and 2000 Censuses

*Note: Difference in City/ County median rent multiplied by units annualized.

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

While rent control in Berkeley seems to have at least a moderate benefit to renters over the decades, Santa Monica fails to provide a calculated benefit to renters in the long run. Due to the wide differences of median rents in Los Angeles County (Southeast Los

Angeles' median rent is only \$614, while other parts are well above \$1,000), the overall median is still fairly low. However, Santa Monica lies in a rather expensive area and the median rent, although higher than the Los Angeles County median, is still lower than its surrounding cities' median rent. Additionally, rent control itself limits the amount of rent that can be charged to an individual by setting the amount by which the rent can increase annually. However, with the Costa-Hawkins Rental Housing Act, the owner has the ability to set the initial rent with a change in tenants. Therefore, while annual rent increases are limited, the initial rent can be quite high. All of these factors play a role in the creating the median rent amount for cities with rent control.

As Table 8 demonstrates, the median rent for Berkeley was below the county median in 1980, 1990, and 2000. In Santa Monica, the median rent was above the county median in 1980 and 2000, but below the county median in 1990. The annual benefit to renters in Berkeley was \$252 in 1980. By 1990, a little over a decade after the ordinance was in effect, the annual benefit had risen to \$2,400 for renters. However, by 2000 the annual benefit to renters had dwindled down to \$1,344 in that city. To renters in Santa Monica, there was no annual benefit in 1980 and 2000. Only in 1990 did the city have an annual benefit to renters of \$1,128. These 1980 and 2000 calculations for Santa Monica are the only piece of information that truly supports the assumption that rent control does not actually provide benefits to renters. However, while monetary benefits do exist in some cases, it is likely (based on other observations throughout this report) that the benefits are not going to the segments of the population for whom they were intended.

Conclusion on Rent Control as a Benefit

Conclusion: Rent control provides mixed rental price benefits to renters—the City of Berkeley consistently showed benefits, while Santa Monica only experienced benefits in 1980—but the derived benefits may not be effectively reaching the target population.

Rent control ordinances may not be completely meeting their goals of providing benefits to renters. While there was a minimal benefit to renters in Berkeley, there were no benefits to renters in Santa Monica in 1980 and 2000. From the reported data, it appears that rent control ordinances have a short-term positive effect on renters, which reached a peak in annual benefits by 1990. Another 10 years later, in 2000, the benefits for renters in Berkeley decreased by over \$1,000 and for renters in Santa Monica there was no ascertainable benefit at all. This shows that the restrictive rent control ordinances are not entirely meeting their goals. While benefits were identified in Berkeley and Santa Monica (in 1990), other data in this report appear to show that these benefits may not be going directly to the groups rent control ordinances were intended to serve since these groups have seen negative growth in both rent control cities. This also shows that the benefits derived may not be great enough to maintain the targeted populations (lower income renters).

Educational Attainment

Assumption: Rent control may promote gentrification at the expense of some in the lower-educated communities.

If this assumption is correct, it would be expected that, in the rent control cities of Berkeley and Santa Monica, there would be an increase in the percentage gap between that portion of the population with college degrees and that portion that has limited education levels. Frequently education is used as a guideline for gentrification (upgrading of properties to the exclusion of low-income persons). Table 9 contains data related to educational attainment among the population of 25 years and older for the two subject cities and counties for the year 2000 as well as the percent change in educational attainment over the twenty-year period from 1980 to 2000.

For the portion of the population that are high school graduates or below and those with college degrees or above, there is an inverse relationship between the educational attainment between each city and its related county. As the two rent control cities have become increasingly more affluent, their home counties have made relatively smaller gains in educational attainment. Additionally, while Alameda and Los Angeles Counties had large portions of their populations with limited education levels, Berkeley and Santa Monica Cities have shown steady decreases in their lower-educated population.

EDUCATIONAL ATTAINMENT

TABLE 9
EDUCATIONAL ATTAINMENT
(PERCENT OF POPULATION AGE 25 AND ABOVE)

<i>Educational Attainment Group</i>	<i>Berkeley</i>	<i>Alameda</i>	<i>Santa</i>	<i>Los</i>
	<i>2000</i>	<i>2000</i>	<i>Monica</i>	<i>Angeles</i>
	<i>2000</i>	<i>2000</i>	<i>2000</i>	<i>2000</i>
Less than 9th grade	3.41%	8.02%	3.77%	16.25%
9th to 12th grade, no diploma	4.35%	9.62%	5.25%	13.85%
High school graduate	8.61%	19.05%	11.97%	18.84%
Some college, no degree	14.97%	21.60%	18.25%	19.96%
Associate Degree	4.40%	6.79%	5.95%	6.24%
Bachelor's Degree	29.95%	21.24%	31.60%	16.07%
Graduate or Professional Degree	34.30%	13.67%	23.20%	8.78%
High School Diploma or Below	16.37%	36.69%	20.99%	48.94%
Bachelor's Degree or Greater	64.25%	34.91%	54.80%	24.86%
Percent Change in Population				
with High School Diploma or Below:				
1980-1990	-26.19%	-8.26%	-27.41%	3.94%
1990-2000	-15.37%	1.02%	-28.01%	3.65%
1980-2000	-37.54%	-7.33%	-47.74%	7.73%
Percent Change in Population				
with Bachelor's Degree or Greater:				
1980-1990	6.40%	6.51%	9.78%	3.84%
1990-2000	5.58%	7.05%	12.50%	3.21%
1980-2000	11.98%	13.57%	22.28%	7.06%

Sacramento Regional Research Institute, May 2003
Data Source: U.S. Census Bureau, 1980, 1990, and 2000 Censuses

In Berkeley and Santa Monica there were large increases in the portion of the population with Bachelor's Degrees and above, a reverse pattern over twenty-years as compared to lower educational attainments. Berkeley had over 64 percent of its population in this higher attainment group in 2000, while Alameda County had only about 35 percent. In Santa Monica the difference in college graduates compared to the county was vast. Santa Monica was at nearly 55 percent compared to Los Angeles County at approximately 25 percent. The difference in these attainment numbers between the cities and counties helps to identify the signs of gentrification.

Considering the two education levels (high school diploma or below and Bachelor Degree and above) and showing the percent point gaps, we can see signs of gentrification. Santa Monica and Los Angeles rose from a 15 percent gap in college level attainment in 1980 to a 30 percent gap in 2000. Alameda County fared better than Los Angeles in holding the gap with Berkeley, but in 2000 the number was still at nearly 30

EDUCATIONAL ATTAINMENT

percent. These large attainment gaps provide partial evidence that gentrification is an issue for Berkeley and Santa Monica. In 2000, over 64 percent of Berkeley's population had a college degrees, while only about 16 percent had high-school diplomas or less. This is a difference of about 48 percentage points. In Alameda County, the same two numbers were approximately 35 percent and 37 percent, a negative two percent difference. Santa Monica had close to 55 percent of its population with college degrees in 2000, and nearly 21 percent with a high-school diploma or less—an approximately 34 percentage point difference. Finally, in Los Angeles County, about 25 percent held college degrees and 49 percent had high-school diplomas or less. This is a negative 24 percentage point difference. These percentage point difference in education levels may demonstrate gentrification that is unique to the two rent control cities.

The percent changes between the city and county numbers in the higher and lower education levels give support for the idea of gentrification. From 1980 to 1990, Berkeley experienced a drop of nearly 26 percent in the population with a high school diploma or below and an increase of over six percent of those with a Bachelor's degree or higher. Alameda County saw a much smaller decrease in those at the lower education levels (close to eight percent) and nearly the same increase in the higher education levels. During the same time period, Santa Monica experienced an over 27 percent decrease in the lower education population with a nearly 10 percent gain in those with higher education levels. Both the populations in the lower and higher education levels in Los Angeles County increased by about four percent. Overall, in the 1980s, the rent control cities experienced greater declines in lower education levels and similar or higher increases in the higher education levels compared to their respective counties. This supports the gentrification assumption.

During the 1990s, the cities and counties saw similar trends as the previous decade. Berkeley lost about 15 percent of the population with high school diplomas or less while Alameda County saw close to one percent growth in this group. The lower education population in Santa Monica decreased by nearly 28 percent, and its home county saw a close to four percent increase in this group. Berkeley and Alameda County both experienced increases in the population with Bachelor's Degrees or higher at nearly six and seven percents, respectively. Santa Monica and Los Angeles also both saw gains in the higher education group, however Santa Monica saw over 12 percent growth while Los Angeles County was much lower at close to three percent. The period from 1980 to 1990, like the previous decade, offers support for the assumption that rent control may promote gentrification at the expense of some in the lower-educated communities.

Over the twenty-year period, both rent-controlled cities as well as their respective counties saw increases in the population with Bachelor's Degrees or greater. Berkeley and Alameda County experienced similar increases at about 12 and 14 percents, respectively. Santa Monica saw a much larger gain than Los Angeles County. While Santa Monica's higher education group grew over 22 percent, this same group in Los Angeles County increased about seven percent. The percent of population with lower educational attainment level fell in Berkeley and Santa Monica, but increased in Los Angeles County and decreased at a slower rate in Alameda County. This population group in Berkeley

decreased nearly 38 percent, while Alameda County experienced a significantly smaller decrease of close to seven percent. The differences between Santa Monica and Los Angeles County are much greater. The population with a high school diploma or less decreased approximately 48 percent in Santa Monica, but increased by nearly eight percent in Los Angeles County. In total, over the last twenty-years, the rent control cities have seen large percent decreases in portions of their populations with a high school diploma or less, while the counties have seen percent change increases or slower rates of decline. Further, the higher education population has increased at a similar or much larger rate in the rent-controlled cities compared to their respective counties. It is important to note that Berkeley is home of a large university, however this does not appear to have a large effect on the findings related to educational attainment between 1980 and 2000.

Although Alameda and Los Angeles Counties have steadily increased the number of college graduates over the twenty-year period, the college graduate numbers are increasing at a disproportional rate for Berkeley and Santa Monica. In relative terms, the rent control cities have put together impressive upper-educational gains coupled with relative decreases in their lower-educational attainment populations. These are both potential signs of gentrification within the two rent control cities.

Educational Attainment Conclusion

Conclusion: Educational attainment patterns illustrate the potential effects of rent control and show that the ordinances may promote gentrification to the detriment of the lower-educated population.

The rent control laws in Berkeley and Santa Monica appear to produce an overall population more likely to be college graduates than high-school graduates or lower in comparison to Alameda and Los Angeles Counties. These findings follow the assumption that rent control promotes gentrification at the expense of less educated within a population. There exists a large educational attainment gap between Berkeley City and Alameda County as well as between Santa Monica and Los Angeles County. Overall, the two rent control cities have a much higher proportion of their population with college degrees and, presumably, with higher income levels, than in the counties they reside. Additionally, the rent control cities have experienced large percent decreases in portions of their populations with a high school diploma or less, while the counties have seen percent change increases or slower rates of decline. These findings, along with the city-county gaps within the lower-educated populations, suggest that rent control may lead to gentrification at the expense of some among the lower-educated communities. It is clear that the populations within the rent-controlled Cities of Berkeley and Santa Monica are becoming, in relative terms, increasingly better educated than in Alameda or Los Angeles Counties.