



The Effect of Rent Control on New Housing Supply: A Bay Kenneth

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on their investment.

- Rent control may limit new construction if there is no exemption for newer properties, or if the exemption provides only a short or a rolling timeline.

Spotlight on Rent Control in New York

Given the wide range of control policies over time and across jurisdic-
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evolved over time through a spotlight on rent control in New York.

- Following numerous changes in prior decades, currently two types of rent-regulated units exist in New York City: rent controlled and rent stabilized.
- In June 2019, the New York State Legislature in Albany enacted the Housing Stability and Tenant Protection Act (HSTPA), which
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- The 2015 law applies, to approximately 0.2% of the 11.5 million rental units in New York City, to approximately 300,000 units.

The Effect of Rent Control on New Construction: A Bay Area Case Study

Introduction

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Many tenants choose not to leave their rent-controlled unit because

The impact of rent control on housing supply varies across markets with different regulation stringencies. However, historically, rent control further exacerbated housing shortages over time. Through a misallocation of housing, the conversion of rental units to other uses, and by impeding new development, rent control reduced housing supply across a number of cities within the United States

Spotlight on Rent Control in New York

Given the wide range of rent-control policies over time and across jurisdictions, before delving into the case study of Berkeley, it is

part of the U.S. Emergency Price Act of 1942, which froze all rents at their March 1943 levels in order to prevent any rent increases during the war.¹⁶ Five years later, the Federal Housing and Rent Act exempted units built after February 1947 from all future rent controls. Then, in 1950, the federal rent control system was gradually lifted but states were given administrative power to preserve rent control. The State of New York kept the rent control system but delegated the administration of rent control for New York City, to the city.

Council on Housing, there were more than one million rent-controlled apartments in New York City in the 1970s, and today there are about 27,000.¹⁷

Today, two types of rent-regulated units exist in New York City: rent controlled and rent stabilized. For an apartment to be rent controlled, a tenant or family member must have been living in the unit continuously since July 1971, and the building must have been built before 1947. Families can transfer the unit to another member and preserve the rent-control status. When the unit is vacated, it can become rent stabilized, or removed from regulation altogether if it is in a building with fewer than six units. No new rent-controlled units can be developed. Rent-controlled apartments are still subject to the “maximum base rent” system (referenced above). There is a rent ceiling that landlords are permitted to charge tenants, and the collectible rent can be raised annually until it reaches that maximum level. Under current rent laws, the maximum base rent can increase every two years and the maximum collectible rent is limited to the

In addition, before June 2019, landlords and their family members could remove rent-stabilized tenants from multiple units to use as residences. Under the new rules, landlords will only be able to claim “owner use” for one apartment that must be used as their primary residence. The HSTPA also extended any preferential rent (discounted rent below the legally mandated limit) for the duration of the tenancy, whereas previously, landlords who managed rent-stabilized apartments were allowed to raise the rent to the legally mandated limit when a lease was renewed.²³

Lastly, the law also made co-op or condo conversions harder to achieve, requiring 51% of current residents to agree to the conversion, instead of only 15%. The long-term impact of the Housing Stability and Tenant Protection Act is unknown. However, a report recently released by the National Apartment Association estimated that the properties in New York City affected by the law lost 20% or more of their value immediately following the passage of the bill.²⁴

Case Study of Rent Control in Berkeley and the Bay Area

History of Rent Control in Berkeley

Following the period of national rent controls during World War II, Berkeley implemented rent control through a charter amendment adopted in 1972. Four years later, the California Supreme Court ruled the Berkeley amendment unconstitutional because it did not allow for rent increases following operating cost increases.²⁵ However, the ruling also allowed local government to control rents in order to address serious housing problems. In 1978, a statewide, property tax reform ballot initiative, known as Proposition 13, contributed to new rent-control efforts, as municipalities attempted to ensure that tenants would share in the savings from reduced property taxes.²⁶ In 1979, Berkeley voted to temporarily reduce rents to provide renters with a property tax rebate. Measure I of the proposition required owners to set rents at the level charged in June 1978 and reduce the rents in order to offset the property tax savings. However, owners who needed to make major property renovations could increase rents, if the renovations cost more than the 20% tax savings they retained. On the tenant protection side, the measure prohibited retaliatory evictions.

After Measure I expired at the end of 1979, the Berkeley City Council enacted a new temporary rent law that extended the provisions of Measure I for a six-month period. The new temporary law limited the maximum rent increase during the six-month period to 5% of the lawful rent and ended rent increases based on increased mortgage costs.

In 1980, Berkeley passed the Rent Stabilization and Eviction for Good Cause Ordinance, making rent control laws permanent.²⁷ The law required rent registration and called for the establishment of a Rent

economic environment as a key factor driving both demand for housing and the construction environment. For this demand driver, we focus on payroll employment in the entire six-county Bay Area, which captures the vast majority of the commute radius for workers in the area. Payroll employment in the six Bay Area counties (two metro areas: San Jose and San Francisco-Oakland) averaged 1.2% per year from 1980 to 2019 (compound average growth rate). This measure captures the number of jobs on private and public sector payrolls in the region. It is an effective measure of hiring overtime and is therefore a major factor determining new housing demand. Notably, payroll employment data at the place level are not available. Instead, place-level employment data are limited to resident

Population & Housing Stock Growth						
Place	1980		2019		Compound Annual Growth Rate	
	Population	Housing Stock	Population	Housing Stock	Population	Housing Stock
Alameda	63,400	27,802	81,618	32,800	0.4%	0.6%
Antioch	42,150	15,661	112,423	36,238	2.2%	2.5%
Belmont	24,600	9,953	26,983	10,972	0.3%	0.2%
Berkeley	103,700	46,334	122,358	51,005	0.2%	0.4%
Concord	103,300	39,490	130,435	47,664	0.5%	0.6%
Dublin	14,350	4,133	64,132	23,353	4.5%	4.2%
Fremont	131,200	45,486	233,404	80,462	1.5%	1.5%
Gilroy	21,350	7,218	56,854	18,544	2.4%	2.5%
Half Moon Bay	7,300	2,726	12,480	4,876	1.5%	1.4%
Hayward	94,000	35,870	160,197	50,446	0.9%	1.4%
Hercules	5,500	1,843	25,488	8,693	4.1%	4.0%
Larkspur	11,150	5,590	12,331	6,312	0.3%	0.3%
Livermore	48,450	16,637	91,436	32,165	1.7%	1.6%
Los Gatos	26,450	10,971	30,720	13,461	0.5%	0.4%
Menlo Park	25,800	11,541	35,454	13,853	0.5%	0.8%
J fiiS^iibv	13,050	5,636	14,743	6,558	0.4%	0.3%
Milpitas	37,400	11,659	76,211	26,538	2.1%	1.8%
Morgan Hill	16,800	5,566	45,745	15,361	2.6%	2.6%
J l r k q ^ f k d S f b t	58,300	28,576	81,639	39,855	0.9%	0.9%
Newark	32,100	9,460	48,164	15,303	1.2%	1.0%
Oakland	339,300	150,274	430,753	186,085	0.5%	0.6%
Pinole	14,250	5,067	19,563	6,950	0.8%	0.8%
Pleasant Hill	25,500	10,140	34,286	14,045	0.8%	0.8%
Pleasanton	35,250	11,665	79,392	30,198	2.5%	2.1%
Richmond	74,100	29,082	110,793	40,389	0.8%	1.0%
San Carlos	24,800	10,350	29,652	12,161	0.4%	0.5%
San Francisco	679,400	316,608	891,021	397,828	0.6%	0.7%
San Jose	622,800	216,653	1,047,871	330,915	1.1%	1.3%
San Leandro	64,100	28,086	88,296	32,443	0.4%	0.8%
San Mateo	77,700	34,268	103,569	41,096	0.5%	0.7%
San Rafael	44,900	19,200	60,259	24,094	0.6%	0.8%
Santa Clara	86,900	34,858	127,401	53,593	1.1%	1.0%
South San Francisco	49,300	18,020	67,221	22,216	0.5%	0.8%
Sunnyvale	106,400	44,021	155,766	61,224	0.8%	1.0%

Note: Bold represents rent-controlled places.
Sources: Census, RCG

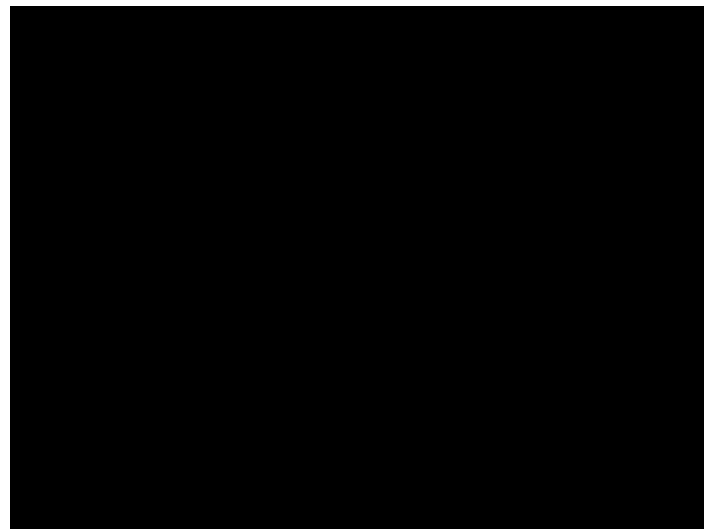
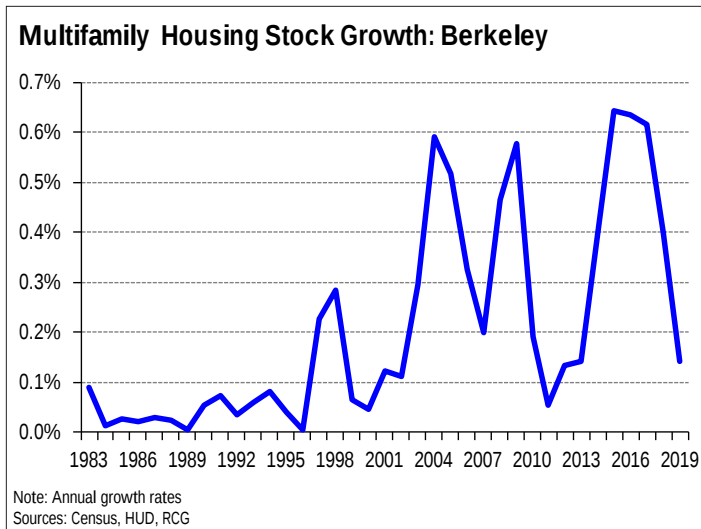
growth is also 1.2% per year, both matching the average employment growth rate in the Bay Area. There is, however, considerable variation in the growth rate of housing stock and population by place. The maximum growth rate for housing stock is 4.5% per year, and for population the maximum is 4.2% per year (both represent Dublin in Alameda County). The minimum housing stock growth rate was 0.2% per year in Berkeley (also in Alameda County); and for population, the minimum growth rate was 0.2% (Belmont in San Mateo County). See the nearby table.

In total, the 34 places in the sample accounted for 4.7 million of the 6.7 million residents in the Bay Area; that is, the sample consists of places with 70% of the regional total population. The places provide a good representation of both slower-growing, more mature places (San Francisco, Oakland, and Berkeley) and faster-growing, newer communities (Dublin, Hercules, and Pleasanton). Although the place pbib`qf l kd` t ^pkl qda l kbd l kd` qpqo`qf`baip` j mifkdl` ^pfp)`d` t bd` bifsbd`e`qf` the places in our sample not only cover most of the region in terms of population, but also fully represents the diversity of growth and economic conditions across the Bay Area so that the conclusions of the study are not biased because of our sample selection.

In order to capture the location of residential construction across places in the sample, our analysis incorporated population density as another supply determinant. In any given economic or demand environment, existing density is a factor that contributes to where _rfiabopd`e l l pbdq l d` _rfiad`^kad` t ebobdmb l mibd`e l l pbdq l d` ifsb`d` Pmb` f`-cally, density data were prepared using the number of square miles in each sample place as of 1990 and then dividing population in the place at each point in time by that area. The calculation gives us a time series of population per square mile by place. This represents ^d` j labpqd` pf j mif` ^`qf l kd` ^pdm` ^` bpd` a l d` p l j bqf j bpd` ^kkbu` d` i` ^kad` ^kad` become larger entities over time. We did not pursue changes in land area for all of our 34 sample places for the 39 years in the sample period. Instead, we used the 1990 land area as reported by the Census and held that metric constant throughout the entire time interval.

Next, the research considers the cost of housing over time, a factor that is necessarily linked to the demand-supply balance. In this case, collecting the data at the place level resulted in some

both multifamily and total housing permits) before and after these two dates, and, if so, where.



multifamily building was at a virtual standstill in the pre-Costa-Hawkins period.

Second, for the entire sample of places, housing-stock growth averaged more than twice as fast in non-rent-controlled places as compared with rent-controlled places. Population growth, likewise, was nearly twice as fast in non-rent-controlled places (see the nearby chart). In most cases, rent control was instituted in places that are

First, it is informative to examine the growth of housing stock in Berkeley due to multifamily permits (see the nearby chart). Because of the volatility in the series, we calculated the two-period moving average in an effort to smooth out some of this volatility. Still, even the two-period moving average exhibits a great deal of volatility. However, a cursory glance at this chart for Berkeley shows that

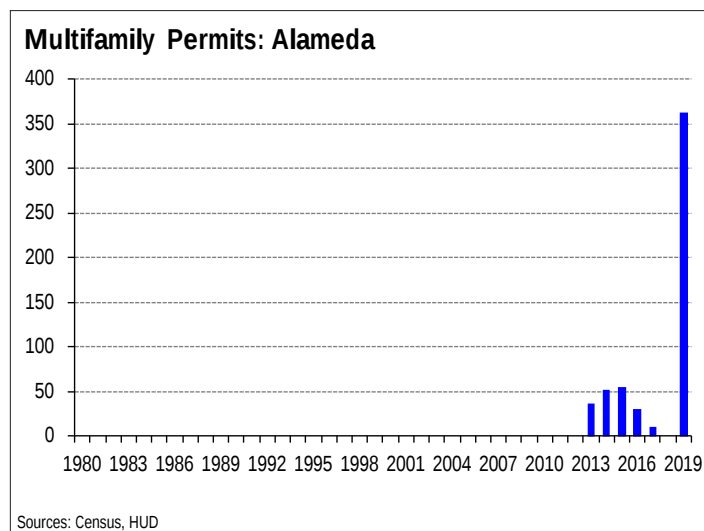
1995 cutoff separating the pre- and post-Costa-Hawkins periods,

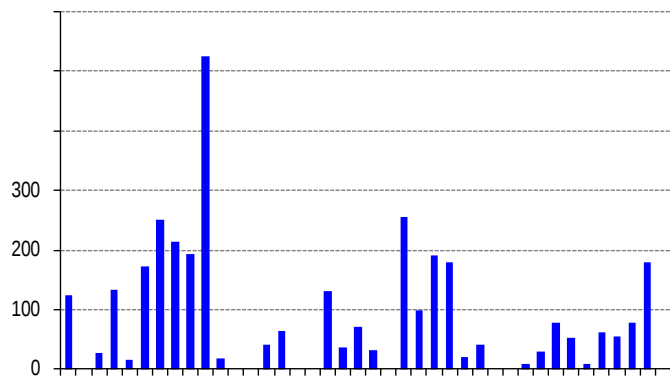
what rent-control actions could and could not be taken at the local level. These factors—stable new construction exemption dates, more certainty and more leniency in rent control with less room for local overrides, and vacancy decontrol—resulted in a positive impact on multifamily construction during the post-Costa-Hawkins period in four out of the six rent-controlled places in the Bay Area.³⁵

For the other two rent-controlled places—Hayward and Los Gatos—the rent-control dummy variable was not statistically different from zero using either the 1995 or 1999 cutoff dates. However, this result was largely to be expected because these places have relatively weak forms of rent control, which would have been much less impacted by the rule changes resulting from the Costa-Hawkins legislation. Not surprisingly, the other demand and local factors in the model seem to effectively explain much of the trend in multifamily construction growth in these cities, and the remaining variation in multifamily construction during the Costa-Hawkins periods for those two places.

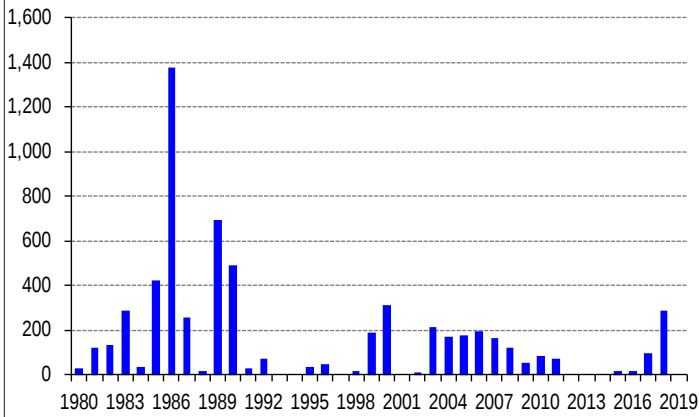
After accounting for the structural and local factors affecting multifamily construction, the magnitude of the impact on multifamily construction during the Costa-Hawkins periods is small. For example, as a result of this model, we estimate that as of 2019,

Appendix A



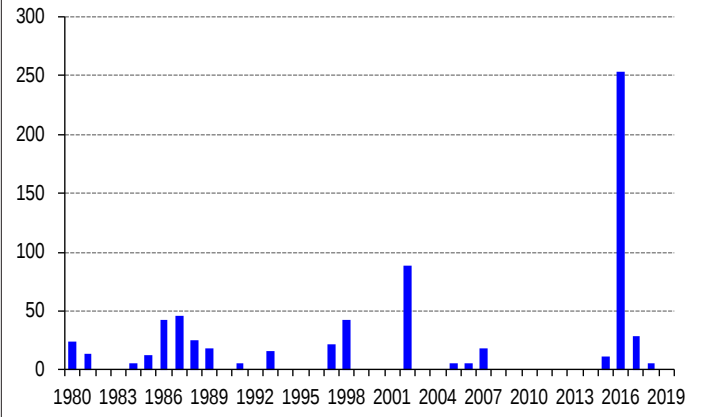


Multifamily Permits: Richmond



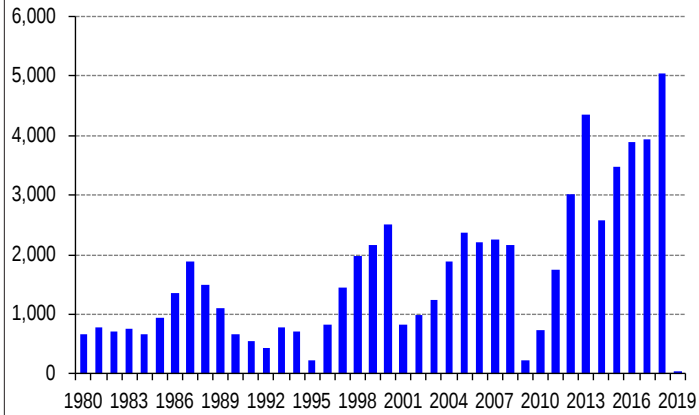
Sources: Census, HUD

Multifamily Permits: San Carlos

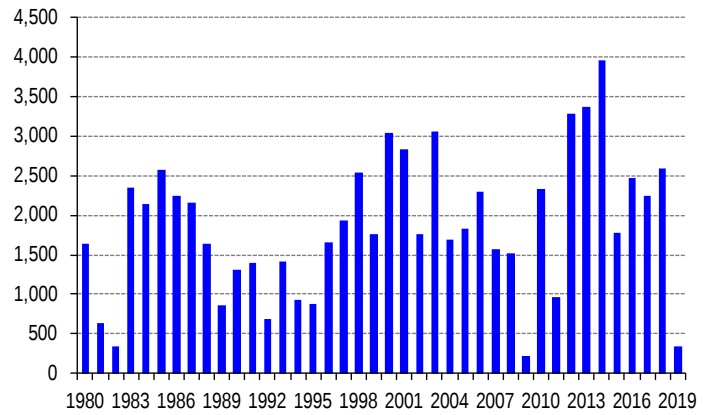


Sources: Census, HUD

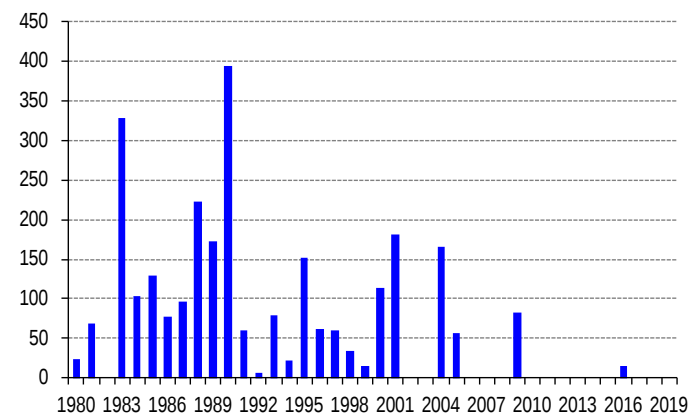
Multifamily Permits: San Francisco



Sources: Census, HUD

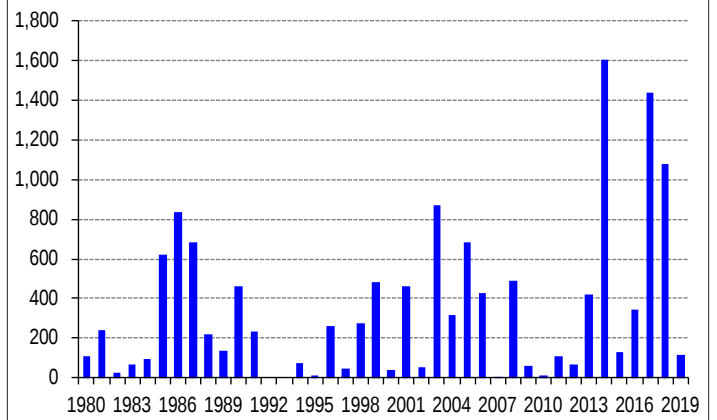


Multifamily Permits: San Rafael



Sources: Census, HUD

Multifamily Permits: Santa Clara



Sources: Census, HUD, HUD

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- ²⁸ Institute of Governmental Studies Rent Control in California: Responding to the Housing Crisis. 1983. California Agencies. Paper 410. Retrieved from: http://digitalcommons.law.ggu.edu/caldocs_agencies/410
- ²⁹ Planning and Development Department at the City of Berkeley, 1998.
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- ³¹ Rosen, 2018.
- ³² City of Berkeley. Rent Stabilization Board: Tenants. Retrieved from: https://www.cityofberkeley.info/Rent_Stabilization_Board/Home/Tenant_Page.aspx
- ³³ [K^qfIk^id>m^oq j b k q d > p p l ` f ^ q f l k ^ d Q b k ^ k q d M o l q b ` q f l k d > ` q d l c d / - . 6 ^ d K l s b j _ b o d / - . 6 ^ d O b q o f b s b a d c o l j 7 d e q q m p 7 , , t t t + k ^ e n + l o d , p f q b p , a b c ^ r i q , « i b p , k ^ ^ * documents/naa_-_tenant_protection_act_of_2019_ab_1482.pdf](https://www.cityofberkeley.info/documents/naa_-_tenant_protection_act_of_2019_ab_1482.pdf)
- ³⁴ [@ f q v d l c i ? b o h b i b v i B s f ` q f l k d M o l q b ` q f l k p d c l o d O b k q b o p d P q o r d d i f k d i C o l j d @ L S f A * . 6 ^ d O b q o f b s b a d c o l j 7 d https://www.cityofberkeley.info/City_Manager/Press_Releases/2020/](https://www.cityofberkeley.info/City_Manager/Press_Releases/2020/)
- ³⁵ Note: as previously mentioned, the analysis excluded from the rent-control category those places which instituted rent control in 2016, although these places remain in the sample for the analysis.