

**THE DISTRIBUTIONAL IMPACT
OF RESTRICTIVE RENT CONTROL PROGRAMS
IN BERKELEY AND SANTA MONICA, CALIFORNIA**

A paper prepared for presentation at the
1993 Conference of the
Western Economic Association on June 23, 1993
at Lake Tahoe, California

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ABSTRACT

This paper reports on research using 1980 and 1990 Census data to examine the demographic impacts of the restrictive rent control programs in effect in Berkeley and Santa Monica, California throughout the 1980's. The 1980 - 1990 Census decade coincides with the first decade of these two fundamentally similar programs, allowing meaningful analysis of the effects of restrictive rent control (in combination with other "progressive" housing programs) on rental housing and vulnerable population subgroups. Relevant demographic variables are examined for each city, for the surrounding counties, the surrounding SMSAs, for the State, and for ten comparably-sized northern California cities and ten comparably-sized cities in Southern California. The study demonstrates that these programs were associated with a reduction in the stock of rental housing of more than 10% in Berkeley and Santa Monica over the decade. There were also major reductions in the numbers of some of the same subgroups targeted for assistance by "progressive" housing policies: low income households, college students, elderly persons, families with children, and disabled persons. Tight and shrinking housing markets seem to favor economically advantaged individuals and households. The evidence suggests that a public choice model characterizing rent control (along with growth control, down-zoning, "neighborhood preservation", eviction control, blight control, and other "progressive" housing programs) as an exclusionary program promoting accelerated "gentrification" of host communities may be correct.

1. INTRODUCTION

Until recently, the progressivity of rent control was accepted without question. It seemed obvious that renters, as a class, were relatively poor, that owners of rental property were at least relatively wealthy, and that a program redistributing income from property owners to renters would therefore benefit the poor. No one asked whether rent control might occasion a tradeoff between the availability of housing in rent control communities for needy and not-so-needy households.

The public choice and rent-seeking literature of the past two decades, however, has given economists and others good reason to question whether the intended impacts of economic regulation are in fact achieved.¹ The ability of free markets, including free political markets, to engulf regulatory programs within a larger dynamic and turn outcomes to unexpected ends is now well-recognized. The fact that articulated regulatory purposes may not express the covert intentions of the majority or of major interest groups has also been established in many contexts.

Guided by these perceptions, a study was performed to explore the socioeconomic and demographic impacts of the rent control programs found in Berkeley and Santa Monica, California over their first decade, using 1980 and 1990 Census data.

The findings are striking. The evidence seems to indicate that restrictive rent control programs, as they operate in practice, contain significant biases against the interests of many of the same groups formally targeted for assistance by the legislation: families with children, the elderly, college students, the disabled, and lower income households. The numbers of households in these groups, including households receiving public assistance, households with below-poverty incomes, blue collar workers, and less educated persons, **decreased** in these cities over the decade examined. The numbers of households with upper incomes, having professional and managerial employment, having better educations, and not receiving public assistance, on the other hand, **increased** in these cities over the same decade. These patterns contrasted sharply

Consistent with the loss of units, there were population losses among renters. The number of renters fell in Berkeley by 7,014, 14% of the 1980 renter population, and in Santa Monica by 6,422, or 10%, while the number of renters increased in comparison communities by 6% to 77%. The contrast between Berkeley and Santa Monica and the comparison communities is not simply a reflection of the growth of the comparison communities and the lack of growth in Berkeley and Santa Monica; the proportion of renters fell in both cities over the decade, although the proportion of renters is rising in most comparison communities.

Furthermore, the loss of renters was more severe than the loss of rental housing, reflecting density choices of renters themselves. Renters in Berkeley and Santa Monica by the end of the first rent control decade used space less intensively than they had before and less intensively than renters use space in the comparison communities. Renter density (persons per household) fell in Berkeley and Santa Monica by 1.9% and 5.8%, while renter density rose in the Bay Area SMSA and the Los Angeles-Long Beach SMSA by 8.3% and by 17.5%..

Also, and more significantly, losses in renter population were not distributed equally over all sub-groups. The numbers of less advantaged households diminished in number in Berkeley and Santa Monica, while the numbers of more economically advantaged households increased significantly in both cities, patterns not repeated in other communities, where proportions of less advantaged and more advantaged sub-groups remained roughly stable over the decade. Only in Berkeley and Santa Monica were less advantaged populations replaced by more advantaged populations.

The number of very low and low income households decreased in Berkeley by 2,229 and in Santa Monica by 882, whereas the number of very low and low income households increased in virtually every comparison community.⁹ The percentage of low and very low income households decreased in Berkeley from 58% to 54% and in Santa Monica from 42% to 39%, while the percentage fell a half percent (from 39.6% to 39.2%) in Northern California and rose (from 35% to 40%) in Southern California. Meanwhile, the numbers of high and very high

income households increased in Berkeley by 1,309 and in Santa Monica by 2,451.¹⁰ As a result, the median income in Berkeley and Santa Monica rose by more than the increase in median income in any of the comparison communities.¹¹

There is no evidence that rent control is producing discrimination against racial or ethnic minorities: minority populations increased during the 1980s in Berkeley and Santa Monica much as they increased elsewhere in California. On the other hand, there is also no evidence that rent control favors racial or ethnic minorities, contrary to the assertions of the progressive hypothesis.

The number of college students renting in Berkeley fell by 748 between 1980 and 1990, a decline of 2.3%. This decline in the college student population contrasts sharply with increases in the numbers and percentages of college students in all comparison cities. Santa Monica experienced a small increase in the proportion of college students among renters, but this increase was far smaller than the increase in all but one of the comparison cities.

Supplemental data from the University of California Housing and Transportation Surveys for 1980 and 1990 reveal that the loss of college students was particularly high among students attending the University of California at Berkeley, a loss to some extent offset by a gain in the number of other college students living in Berkeley. These data indicated that there were 1,574 fewer U.C. Berkeley students living in Berkeley in 1990 than were living in Berkeley in 1980, a decline of 5%, despite a small increase (29,868 to 30,620) in the U.C. Berkeley student enrollment over the decade.

The Housing and Transportation Survey data also reveal that those U.C. Berkeley students who do live in Berkeley do not, in fact, receive the expected subsidy from rent control. First, only 52.2% of U.C. Berkeley students living in Berkeley live in rent controlled units, whereas 76% of all rental units are rent controlled. (Many U.C. students live as roomers or boarders in private homes, a living arrangement exempt from rent control.) Second, the average rent paid

by U.C. students living in Berkeley increased during the decade by 311%, far more than the increases allowed under rent control (76%). It appears likely that students are moving into uncontrolled housing, and that those students who do have controlled housing have fewer roommates than they had in 1980, raising the effective rent per student.

Berkeley's and Santa Monica's general plan housing elements say that rent control assists elderly persons. This does not appear to be the case, however. While the elderly population in California as a whole grew during the decade by nearly 30%, the elderly population of Berkeley increased by only 1%, and the elderly population of Santa Monica decreased by nearly 2%. In contrast, the elderly populations of the comparison cities increased in all cases, by amounts varying from 3% to 60%.

Disabled persons were able to find housing in Berkeley during the 1980's, but not in Santa Monica. Santa Monica had 19% fewer work-disabled persons in 1990 than in 1980, despite a decline of only 1% in Los Angeles County and an increase of 11% in California as a whole. In Berkeley, there was a 6% increase in the work-disabled population, the same as the increase in the Bay Area SMSA. Berkeley is the home of the Center for Independent Living and has pioneered in steps making the city "barrier-free". It seems that the negative impact of rent control on housing opportunities for disabled persons has been effectively offset by other programs favoring disabled persons. In Santa Monica, on the other hand, disabled persons have fared badly in the scramble to find scarce rental housing.

Female headed households with children under 18 declined in Berkeley by 24% and in Santa Monica by 27%. Meanwhile, the numbers of these households increased in the SMSAs and in California as a whole. Some of the comparison communities experienced a decrease in the number of female headed households with children, but no comparison community in Northern California had a decrease as large as the decrease in Berkeley and only one comparison community in Southern California had a decrease larger than the decrease in Santa Monica. It would appear to be the case that rental housing in Berkeley and Santa Monica has become

relatively unavailable to female headed households with children. It certainly is not true (as the housing elements promise) that Berkeley and Santa Monica are making their communities receptive to this category of household.

The progressive hypothesis identifies a major purpose of rent control as prevention of "gentrification" of the population. Taking education as an indicator of gentrification, Berkeley and Santa Monica added highly educated persons along with increases in education levels throughout California. But only in Berkeley and Santa Monica were there consistent, major decreases in the number of persons with high school and less than high school educations. Berkeley experienced a 28% decrease in its less well educated population and Santa Monica experienced a 27% decrease. Meanwhile there were increases in the numbers of less well educated persons in L.A. County, in California as a whole, and in most of the comparison communities.¹²

As to employment, Berkeley and Santa Monica in 1990 had more managerial and professional employees than they had in 1980, and fewer blue collar employees, although blue collar employment increased in both SMSAs and in the State as a whole. Berkeley experienced the third greatest loss of blue collar employees in the Bay Area; Santa Monica experienced the greatest loss of blue collar employees in the L.A. area. Berkeley and Santa Monica experienced far greater increases in the ratio of managerial/professional to blue collar employees than any of the comparison cities.

The number of poverty level households fell in Berkeley (-20%) and Santa Monica (-9%), while the number of households with below poverty income rose in L.A. County (+9%) and in California as a whole (+15%). Half of the comparison communities in Northern and Southern California also experienced a decrease in below poverty households, while the other half experienced an increase. The number of poverty level households decreased in the Bay Area by 5%.

The number of households receiving public assistance income fell in Berkeley (-13%) and Santa Monica (-20%), while the number of households receiving public assistance income rose in the Bay Area (+6%), the L.A. area (+5%), and in California as a whole (+18%). There were declines in the numbers of households receiving public assistance income in four out of ten Southern California comparison cities and in two out of ten Bay Area comparison cities. The declines in the six comparison cities that had declines were far smaller (-2% to -8%) than the declines in Berkeley and Santa Monica.

Meanwhile, the proportion of the local population earning twice the poverty level rose in Berkeley (+12%) and Santa Monica (+6%), although it fell in L.A. County (-3%), rose by only 2% in the Bay Area, and didn't change in the State as a whole. Several of the comparison cities in Northern and Southern California experienced increases in the proportion of the population earning twice the poverty level, but none so great as in Berkeley and Santa Monica.

5. CONCLUSIONS

The results suggest that the rent control programs in effect in Berkeley and Santa Monica between 1980 and 1990 created conditions inhibiting housing opportunities for economically marginal or needy households while facilitating housing opportunities for advantaged households. Contrary to the intent stated prominently in their General Plan Housing Elements, Berkeley and Santa Monica are becoming more exclusive communities. It is clear that "gentrification" is occurring in Berkeley and Santa Monica, either because of or in spite of their rent control programs. The results tend to confirm the academic models and to deny the validity of the progressive hypothesis.

Establishing the motivation behind the enactment of rent controls, or to predict future outcomes, is more problematic. It is possible that those who voted for rent control thought only about the pocketbook impact, and that the actual demographic outcomes are wholly unexpected, an accidental result of the reactions of the economic agents impacted by the

controls. The following story would then apply:

Tenant majorities may under some political conditions (perhaps involving predominant student and/or elderly populations) come to see that their economic interest argues in favor of restricting the permissible increases in rents. Rental property owners in the years following the enactment of such legislation react by withdrawing marginal units from the rental market, using those units for purposes having higher economic (or personal) value. Economically secure tenants are more successful than economically marginal tenants in gaining entry into the tight housing market that then develops, so that, gradually, the balance among renters shifts to the relatively well-off, well-educated, and well-employed.

But the rent control programs in Berkeley and Santa Monica were passed amidst considerable, convincing argument about the need to assist the poor. It was said that, absent rent control, Berkeley and Santa Monica would become "gentrified", at the expense of the poor. It was said that rent control was crucial if the ethnic, cultural, and economic diversity of these cities was to be preserved. Was this mere rhetoric, window-dressing to make politically palatable a program involving outright theft from property owners and base, pocketbook interests of middle class tenants? Or were voters sincere in wanting to help the poor? The data examined in the study shed no light on this question. But now that the evidence is available, and assuming that it is made known to politicians and to the electorate, an answer may emerge in ensuing elections. If a majority of the electorate truly value assistance to poor renters, it would seem that modifications to rent control would be enacted which promise a reversal of the regressive trends revealed within the first rent control decade.

One likely possibility is that rent controls are most likely to be enacted when a coalition is formed between tenants desiring rent control subsidies and homeowners with a social conscience who believe the pro-rent-control rhetoric about helping the poor. If information reaches the electorate about the actual impacts of restrictive rent control, the social conscience rationale may become ineffective; pocket-lining will become the only reason for voting for rent controls. If tenants are in the majority, it is quite possible that information about the actual impacts will effect no change. In this case, demographic changes will cause gradual movement

towards a new political equilibrium.

In Berkeley, for example, tenants were in the minority in the 1950s, came into the majority with the construction of many apartment buildings in the 1960s, and retained a substantial (62-38) majority at the inception of rent control in 1979. The tenant majority was eroded during the first rent control decade, to 56-44 in 1990. If the erosion continues at the same rate during the 1990s, a likely happening if rent control continues its restrictive course, homeowner and tenant populations will be 50-50 before the turn of the century. If this occurs, a whole new political dynamic will emerge. No longer will rent control dominate local political discourse; issues of importance to homeowners (police protection? street maintenance? schools?) will predominate instead.

Given that owners vote more consistently than tenants, it is likely that revelations about the actual impacts of rent control on the poor will have an impact prior to tenants and owners coming into demographic balance. Indeed, changes are happening today in Berkeley reflecting the public's impressions about rent control and its impact on civic issues. Already, rent control as it was known in the 1980s has been modified. Already it appears that the political coalition that brought rent control to Berkeley in the 1970s has fallen apart, and that another dynamic is now driving Berkeley politics.

In Santa Monica, on the other hand, where the tenant majority, although eroded from 70% to 63%, is still predominant, no meaningful change is in evidence. Politics in Santa Monica are still dominated by Santa Monicans for Renters Rights (SMRR), the political coalition which brought rent control to the city in 1979. The rent control program is as restrictive in 1993 as it was in at its inception. Demographic changes similar to those evident in Berkeley - including transfer of units from renter-occupancy to owner-occupancy - is continuing, but it may be several years before the demographic shift causes a real shift in the politics affecting rental housing.

ENDNOTES

1. See Stigler, Downs, Posner, Buchanan, Peltzman.
2. The following is derived from a close reading of the Housing Elements, Rent Control Ordinances, and Comprehensive Housing Affordability Studies of Berkeley and Santa Monica.
3. Economists articulating the economic model in a rent control context include Cheung (1974, 1975), Smith & Tomlinson (1981), Smith, Rosen, & Fallis (1988), Rydell et al (1981), Olsen (1972), Hayek (1972, 1975), Friedman & Stigler (1946), Downs (1988), Fallis & Smith (1984), Hirsch (1988), Baird (1980), Lindbeck (1967), among several others.
4. See Roulac (1976), Pyhrr et al (1989).
5. The private rental housing market did disappear, for all practical purposes, in Britain, Israel, and several other nations following long periods of restrictive rent control. Rental Housing in New York City has not disappeared, but 300,000 units of rental housing were lost in the 1960s and 1970s (Salins, 1980).
6. Public choice theorists whose work is relevant in this context include Tullock (1967), Olsen (1965), Buchanan et al (1980), Downs (1957), Stigler (1971, 1975), Peltzman (1976), Posner (1974), and Mueller (1989).
7. Data was also collected for California as a whole, for the cities adjacent to Berkeley and Santa Monica, and for the Census Tracts within and surrounding the two subject cities.
8. There are six cities in California which would, by this definition, be called "restrictive": Berkeley, Santa Monica, West Hollywood, East Palo Alto, Cotati, and Palm Springs.
9. The categories "low income" and "very low income" are the HUD categories: 50% to 80% of median for the region and less than 50% of median for the region.
10. While HUD uses the income categories "very low, low, moderate, and high", this study used a finer breakdown of the top category - "high and very high" - making five categories. In both Berkeley and Santa Monica it is the "very high" group, those earning more than 200% of the median for the region, that increased most rapidly during the rent control decade.
11. The losses of low and very low income households were mostly losses from the renter population, while the gains of high and very high income households were mostly gains in the owner-occupant population.
12. The numbers of less well-educated persons fell 11% in the Bay Area.

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