PHOTO CREDIT: *Wikimedia Commons*

INLAND EMPIRE OUTLOOK

A Public Policy Journal

Spring 2019

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Housing in the Inland Empire

We begin this issue of the *Inland Empire Outlook* with a snapshot of the Inland Empire housing market (p. 2). Home sales in the region are down by 16.1%, somewhat better than the statewide average of -19%. Prices, however, have not fallen and in San Bernardino County continue to rise.

Even with a slowing market, California continues to be the most expensive housing market in the country. For decades the supply of new homes has simply not kept up with demand. We examine factors that have contributed to choking the state's housing supply (p. 6). Governor Newsom has turned his attention to the supply problem and is threatening to penalize cities for not meeting their housing targets.

We then present an analysis of SB 827, an attempt to force cities to allow high density housing near transit (p. 10). SB 827 did not make it out of committee in the last legislative session. It is, however, back in the form of SB 50.

Our fourth article presents a discussion of rent control (p. 14). Lifting current restrictions on rent control was the focus of the most expensive ballot measure of 2018, Prop 10. Economists largely agree that rent control reduces the supply of rental housing. Nevertheless, in a state where housing availability and affordability are at crisis levels, expanding rent control is a policy supported by many housing advocates.

Finally, this issue marks the nineteenth issue of the *Inland Empire Outlook*. Back issues are now on www.RoseInstitute.org. Please visit our website to find them, along with information on many other Rose Institute projects and local government topics. ♦

IE Housing Market Snapshot

by Adhitya Venkatraman '22

PHOTO CREDIT: Nattanan Kanchanaprat | *Pixabay*

In the decade since the economic collapse of 2008, the Inland Empire's housing market has been characterized by a steady recovery. Prices continue to rise, but the number of sales is down markedly in the past year. The median sale price of an existing single-family home in the Inland Empire was $354,450 in January. That is up 1.3% from one year ago. The median price in Riverside County was $400,000, up 0.7% compared to last January. San Bernardino County showed a larger increase, from $277,000 to $290,000, an increase of 4.7%, more than double the statewide increase of 2.1%.

The California Association of Realtors reports that the volume of home sales is down throughout the state. Forty counties reported a sales decline in January, with an average year-over-year decline of almost 19%. Home sales in the Inland Empire declined by 16.1% compared to one year ago. San Bernardino County was down 19.2% and Riverside County fell 13.9%. Median home prices registered increases each year since 2012 and are expected to continue rising. While median home prices in the Inland Empire are now well over double the 2009 price trough of $150,861, they have yet to reach the pre-recession high of $393,400 from early 2007.

Despite consistent price increases, the Inland Empire is relatively cheap compared to its coastal counterparts. University of California Riverside's Inland Empire Regional Intelligence Report for the third quarter of 2018 shows that the median home price in the Inland Empire is roughly 54% of the median in Orange County and about 48% of the median in Los Angeles County.

MEDIAN SOLD PRICE OF EXISTING SINGLE-FAMILY HOMES

	January 2018	January 2019	Price YTY Change	Sales YTY Change
Riverside County	$397,250	$400,000	0.07%	-13.90%
San Bernardino County	$277,000	$290,000	4.70%	-19.20%
Inland Empire	$350,000	$354,450	1.30%	-16.10%
California	$527,780	$538,690	2.10%	-12.60%

Source: January Home Sales and Price Report, California Association of Realtors, Feb 20, 2019, https://www.car.org/en/aboutus/mediacenter/newsreleases/2019releases/jan2019sales

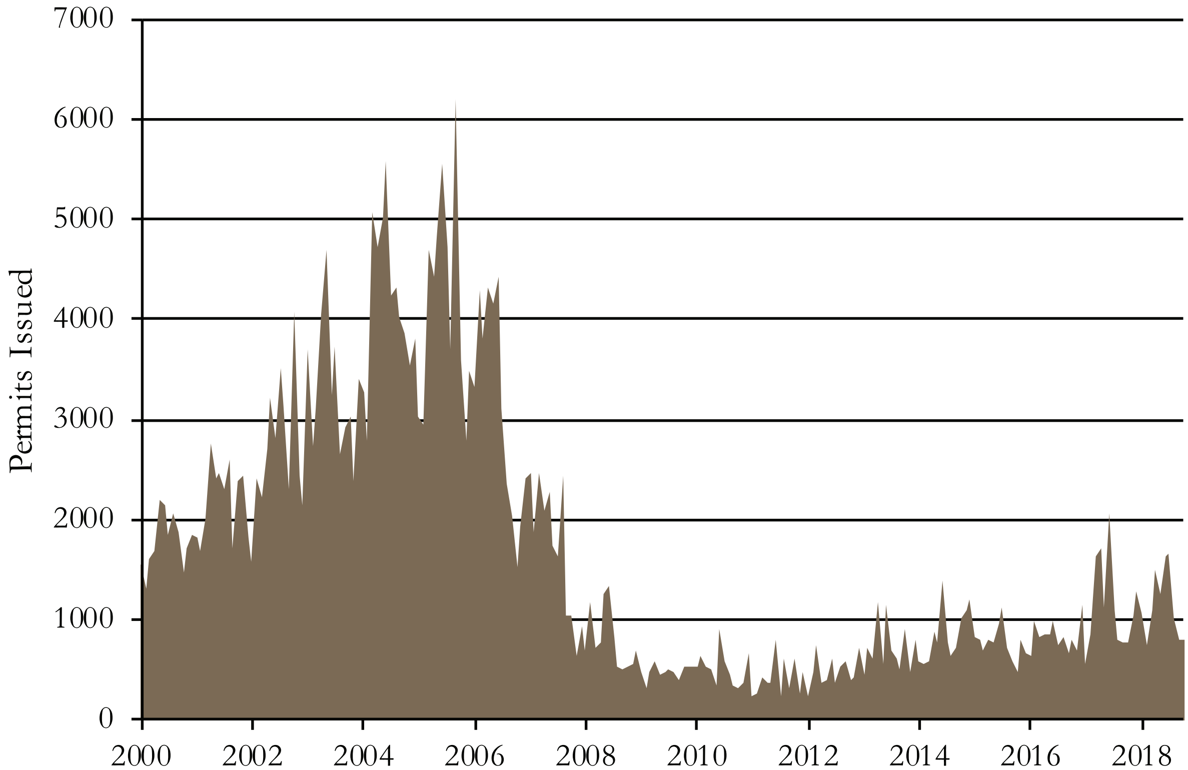
The UCR report shows that rental demand has remained strong in the region. The average vacancy rate was 3.2%, up slightly from one year ago because of the addition of about 560 new units. The average rent was $1,349, up 3.5% from one year ago.

Many Inland Empire families are dealing with rising rents by crowding more people into each rental unit. *The Orange County Register*'s Jonathan Lansner studied 141 heavily populated counties in the United States to calculate the average number of people per rental in each county. He found that San Bernardino County has a density of 3.34 people per rental unit. That is the highest density nationally among the 141-county sample. Riverside County is second, with 3.32 people per rental. Both are higher than Orange County, at 3.09, and Los Angeles County, at 2.86 people per rental. The median among the 141 counties in Lansner's study was 2.46 people per rental unit.

Even in a tight market, the Inland Empire remains a hub for households seeking affordability at the cost of a commute. Expensive home prices in the coastal counties have driven commuters to the Inland Empire for years and will continue to do so. The National Association of Home Builders' Housing Opportunity Index (HOI) for a given area is defined as the share of homes sold in that area that would have been affordable to a family earning the local median income, based on standard mortgage underwriting criteria. There are two major components -- income and housing cost. This index uses the Department of Housing and Urban Development's data to estimate affordability for median family incomes within metropolitan areas.

The HOI assumes that a family can spend 28% of their gross income per month on housing. With respect to the cost of housing, the HOI generates estimates based on the combined value of local property taxes and insurance, an assumed 30-year fixed mortgage for 90% of the sales price, and the weighted average of the interest rate during a given quarter. Using these factors, the HOI creates an ascending scale of affordability, in which the Riverside-San Bernardino-

Inland Empire Historic Permitted Housing Units



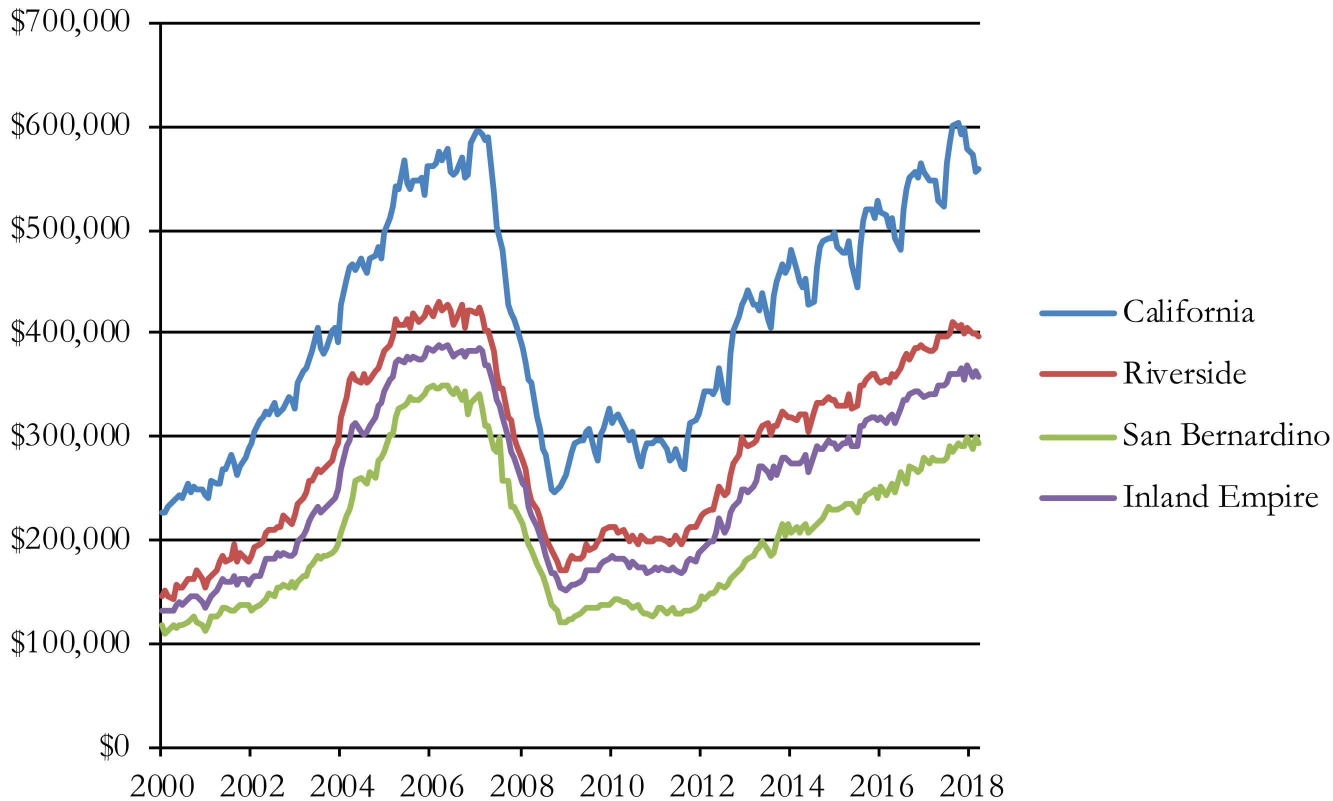
Source: Federal Reserve Economic Data

Ontario Metropolitan Statistical Area (MSA) received a score of 28.8 meaning that 28.8% of homes in the area should be affordable to a family earning the local median income. This is by far the highest score in Southern California. The Anaheim-Santa Ana-Irvine MSA received a score of 9.5, while the Los Angeles-Long Beach-Glendale MSA came in at 7.6, falling far below the sustained affordability of the Inland Empire.

With the region's rapid population growth and high demand from competitive buyers, supply is crucial to maintaining the market's viability. Without a supply of new homes, potential buyers could be put off by prices that are expected to continue rising in 2019. According to the Federal Reserve Economic Data (FRED), the number of new housing units authorized by building permits in the Riverside-San Bernardino-Ontario MSA has increased each year since 2012, with 27,963 permits being issued from October 2016 until October 2018—the most in any two-year span since the start of the recession. However, FRED data also indicates that the number of housing permits being issued remains far below pre-recession levels. From October 2004 until October 2006, 94,578 housing units were authorized.

In spite of the housing market's slow down, economists think that the key difference between the housing market ten years ago and today's market is that current growth is far more sustainable. The California Employment Development Department reported December unemployment rates of 4.1% for Riverside County and 3.8% for San Bernardino County. The unemployment rate in the Riverside-San Bernardino-Ontario MSA was 4.0% in December 2018, up from a revised 3.9% in November 2018, and below the

Inland Empire Historic Median Home Price



Source: California Association of Realtors, Historical Housing Data

year-ago estimate of 4.2%. This compares with an unadjusted unemployment rate of 4.1% for California and 3.7% for the nation during the same period.

Between December 2017 and December 2018, total nonfarm employment increased from 1,499,600 to 1,528,800, a gain of 29,200 jobs. One third of this increase (9,900) was in the government sector, with 8,700 of the new jobs in local government. The trade, transportation, and utilities sector increased by 7,800, the educational and health services sector by 5,900, and the leisure and hospitality sector by 5,800. In contrast, the construction sector lost 1,300 jobs. Agricultural employment also decreased by 2,000 jobs.

Economists at UC Riverside predict that the strength of the local economy, along with safer lending practices and cautious households, has given the housing market a foundation sturdy enough to weather potential economic downturn in the future. ♦

Choking California's Housing Supply

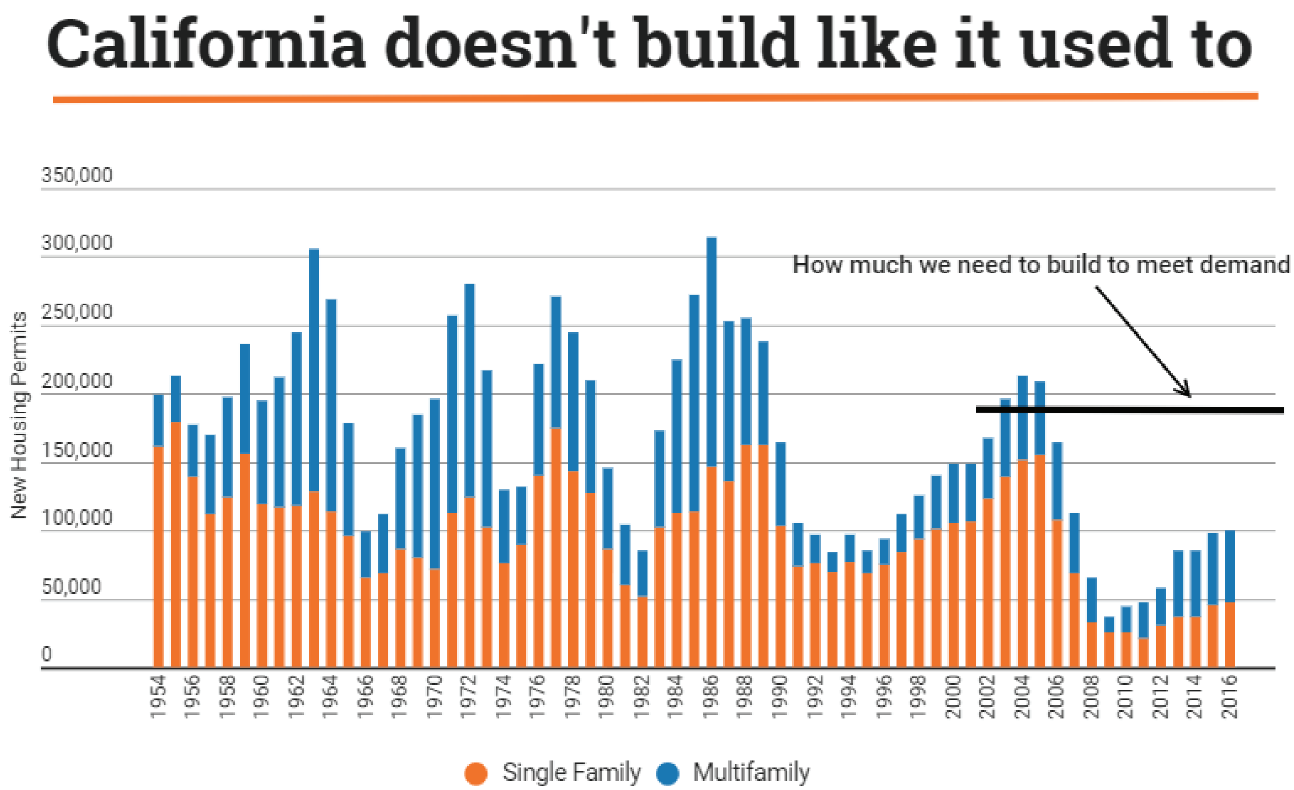
by Joseph Noss '20

PHOTO CREDIT: *Wikimedia Commons*

The median price of a house in California is more than double that of the rest of the country. Prices have skyrocketed as demand has outstripped supply for decades. Experts agree that California has not built enough housing for the people who live here. The California Department of Housing and Community Development estimates that the state needs to build 180,000 new housing units a year. Over the past decade, California has averaged less than half that number.

Next 10 recently published a comprehensive study on the Current State of the California Housing Market. It cites a McKinsey study showing that California has produced less housing per capita than other states. From 2005 to 2014, California built 80% less housing than New York, 29% less than Texas, and 8% less than Oregon.

Why has housing supply fallen so far behind demand? The Legislative Analyst's Office analyzed this question in "California's High Housing Costs, Causes and Consequences," published in 2015. The LAO identifies four contributing factors: community resistance, use or abuse of environmental reviews, local finance favoring nonresidential development, and limited available land to develop in the coastal areas. Although these factors play a larger role in California's coastal cities and counties than the rest of the state, their effects spillover to inland communities. As people are priced out of coastal communities and big cities, they look inland for housing. The LAO writes that "[t]his displaced demand places pressure on inland housing markets and results in higher home prices and rents here." The LAO examined the relationship between housing costs in neighboring counties throughout the country, using U.S. Census data from 1980 to 2010. That analysis found that a 10% increase in housing costs in one county is associated with a roughly 5%



Source: Matt Levin, 5 Reasons California's Housing Costs Are So High, KQED News, May 2018, based on data from the California Department of Housing and Community Development

increase in housing costs in neighboring counties.

Cities and counties generally decide how to regulate development within their jurisdictions. They prepare General Plans that shape long-term development patterns. Local zoning ordinances and building codes specify where housing can built and specify its density, quality, and style. Over two-thirds of cities and counties in California's coastal regions have adopted policies explicitly aimed at limiting housing growth. These policies are known as growth controls. Many regulate directly by capping the number of new homes that may be built in a given year. Other explicit caps may limit housing density or building heights. Indirect limits may take the form of requiring supermajorities to approve housing projects, thus making approval more difficult. The LAO cites a research study that found that each additional growth control policy a community added resulted in a 3% to 5% increase in home prices.

Cities and counties generally require housing projects to be reviewed by multiple departments prior to approval. Independent review by a building department, health department, fire department, planning commission or department, and city council are typical. The LAO notes that this process is usually slower in California's coastal communities, which take about two and a half months longer to issue building permits than most inland communities (seven months compared to four and a half). At every stage of review concerned residents can weigh in. With its long history of citizen activism, California has a high degree of voter involvement in land use decisions.

The LAO study cites CEQA as the second factor that may limit housing development in California. The California Environmental Quality Act of 1970 requires state and local agencies to consider the environmental impact of their decisions when approving a public or private project. Cities and counties must conduct a preliminary analysis to determine whether a project may have significant adverse environmental impacts. If the preliminary analysis finds this may be the case, then the developer will be required to prepare an environmental impact report. This report details the project's likely environmental effects, ways that they might be mitigated, and alternatives to the project. Local governments are prohibited from approving projects which are found to have significant adverse environmental impacts unless one of two conditions is met. Either the project developer makes modifications that substantially lessen the adverse environmental effects or the city or county finds that economic or other project benefits override the adverse economic effects. The LAO notes only four other states have this level of environmental review for private housing development.

The CEQA process can significantly slow down building projects. The LAO reviewed CEQA documents submitted by California's ten largest cities between 2004 and 2013 and found that local agencies took, on average, two and a half years to approve housing projects that required an environmental impact statement. The process provides many opportunities for project opponents to raise concerns. The project cannot advance until all the concerns are addressed, either through mitigation or with a determination by elected officials that the project's benefits outweigh the costs. Even after a local government approves a project, opponents may file lawsuits challenging the validity of the CEQA review.

Environment attorney Jennifer Hernandez co-authored a study in 2015 that reviewed all lawsuits filed over a three-year period between 2010 and 2012. The study found widespread abuse of CEQA lawsuits for non-environmental purposes. "[T]oo often enforcement of CEQA is aimed at promoting the economic agendas of competitors and labor union leaders, or the discriminatory "Not In My Backyard" (NIMBY) agendas of those seeking to exclude housing, park, and school projects that would diversity communities by serving members of other races and economic classes." Hernandez published a follow-up study last year analyzing another three year period of CEQA lawsuits, filed 2013-2015. She found that the top lawsuit targets remained infill housing and local land use plans to increase housing densities and promote transit. This lawsuit abuse inhibits new housing construction and thus contributes to California's supply problem.

The third factor contributing to the supply problem identified by the LAO is that there is limited fiscal incentive for local governments to approve housing development. The financial benefit to California communities is often higher from commercial development than residential. Both types usually generate increased tax revenue in the form property taxes and, for commercial development, sales taxes too. Commercial developments, especially major retailer, auto malls, restaurants, and hotel, typically yield the highest net fiscal benefits. That is because the increased tax revenue often more than pays for the local government's costs to provide them with public services. These services can include things like police and fire protection and the cost of improving infrastructure like roads. Residential development, which generates less tax revenue, makes greater demands in terms of services in the form of schools.

Proposition 13 may also influence local governments to prefer non-residential development. Passed in 1978, Prop 13 capped ad valorem property tax rates at 1% of the value at the time of acquisition. Property tax increases were limited to no more than 2% per year so long as the property was not sold. At the time of a sale, the property value is reset to the new acquisition price. According to California Tax Data, prior to Prop 13, the property tax rate throughout California averaged a little less than 3% of market value. There were also no limits on increases for the tax rate or on individual ad valorem charges. Proposition 13 thus created fiscal incentives for many communities to prefer building retail stores, auto dealerships, and hotels at the expense of housing. The Legislative Analyst's Office published an analysis in 2016 of whether Prop 13 altered local government land use decisions. The study looked at two measures of city development patterns over the last decade: rezoning decisions (changes in the allowable use of land) and building permits. It found little evidence that cities with lower property tax shares set aside less land for housing or built less housing. It also

GOVERNOR'S 2019-2020 HOUSING PROPOSALS (IN MILLIONS)

Proposal	Description	General Fund
Planning grants to local governments	Provides grants to local governments meant to accelerate meeting new short-term housing production goals	$250
Production grants to local governments	Provides general purposes funds to local governments as a reward for reaching "milestones" in their efforts to meet their short-term housing production goals	$500
State Low-Income Housing Tax Credit program	Expands existing state Low-Income Housing Tax Credit program	$300
New state housing tax credit program	Establishes new state housing tax credit program targeting households with relatively higher incomes.	$200
Mixed-Income Loan program	Expands existing program aimed at increasing middle-income housing production	$500
Total		$1,750

Source: The 2019-20 Budget: Considerations for the Governor's Housing Plan, Legislative Analyst's Office, February 2019

found that cities that are more reliant on sales taxes are, at most, modestly more likely to prefer retail over other types of development.

The final factor limiting the supply of housing in California is that most of the demand is in coastal areas and there is limited land available to be developed there. This due to topography (ocean, mountains, etc.), the fact that coastal communities are already extensively developed, and many of those communities choose to put tight limits on any further development. The LAO cites a study (conducted in 2006) that found that less than 1% of land in California's coastal urban communities was developable and vacant. In principal, opportunities still exist to build housing on older and/or underutilized parcels. It may be possible to replace older, lower-density housing with new higher-density housing. These redevelopment projects, however, are difficult and costly. Builders must demolish old structures and may then have to address environmental pollutants. More importantly, proposals for higher density housing often encounter fierce opposition from existing residents.

There are many factors that contribute to the choked supply of new housing in California. Most state programs attempt to address the affordability side of the problem, rather than the supply. Governor Newsom, however, has turned his attention to the supply problem. In his State of the State speech last month Newsom called out cities that fail to meet mandated housing goals. California cities and counties are required to plan for housing for all income levels under the Regional Housing Needs Assessment instituted 50 years ago. There has never been, however, an enforcement mechanism to that process. In January, Governor Newsom, himself a former mayor, sued the city of Huntington Beach for cutting affordable housing units from their general plan. Assemblyman David Chu, chair of the Assembly housing committee, applauded this approach and mused that the lawsuit against Huntington Beach may not be the last of its kind. ♦

SB 827: Down but maybe not out

by Nicholas Sage '20

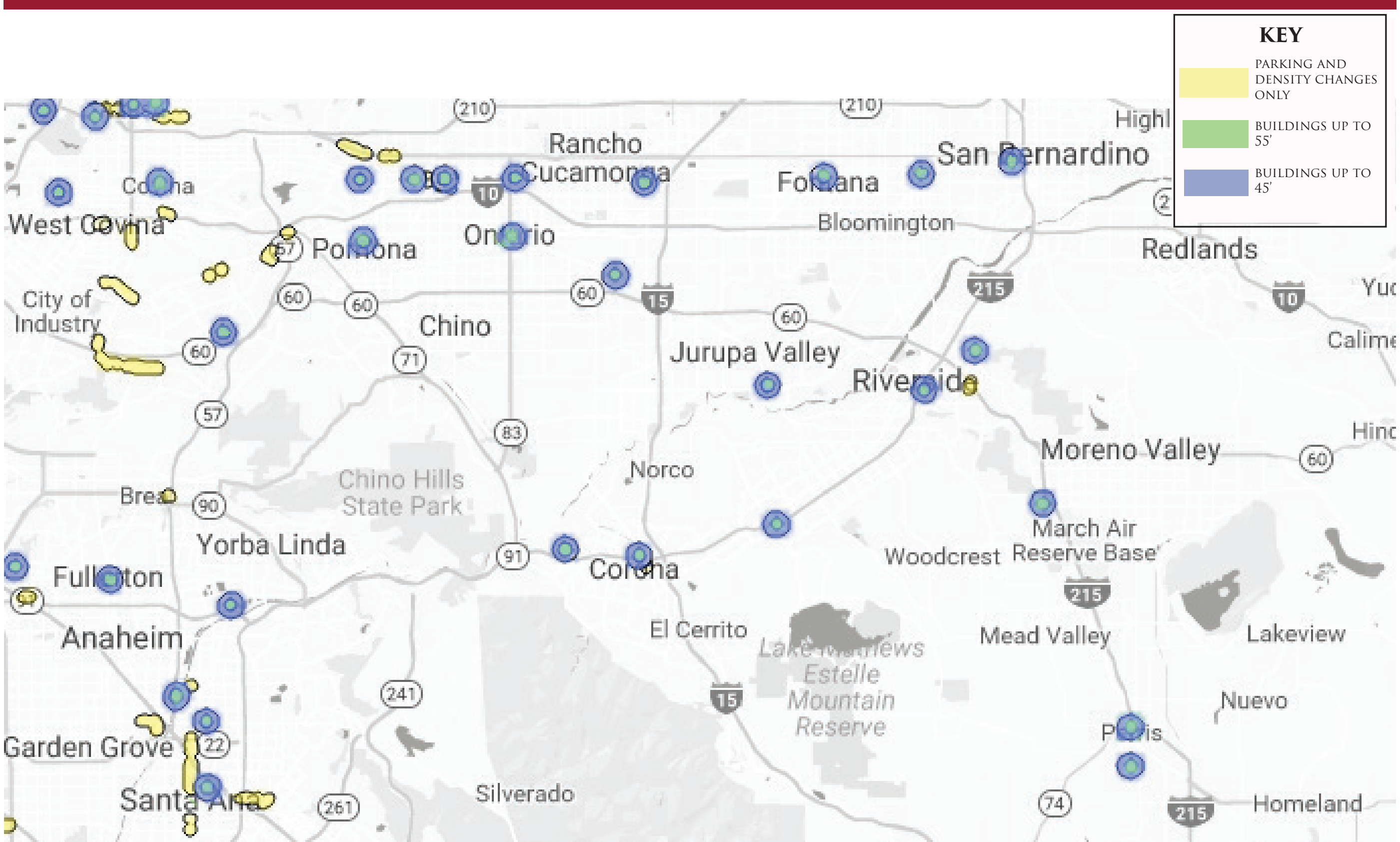
PHOTO CREDIT https://www.realestateconsulting.com/wp-content/uploads/2016/04/

Ranked 49th out of the 50 states for housing units per capita, California currently faces one of the greatest housing crises in its history. As housing prices climb, state lawmakers race to develop legislative solutions. Last year California State Senator Scott Wiener introduced Senate Bill 827, which would override many local zoning restrictions on building height and density areas around public transit centers to encourage greater housing density. Drawing passionate praise and criticism not only across California, but from across the country, SB 827 represented one of the boldest attempts to remedy the state's housing crisis. The bill had dramatic implications for the federalism of state and local government and for the economics of real-estate developments. Similarly, while only a single piece of legislation, SB 827 sparked debate that highlighted the various complexities and factions involved in California housing policy reform.

When rolling out SB 827, Sen. Scott cited three justifications for the bill. First, he argued that "the only way to we will make housing more affordable and significantly reduce displacement is to build a lot more housing and to do so in urbanized areas accessible to public transportation." Second, he claimed that urban sprawl creates a reliance on carbon-emitting cars for commuting, making it difficult to meet the state's sustainability objectives. Third, he noted that long commute times and a lack of housing undermine economic growth in California. The provisions in SB 827 reflected these concerns. Zoning changes in the bill applied to areas within a half-mile radius of a major transit stop, such as a train or ferry terminal, and areas within a quarter mile radius of a "high quality transit corridor"-- defined in the bill as a fixed bus route with average service intervals of 15 minutes or less during peak commuting hours. Specifically, maximum height restrictions on real estate developments would increase to 45, 55, or 85 feet depending on the dimensions of the street. In the same bill, Sen. Wiener sought to eliminate other limits on developers in these transit areas, such as parking requirements and population density restrictions enforced by local ordinances. The bill had drastic implications for major urban centers like San Francisco, Los Angeles, and San Diego, but its effects were not limited to the coastal urban centers. In the Inland Empire, SB 827 would likely impact neighborhoods in Montclair, Upland, Ontario, Fontana, Jurupa Valley, Rialto, Riverside, San Bernardino, Moreno Valley, and Perris. It represented an attempt to expand state control over housing policy—an issue that generally falls under the jurisdiction of city and county officials.

From its introduction on the floor of the state senate, SB 827 drew many passionate supporters. Dante Ramos of the *The Boston Globe* wrote that "The bill may be the biggest environmental boon, the best job creator, and the greatest strike against inequality that anyone's proposed in the United States in decades." A large advocacy group known as California YIMBY—or 'Yes in My BackYard'—also came out in support of Sen. Wiener's legislation. The organization's founder, Brian Hanlon, argued that the legislation "is radical in the sense that it gets at the root cause of the problem, but it is also eminently reasonable. The type of housing this bill would authorize is how cities used to be built: mid-rise, relatively cheap construction near jobs and transit." Members of the YIMBY coalition backing SB 827 mostly subscribed to the same economic and environmental reasoning that Wiener used to justify the bill. Additionally, 120 tech and venture capital executives expressed their support for the bill, stating in a joint letter: "The lack of homebuilding in California imperils our ability to hire employees and grow our companies." Lead proponents of the bill also believed that it would receive support from exurban communities in central California that absorb many of the people displaced by rising housing prices. But SB 827 faced a determined opposition as well.

Transit Rich Housing



Source: What Would SB827 Really Look Like? Visualize Transit-Rich Housing, https://transitrichhousing.org/

Among the earliest and most vocal critics of SB 827 were organizations concerned with urban, low-income interests and tenants' rights. Just weeks after Wiener introduced the bill, 37 such organizations concentrated in Los Angeles County issued a joint letter condemning SB 827. They believed that the bill would lead to the destruction of existing affordable housing to make room for new housing developments—displacing the low-income residents who represent 75% of the LA Metro's regular riders. Many local government officials also came out against Wiener's bill, albeit for different reasons. The Los Angeles City Council, for example, unanimously opposed SB 827. While LA City Councilman Paul Kortez's described the legislation as "the worst idea I've ever heard," his concerns focused more on the preservation of traditional, single-family neighborhoods rather than on protecting low-income residents. Additionally, Berkeley Mayor Jesse Arreguín opposed the bill, citing its lack of explicit protections against rent-controlled housing demolition as a critical flaw. The widespread resistance from local officials may have also been a response to state encroachments on municipal zoning policy. Whatever their motivations, the opponents of SB 827 became a serious obstacle for Sen. Wiener and his affiliates.

Undeterred by the push-back, Sen. Wiener claimed he was willing to work with those who opposed his legislation to incorporate their suggestions. SB 827 underwent two rounds of amendments once it arrived in the Committee on Transportation and Housing. Wiener announced the first set of changes in late February, including the addition of explicit protections for locally mandated demolition controls and limitations, rent-controlled housing, and low-income inclusionary housing requirements. A little over a week later, he added an affordable housing mandate on all buildings constructed under SB 827 based on California's Affordable Housing Density Bonus Law. The amendment requires these new developments to make a certain percentage of their units available to low or very low-income tenants depending on the size of the building. Wiener also delayed the

PHOTO CREDIT: Javon Deonte | Wikimedia Commons implementation of the bill to 2021 and added an amendment that would give local government limited power to enforce parking requirements on developers in transit areas. These amendments, however, failed to quell the resistance to SB 827.

Tensions over the bill reached a climax in early April when the two sides turned out to protest outside San Francisco City Hall. The mostly white supporters of the YIMBY movement and of SB 827 shouted down the predominantly people of color speaking against the bill--behavior that was later condemned as disrespectful and unproductive. YIMBY Action, the group that organized the counter protest, later issued a statement apologizing for its conduct, saying, "It was beyond insensitive to chant over speakers from Chinatown, the Mission, the Western Addition, and the Excelsior—all minority neighborhoods facing gentrification and displacement first-hand." Despite the apology, the incident contributed to an image that pitted young, moderately-wealthy white people in support of SB 827 against low-income minorities opposing the legislation. Even with his amendments, Sen. Wiener failed to overcome this narrative that had plagued his bill from the start. On April 17, the Transportation and Housing Committee voted down SB 827 with four 'yeas' and six 'nays,' effectively killing the bill.

SB 827 was an ambitious, arguably radical proposal, which is part of why it failed. Wiener and YIMBY advocates, however, believed that only bold actions could remedy California's housing crisis. Had they worked with low-income community partners to draft the bill, they may have avoided the controversy that sank the legislation. Senator Wiener is not giving up. He has already introduced SB 50--or the More HOMES Act--in the 2019 legislative session, which is largely based on SB 827. This time Wiener is including many of his critics' demands in the first draft of his bill in hopes of securing passage.

SB 50, for example, includes a provision that requires increased development in wealthier areas to dispel fears that the bill would mostly target low-income areas—a major objection to SB 827. In addition to including the affordable housing mandate amendment to SB 827, the new bill also postpones development deadlines for transit-areas with communities at higher risk of gentrification, allowing them additional time to develop adequate affordable housing solutions that minimize displacement. SB 50 already has the backing of the YIMBY coalition. Senator Wiener and his associates hope that these additional provisions will quell the unrest among the opponents of SB 827. Nevertheless, SB 50 would still assert state control over many aspects of zoning policy normally reserved for local governments. Wiener and his new bill will still likely face strong resistance from local officials.

Although it did not become law, SB 827 created what housing activist Randy Shaw described as "the biggest public debate ever held in California over urban housing policy." Capturing the attention of YIMBY advocates, low-income affordable housing interest groups, and state and local government officials, the bill revealed the different factions and positions at play in California housing politics. ♦

In writing this article, the author drew on reporting by the Los Angeles Times, Vox, The Boston Globe, Berkeleyside, and on press releases from the Office of Senator Scott Wiener.

Rent Control

by Melanie Wolfe '20

PHOTO CREDIT: *Wikimedia/Bigtimepeace*

On the ballot in 2018, Proposition 10 offered Californians the possibility to create more flexible rent control regulations on a city-by-city basis, a possibility they rejected with 59% of the votes, a margin of over two million votes. Prop 10 would have expanded local government authority to enact rent control. Local governments are currently constrained by the Costa-Hawkins Rental Housing Act, passed in 1995, which places two main limits on local rent control laws. First, it exempts certain types of housing from rent control. This includes single family dwellings, condominiums, and newly constructed apartments. Second, it eliminates vacancy control, a policy that limits the amount that a landlord can increase rent between tenants. Fifteen cities in the state have rent control policies in place, including some of California's largest like Los Angeles and San Francisco. Palm Springs is the only city in the Inland Empire with rent control for apartments. As reported by the *Desert Sun*, rent control's prominence in Palm Springs has rapidly decreased as older, rent-controlled buildings have been replaced by newer structures. While rent control once applied to 1,300 mobile units and 4,300 apartments across Palm Springs, as of August 2018, only 20 apartments and 670 mobile homes still face rent control from the city.

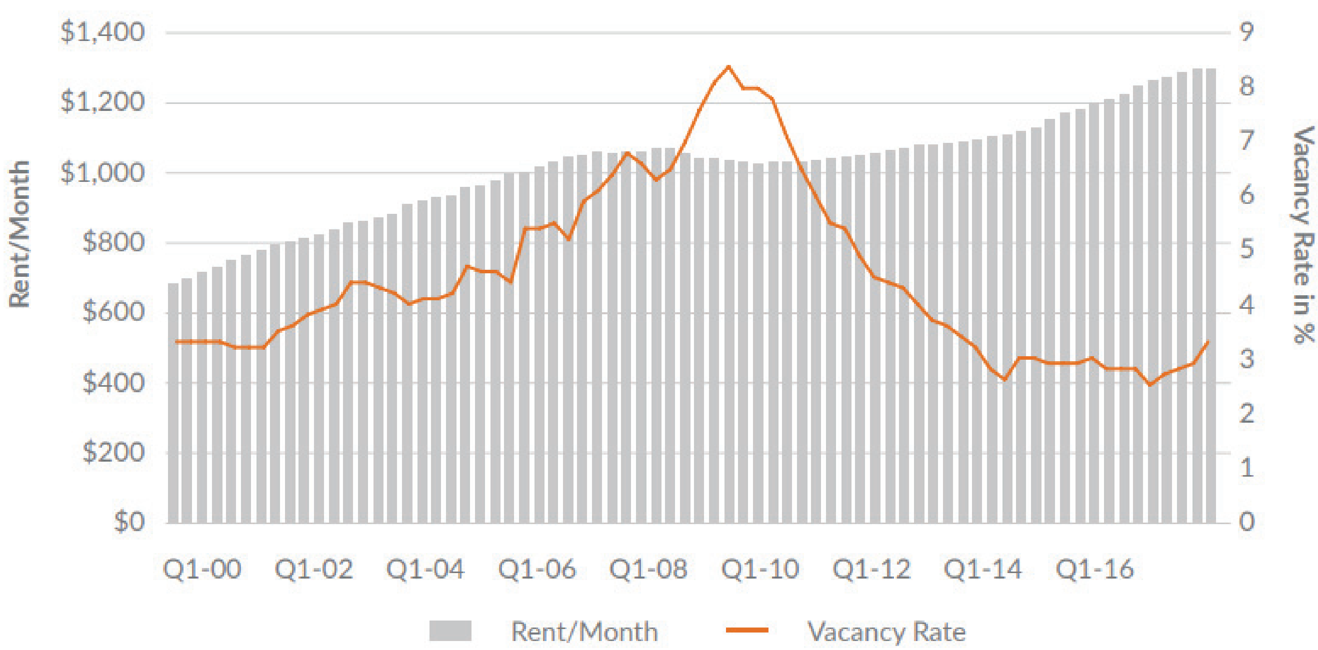
Rent control has a long and tangled history in California. Although the 1995 Costa-Hawkins Act is perhaps the best-known effort at reforming rent control in the state, a Southern California Public Radio timeline of rent stabilization in Southern California points two decades earlier to the California Tenant Law of 1978. This piece of legislation, passed by the Los Angeles City Council, prohibited rent increases on residential properties within a six-month period, though the ordinance itself was only given a one-year term before it was set to expire in 1979. In the wake of the Los Angeles experiment with rent stabilization, not only did the city decide to adopt a rent stabilization order (RSO), but within two years Beverly Hills, Santa Monica, Thousand Oaks, and Palm Springs had joined it to similarly combat affordable housing shortages in Southern California. Each city initially tailored its RSO differently to address concerns of rapidly rising rents, low vacancy rates, and apartment shortages. By 1985 there was statewide support for the Ellis Act to scale back certain efforts at rent stabilization. The Ellis Act allows landlords to evict tenants in cases where the landlord will convert the entire property away from rental units. Even twenty years after the implementation of the Ellis Act, the success of its enforcement has been questioned by organizations like Tenants Together, California's Statewide Organization for Renter's Rights. In 2009, Tenants Together published a press release suggesting that the recent Ellis Task Force had discovered a major failure of enforcement in that 59 'Ellised' properties — comprising 245 units —had not been demolished or converted in line with the act's mandate. Moreover, approximately 42 of these were occupied without a required re-occupancy permit, which explicitly violates the reason to allow landlords to apply the Ellis Act to remove renters.

Apart from the complications introduced by the Ellis Act, after twenty years of rent stabilization legislation stemming from city councils and their local ordinances, rent control became an issue of state policy with the passage of the Costa-Hawkins Rental Act of 1995. Costa-Hawkins limits the types of rent controls that cities can impose. The bill's primary limitations on rent control mandate that landlords reserve the right to raise rents to market-rate upon turnover of the property between tenants, that cities cannot impose rent control policies to regulate rents on properties constructed after February 1995, and finally that single-family homes and condos must be excluded from all rent control policies. The first provision addresses a specific type of rent control referred to as vacancy control, which maintained prohibitions on raising rents even between tenants. Costa-Hawkins does not impose specific limits on the extent of rent increases allowed in cities that do wish to regulate rents for eligible pre-1995 properties, though some cities have sought to impart these limits themselves.

As rent control currently stands in Los Angeles, the city's Rent Stabilization Ordinance regulates rental increases for buildings constructed before October 1978 in accordance with Costa-Hawkins. This applies to 631,000 units in 118,000 properties across the city.

RENT → Page 18

Inland Empire Rental Market



Source: Robert Kleinhenz & Christopher Thornberg, Housing in the Inland Empire: Where it's Been and Where it's Going, May 2018

California Cities with Rent Control

Municipality	Restriction
Alameda	Only one increase is allowed every 12 months. Non-binding review available if increase is 5% or less. Landlord seeking more than 5% must file a formal petition with the Rent Review Advisory Committee for binding review.
Berkeley	65% of the regional CPI, once per year. Landlord or tenant may petition for exception.
Beverly Hills	Landlord may increase rent once every 12 months, limited to 3% or the regional CPI, whichever is higher.
City of Commerce	May not exceed 3% per 12 month period. Ordinance will expire either March 20, 2019 or when permanent rent control is enacted.
East Palo Alto	80% of the percentage increase in the regional CPI. Overall increase may not exceed 10% in any 12-month period.
Gardena	Increases exceeding 5% are subject to mediation and binding arbitration.
Hayward	5% per year absent exception. Landlords may "bank" increases, but aggregate rent increases cannot exceed 10% in any year.
Los Angeles	Only one increase allowed every 12 months based upon the regional CPI. Effective July 1, 2017, the annual allowable increase is 3%.
Unincorporated Los Angeles County	Effective for six months beginning December 20, 2018 unless extended, or replaced with a permanent ordinance. Temporary 3% annual limit on rent retroactive to base rents on Sept. 11, 2018. Only one rent increase allowed annually. Landlords may petition for variance.
Los Gatos	Subject to mediation and arbitration depending on unit size. Must be "fair and reasonable," generally not exceeding 5% of existing rent or 70% of the regional CPI, whichever is greater (plus improvements and fees), unless the arbitrator determines that other factors make a larger increase reasonable.

California Cities with Rent Control

Municipality	Restriction
Mountain View	Rents may be raised starting September 1st each year by board-determined amount that is no less than 2%, nor more than 5%, of the existing rent. Landlords may "bank" rent increases.
Oakland	Only one increase annually based upon the regional CPI or prior "banked" increases. Owners must petition Rent Adjustment Program (RAP) for increases exceeding CPI.
Palm Springs	Only one increase annually, limited to 75% of the increase in the regional CPI. Rent control is permanently removed after tenant voluntarily vacates or is evicted for cause. As a result, few properties remain subject to rent control.
Richmond	Rents may be raised starting September 1 each year by an amount equal to the regional CPI. Landlords and tenants may petition for upward and downward departures.
San Francisco	Yearly rent increases are limited to 60% of the regional CPI.
San Jose	Annual increase generally may not exceed 5%. Landlord must petition for higher increase.
Santa Monica	The Rent Control Board determines each year's increase ("General Adjustment" or GA). The Maximum Allowable Rent (or MAR) for any unit is its base rent plus the increase allowed per the annual GA. A tenancy must be in place for at least one year before a GA is allowed. A GA may then be implemented the following September 1st or anytime thereafter.
Thousand Oaks	Very limited–for tenants in the same unit since 1987.
West Hollywood	75% of the increase in the regional CPI during the preceding 12 months.

SOURCE: Chris Barta, J.D., California Rent Control Law, | https://www.nolo.com/legal-encyclopedia/california-rent-control-law.html

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According to the Los Angeles Housing + Community Investment department, the RSO establishes the extent of rent increases permitted, the legal reasons to call for an eviction, and the types of evictions that require landlords to offer tenant relocation assistance. Typical offenses such as failure to pay rent or causing repeated disturbances at a property still allow landlords to evict their tenants without assistance, but in cases of conversion to affordable housing, property demolition or removal from the rental market, or reclamation of the rental unit by a property owner intending to move back into the unit, the tenant is considered not at-fault and is entitled to monetary relocation assistance from the landlord under the RSO. A January 2019 update by the L.A. Housing + Community Investment Department outlines the most recent allowable rates in line with the RSO, setting the permissible increase at 3% for the coming year and 4% for the subsequent year. Relocation fees, when applicable, range from \$7,900 to \$20,450 depending on the status of the landlord and tenant, with ‘qualified’ tenants (senior citizens, disabled individuals, and tenants with a minor dependent child) and long-term tenants receiving larger amounts, and “Mom & Pop” properties (owned by individuals with fewer than four residential units in L.A.) paying out slightly less in relocation fees.

Costa-Hawkins has also been criticized on the grounds that it may inhibit local inclusionary zoning programs. Exclusionary zoning is employed to shape the development of neighborhoods. To do so, city governments and zoning boards can require precise housing specifications that are costly to uphold, limit the number of multi-family properties approved for construction in favor of single-family homes, and establish a large minimum lot size. All of these examples can make neighborhoods more amenable toward wealthier families that tend to be whiter, while minority groups and marginalized populations such as the elderly and disabled may find it difficult to overcome the economic barriers to entry into an “overzealously” zoned neighborhood. On the other hand, inclusionary zoning seeks to accomplish just the opposite, compelling developers to incorporate affordable options into any new project. In a 2001 California Law Review article, Nadia I. El Mallakh suggests that there is indeed a relationship between Costa Hawkins and limitations on inclusionary

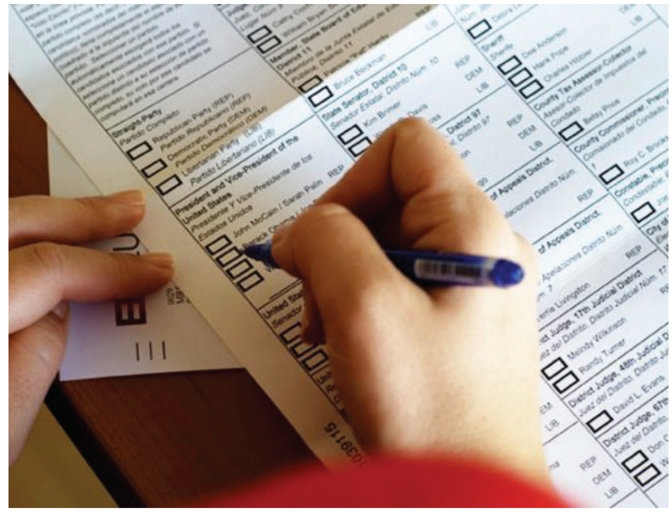

PHOTO CREDIT: *Wikimedia Commons*

zoning, as the act imposes vacancy decontrol.

Proposition 10 sought to lift the Costa-Hawkins restrictions, allowing cities across California the discretion to set the terms of their own rent control, even if that involves vacancy control. State Assemblyman Richard Bloom, D-Santa Monica, introduced an earlier bill in February of 2017, but after receiving significant pushback from Sacramento’s real estate interests, he shelved the proposal. Roughly a year later, the support of individuals and organizations aligned with tenants’ rights brought about a similar proposal via the Prop 10 ballot initiative. Supporters argued that cities should simply have greater power in setting their own rent control policies tailored to their unique history of development, zoning, and housing crises, or lack thereof. After all, Costa-Hawkins neither requires nor forbids rent control in its entirety, and proponents of the repeal via Prop 10 assured doubtful Californians that no changes to rent control would actually occur until cities began reconsidering and passing new ordinances through the local legislative process.

On the other side of the debate are landlords and other advocates aligned with real estate interests. They argue that Costa-Hawkins is needed to protect landlords, who would not be able to sustain livelihoods based on renting properties if they cannot keep up with market values. They argue that not only do aggressive rent control policies threaten their own economic stability, but they also threaten the state’s broader real estate market by discouraging investment and development of land. If potential developers are deterred from pursuing new construction projects, California's housing shortage will only become more dire. Economist Walter Block writes that rent control reduces that quantity and quality of housing available. It diverts new investment from rental housing toward more lucrative projects.

A group of Stanford researchers published a paper last year showing that the extension of rent control to smaller buildings in San Francisco in 1994 resulted fewer properties on the rental market and a decline in the number of residents living in rent controlled buildings. Rent control actually shrank the overall supply of rental housing. The authors, Rebecca Diamond, Timothy McQuade and Franklin Qian, studied landlords and tenants in buildings that came under rent control and compared them to their counterparts in similar buildings that were not under rent control. They found that rent control policies benefited the families who were in units when the policy went into effect, but worsened the affordability crisis in the long term. The researchers found that owners of rent controlled properties were 10 percent more likely to convert them to condos or renovate them and thus make the properties exempt from rent control. Properties were also freed from rent control restrictions if the owners moved in themselves. Occupying their own buildings also released the properties from rent control restrictions. As a result, there was a 15 percent decline in the number of tenants in rent controlled buildings and a 25 percent decline in those living in rent controlled units. Rent control dramatically limited the supply of rental housing. Moreover, the effects spread across San Francisco, with an overall decrease of rental housing of 6 percent and a corresponding increase in rent of 5.1 percent in the time period studied. The study concluded that rent control policies likely fueled the gentrification of San Francisco and contributed to a higher level of income inequality in the city overall.

Tenants' groups such as LA Tenants unions, ACCE Action and Eviction Defense Network, and the AIDS Healthcare Foundation (AHF) fought hard for Prop 10 to expand rent control in cities like Los Angeles, where existing policies could theoretically be expanded to cover more recent construction and protect tenants who need to move between properties. Writing in the *Los Angeles Times*, economists Donald Wittman and Jesse Cunha point out that rent control pits tenants against each other by creating a dynamic that severely divides the affordable from the non-affordable housing. So long as the "fair return" remains below the market return for rental properties in the housing market, landlords will tend to prioritize short-term tenants that mean that they can raise their rent more frequently, and try to keep their rents competitive compared to other landlords across the city. This dynamic makes certain renters—Wittman and Cunha point to the elderly and disabled as common victims—inherently less appealing to landlords, who realize that they may be making a long-term commitment to maintain a rental rate and potentially pay higher relocation fees if they decide to force the tenant out. Moreover, Wittman and Cunha speak to the burden that one city's rent control policies can place on its neighbors, given the inevitably rent-hike that befalls neighboring cities. When rent control regulations have been in place long enough to limit the housing stock in one city, potential renters with no physical options look to nearby towns instead, pushing those towns even further into housing crisis. Ultimately, Wittman and Cunha suggested that because Prop 10 does not even guarantee that the neediest of Californians end up with access to rent-controlled properties, concerned citizens were better off supporting other propositions on the battle—1 and 2—that do orient housing resources toward the state's most vulnerable.

In line with Wittman and Cunha's position, Prop 10 did ultimately fail, but not before $104 million was spent in campaigning for and against the ballot initiative. As the most expensive initiative in California's history, Prop 10 garnered serious news coverage, activist engagement, and public debate over California's wider housing crisis. ♦

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PHOTO CREDIT: Maria Gastelum Vera '22

INLAND EMPIRE OUTLOOK

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