Los Efectos de la Desregulación de la Vivienda de Alquiler en Berkeley

Lauren Lambie-Hanson

Resumen

Las recientes alzas en los precios de vivienda en el estado de California indican una necesidad de reevaluar las políticas de la regulación de alquiler de vivienda en el estado. Leyes de regulación del precio de alquiler fueron desmanteladas en ciudades como Berkeley a finales de los 1990s, sin embargo existe muy poca investigación que mida los efectos del cambio en estas políticas sobre la disponibilidad y precios de la vivienda de alquiler. El presente artículo investiga el impacto del sistema actual de desregulación en la disponibilidad, calidad, y accesibilidad de la vivienda. Asimismo, pretende medir los efectos del sistema de desregulación en el mercado de vivienda de alquiler de Berkeley.

Effects of Vacancy Decontrol on Berkeley Rental Housing

Lauren Lambie-Hanson

Abstract

Rising housing prices in California at the turn of the 21st century may be cause for a reevaluation of rent stabilization policies. Strong rent controls were dismantled in communities like Berkeley in the late 1990s, but little research has been conducted to measure the effects of the policy change on housing availability and rental prices. This paper investigates the impact of the current vacancy decontrol system on housing availability, adequacy, and affordability, while seeking to measure the lingering effects of the vacancy control system on the Berkeley rental housing market.

Rising housing prices in the United States are increasingly receiving attention. The San Francisco Bay Area has been particularly affected, experiencing a 65 percent increase in nominal median home price between 1995 and 2002 (Quigley and Raphael 2004) and more than a nine percent increase in rents between 2007 and 2008 (Temple 2008). Because housing makes up a significant portion of household expenditures, particularly for lower-income families, the need to preserve affordable housing has become a substantial policy concern (Quigley and Raphael 2004). Regulation of housing through land use restrictions, growth controls, and rent controls can lead to increases in housing prices (Malpezzi 1996; Quigley and Raphael 2005).

Strong rent controls were used until the mid-1990s in many California communities to stabilize rents. These "vacancy control" policies prohibited landlords from raising rents when units "turned over," or in other words, when new tenants occupied a unit. In 1995, the California State Assembly passed AB 1164, also known as the Costa-Hawkins Rental Housing Act, mandating the implementation of "vacancy decontrol" policies. Vacancy decontrol allows landlords to set rents at market levels when their units become vacant. Full vacancy decontrol began at the beginning of 1999. In order to comply with the Costa-Hawkins Act while maintaining rent control, communities like Berkeley developed stabilization policies to regulate rental prices. Stabilization policies generally limit rent increases for existing tenants and protect them from undue eviction. Under vacancy-decontrol stabilization, once a tenant vacates a unit the landlord may set the rent for the next tenant at whatever price he or she wishes. This weaker form of rent control represents a compromise between the ideals of rent control advocates and opponents. Although the Costa-Hawkins Act was controversial when it passed, and housing prices have since risen drastically throughout California, the effects of vacancy decontrol have been largely ignored.

This paper discusses the general debate over rent control in the United States, assesses how availability, adequacy, and affordability of rental units in Berkeley have changed since the Costa-Hawkins Act, and offers an analysis of how the effects of the strong rent control of the early 1990s may still be lingering in the Berkeley housing market. Census data, building permit statistics, and data on rental units from the Berkeley Rent Stabilization Board are used to investigate these expectations. The data appear to indicate that decontrol has resulted in both greater availability of rental units and increases in rent charged. Long-time residents, those who moved into their units before decontrol was fully implemented in 1999, still benefit from the strong, vacancy-control policies banned by the Costa-Hawkins Act. Because they have not moved since the new policy took effect, their rents have not been adjusted to the market level, and they subsequently pay far lower rents than their neighbors.

Rent Control: The General Debate and the Case of Berkeley, California

Rent control policies were adopted in many American communities during the 1970s, but not without substantial controversy. Supporters of rent control argue that it stabilizes neighborhoods and prevents abusive behavior by landlords, like rent-gouging or unjust evictions (Keating 1998). Proponents also argue that rent control redistributes wealth and power from landlords to tenants (Frank 2003). While rent control still has supporters, over time, many have become wary of its efficiency and effectiveness in achieving these progressive social goals. For example, rent control advocates tend to assume that landlords have more wealth than their tenants. However, this may not be the case, and redistributing wealth from landlords to tenants may not be a progressive action after all (Navarro 1987). Present rent control systems do not differentiate between poor and wealthy tenants, so the benefits of rent control cannot be assigned based on need.

Other common arguments against rent control cite the policy's effects on housing supply and quality. Since rent control places a ceiling on rents below the market valuation, landlords bring in less revenue per unit. As profits are reduced, some landlords may choose not to supply units and developers may decide not to build new housing, leading to a shortage of housing in the market (Skaburskis and Teitz 1998). Landlords who continue to supply units to renters may attempt to reduce their costs by cutting back on maintenance or by providing less heat in the winter (Navarro 1987; Keating 1998). These types of cutbacks diminish the quality of the tenants' housing units and reduce the benefit they receive from controlled prices.

Many opponents of rent control focus on the policy's economic inefficiencies. The presence of rent control may make it less attractive for existing tenants to move, since they may not be able to find a unit with comparable rent. This may result in the misallocation of the housing stock, as people are less likely to choose new apartments when their family situations change (Skaburskis and Teitz 1998). Inefficiencies can also arise in the labor force due to rent control; the immobility inducement may prevent tenants from moving in search of better job opportunities, and housing shortages may dissuade qualified workers from moving to communities with rent controls (Albon and Stafford 1987; Skaburskis and Teitz 1998).

Other arguments against rent control cite equity concerns. In many cities, such as Berkeley, California, and Cambridge, Massachusetts, rent control policies have covered only a portion of rental units. As fewer units are

supplied and tenants face greater competition in finding units, prices are driven up in the non-controlled segment of the rental market, which harms those tenants who are not able to secure a rent-controlled unit (Navarro 1987). Additionally, since landlords can be more selective when choosing their tenants, people with low incomes, families with children, young tenants, or people receiving government assistance may have difficulty acquiring a unit (Navarro 1987; Skaburskis and Teitz 1998). Some have gone so far as to say that the increased competition among tenants and the decreased supply of units may even cause homelessness, though this theory has been debunked (Tucker 1991; Quigley 1990).

Finally, rent control is sometimes opposed because it is said to depress local tax bases and put other strains on local governments. Since the landlord's profit is reduced under rent control, the amount of tax a rental building can generate is also diminished. In California, municipal governments are already strapped for funds due to Proposition 13, and limiting tax revenue collected from rental properties could make it even more difficult to provide services (Marshall 1995).[1] In addition, the bureaucratic organization needed to oversee and enforce the rent control policies is costly to the municipality (Navarro 1987).

While other arguments for and against rent control exist, these are the most common. Opponents of rent control used these arguments and the lobbying power of landlords and developers to defeat rent control in California (Barton 1998). The 1995 Costa-Hawkins Rental Housing Act mandated vacancy decontrol for all communities with rent control. Berkeley and Santa Monica, the two communities with the strictest rent controls at the time, were the most heavily affected by the legislation. A phase-in of vacancy decontrol was implemented in these communities between January 1, 1996, and December 31, 1998. During this time, new tenants could be charged only an additional 15 percent of the rent paid by the prior tenant or 70 percent of the prevailing market rate for comparable units, whichever was greater (Costa-Hawkins Rental Housing Act 1995). Full vacancy decontrol began on January 1, 1999; at this time, landlords were allowed to charge new tenants the market price for rental units.

Although California communities may not use the strict, vacancy-control style of rent control, rent stabilization is still permitted. Nearly all rental units in Berkeley constructed before 1980 are stabilized. Rents of occupied units may not be increased over time, except for an annual general adjustment, which is typically a percentage of the change in the

[1] Proposition 13, passed by California voters in 1978, capped property taxes at one percent of the value of the properties.

consumer price index.[2] In addition to rent stabilization, current municipal ordinances require the registration of rental units with the Berkeley Rent Stabilization Board and restrict the circumstances under which landlords may evict tenants.

Supporters of the Costa-Hawkins Rental Housing Act expected vacancy decontrol to improve the rental housing system in Berkeley by allowing the market to set rents when units become vacant. Many hoped that decontrol would encourage landlords to fix up units in order to compete for tenants paying market rates and that the higher rents would lead to an increase in the supply of rental units (Herscher 1995; Wilson 1995). Naturally, opponents of the legislation feared it would lead to rising rents, gentrification, and the displacement of existing, low-income tenants whose landlords might pressure them to move out in order to raise rents (Herscher 1995).

More than 10 years have passed since the beginning of vacancy decontrol and little analysis has been conducted on the effects of the policy change on the Berkeley community. No one has made a convincing case that vacancy decontrol has been successful at increasing supply or improving rental unit quality, and at the same time, opponents of decontrol have been reserved. What exactly has been the effect of vacancy decontrol on Berkeley? Has the supply of rental units expanded, and are rental units in better condition now? Have rents risen dramatically? This paper addresses these questions and measures the size of rent savings, as well as the behavior of long-time tenants still benefiting from the strong rent control policies in place prior to the Costa-Hawkins Act.

Methodology

Census data from the 1980, 1990, and 2000 decennial reports, as well as the 2006 American Community Survey, can help answer the questions posed above. The Census reports include useful variables such as size of housing stock, rent paid, year tenants moved into their units, and vacancy rates. The data are also available for Alameda County and Berkeley's neighbors: the City of Oakland, which also has weak rent stabilization, and the City of Albany. For the 2006 American Community Survey, data are presented in this paper with margins of error and/or confidence intervals of 90 percent, as calculated by the Census Bureau. Information from the Census is supplemented by data from the Construction Industry

[2] Rents may also be increased if the landlord makes renovations that improve the quality of a unit or faces exceptional higher costs. The landlord may petition for an increase in the rent ceiling, which is approved or declined by the Rent Stabilization Board.

Research Board (CIRB) on building permits for residential units, which can be used as an indicator of housing starts and substantial renovations to existing units.

The Berkeley Rent Stabilization Board keeps detailed records of all subsidized units. Data from three sample years, 1996, 2001, and 2006, were collected for this paper, and a random sample of 500 units was drawn. The data include the address, number of bedrooms, and legal rent ceiling for each unit. The data for the sample units were then matched to information from the present-day online rent ceiling database, including the current rent ceiling for the units and the year in which the current tenant moved into the unit.[3] The resulting dataset allows for an analysis of changing rents over time, while controlling for other aspects that affect rents, like the size and neighborhood of a unit.

Findings on Availability and Adequacy- Expected Positive Impacts of Vacancy Decontrol

Availability of Units

Since vacancy decontrol reduced restrictions on landlords' revenue from rental units, one might expect that more units would be provided and occupied after vacancy decontrol was implemented in the late 1990s. Basic data from the Census do not seem to support this assertion. The number of Berkeley units occupied by tenants increased between 1990 and 2000 but decreased between 2000 and 2006. The number of tenant-occupied units in Berkeley decreased by about 10 percent between 1990 and 2006. Oakland and Alameda County also seem to have lost tenant-occupied units during this time period; however, after constructing a confidence interval for the change, as shown in Table 1, the reduction in units for these two places is not as evident. This reduction in occupied rental units in Berkeley and neighboring communities could be a result of condominium conversion, conversion to occupancy by the landlord, removal of the unit from the housing supply (through demolition and depreciation), or the unit could simply be vacant but on the market.

Meanwhile, the number of owner-occupied units consistently increased during these times. These patterns seem to be consistent for Oakland and

[3] Data were collected from the online database on November 1, 2007. A portion of the sample could not be matched to the 2007 database. Reasons for non-matches, approximately 19 percent of the sample, include: unit converted to owner-occupancy, unit no longer occupied or available for rent, and unit now housing co-operative, Section 8, or other exempt tenants.

Alameda County as well. So while rental occupancy has been decreasing in the area, owner-occupancy has become more common. The trend of increasing homeownership during the 1990s was common to most states (Simmons 2001). Nationally, homeownership rates increased from 64 percent in 1994 to 69 percent in 2004 (Doms and Motika 2006). Much of the national increase in homeownership can be attributed to increased homeownership among adults under age 35, which was made possible through new mortgage products and the growth of the subprime mortgage market (Chambers, Garriga, and Schlagenhauf 2007). The subprime market expanded homeownership not only to young borrowers, but also to those who otherwise could not afford to purchase a home.

The general trend of growth in homeownership can also be seen in Berkeley during this time. The owner-occupancy rate in Berkeley increased from about 44 percent in 1990 to about 48 percent in 2006. Owner-occupancy also increased by about four percentage points in Alameda County, from 53 percent in 1990 to 57 percent in 2006.

Table 1: Total Number of Tenant-Occupied Units

	1990	2000	2006	1990-2006	1990-2006 Change in Owner Occupied Units*
Berkeley	24,455	25,748	22,090	-2,365	(-17.2% to -2.2%)
Albany	3,895	3,453	-	-	-
Oakland	84,302	88,305	81,426	-2,876	(-7.9% to +1.1%
Alameda County	224,059	237,060	220,508	-3,551	(-3.9% to +0.7%)

*Confidence Intervals are 90% for 2006 American Community Survey data.

Sources: 1990 Census SF3 Table H008, 2006 American Community Survey Table B25003

Table 2: Total Number of Owner-Occupied Units

	1990	2000	2006	1990-2006	1990-2006 Change in Owner Occupied Units*
Berkeley	18,998	19,207	20,059	1,061	(-1.7% to +12.9%)
Albany	3,297	3,558	-	-	-
Oakland	60,219	62,482	63,321	3,102	(-0.3% to +10.6%)
Alameda County	255,459	286,306	296,733	41,274	(+14.3% to +18.0%)

*Confidence Intervals are 90% for 2006 American Community Survey data.

Sources: 1990 Census SF3 Table H008, 2000 Census SF3 Table H7, 2006 American Community Survey Table B25003

A decrease in rental occupancy after the late 1990s is unexpected, since policy changes like vacancy decontrol and the exemption of newly constructed units from stabilization makes providing rental housing more lucrative. However, the data may be reflecting a trend in place from before the Costa-Hawkins Act. Berkeley was already losing units prior to vacancy decontrol. Between 1980 and 1990, Berkeley lost 3,309 rental units, a reduction of 12.1 percent of units, while the number of rental units in neighboring Oakland and Albany increased by 4.7 percent and 12.6 percent respectively (Barton 1998, City of Berkeley 1998). According to Barton (1998), the lost rental units were mostly converted to owner-occupancy; about one-third of the rental units lost during this time were single-family rentals that were converted to owner-occupied homes. Units were also converted in the 1980s through "tenancy-in-common," or TIC, arrangements, whereby landlords of smaller buildings with fewer than 10 units could sell their units to owner occupants. TICs were legal in Berkeley until 1992, when the City Council passed the Condominium Ordinance, which restricted them and placed large fines on owners choosing to covert their rental units to condominiums (City of Berkeley 1998). About 700 rental units were converted to owner-occupancy through TICs between 1986 and 1992. Hundreds of units were also lost in the 1980s from the closing of residential hotels, the removal of in-law style units from the market, and the conversion of multi-unit buildings into large, single-family homes (Barton 1998). Landlords also sometimes choose to demolish their buildings or keep them vacant. This is made possible by the Ellis Act, passed by the California legislature in 1986, which gives property owners the right to leave the rental business. Together, conversion, demolition, and vacancy explain the reduction in rental units in recent years. Part of the decreased tenant occupancy rates in Berkeley may be attributable to the national trend of increased homeownership through 2004. An assessment of the change in the number of owner and tenant-occupied units in Berkeley between 1990 and 2006 is difficult, due to the wide 90 percent confidence intervals. However, even with these wide intervals, it appears that the loss of tenant occupied units in Berkeley exceeded the gains in owner-occupied units. Because of this, it seems likely that not only were rental units converted to owner-occupancy, but some additional units were taken off the market.

After the Costa-Hawkins Act, one would expect fewer rental units to be lost over time, since landlords can now charge higher rents and make a greater profit in the rental market. It is possible that landlords and developers have responded to the policy changes, but the Census data have not had time to reflect it. Due to the long period of time needed to construct housing and move in tenants, new units may not be adequately represented in the occupancy statistics presented above. Building permit statistics can offer a timelier picture of the housing market.

Figure 1: Percentage Change in Permits Issued for Housing Units Since 1990

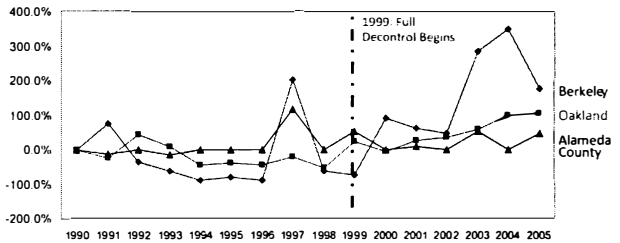
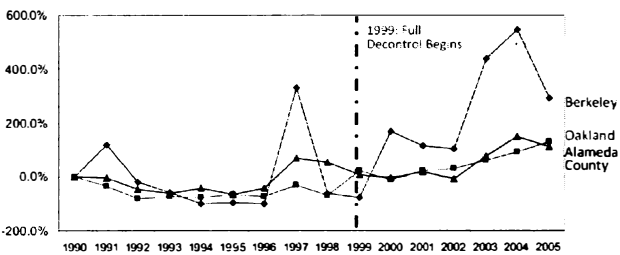


Figure 2: Percentage Change in Permits Issued for Multifamily Housing Units Since 1990



Source for Figures 1 and 2: Construction Industry Research Board

See Appendix Tables B and C for permit statistics

As shown in Figures 1 and 2, Berkeley seems to have been issuing residential building permits at a higher rate in recent years than in the 1990s- especially for multifamily units, which could be apartment buildings, duplexes, or condominium complexes. The tenure of the new units cannot be determined from the building permit data.

The increase in construction of new units could be the result of more landlord-friendly rent control policies, or it could have to do with changing attitudes in the City government, making larger-scale developments easier to accomplish. In the past, moderate and high density building was strongly discouraged and even prohibited in Berkeley (City of Berkeley 1998). Although the trend of new building was strongest in Berkeley, neighboring cities also issued more permits in recent years than in the early 1990s.

There are other ways of measuring the availability of rental units. An important aspect of housing availability is the amount of time it takes for prospective renters to secure a unit. Difficulty finding a unit decreases the consumer surplus tenants receive from lower rents, since tenants must spend more time to find a unit (Friedman 2002). Unfortunately, no reliable data measuring search-time are available. However, vacancy and turnover data may help us understand the tightness of the housing market, and therefore how much difficulty a person may experience when looking for a unit.

First, when vacancy rates are high, presumably it is easier to find a unit. Vacancy rates decreased between 1980 and 2000, but are currently high in Berkeley and neighboring areas. Berkeley does not seem to show any unique pattern with regard to vacancy rates, as shown in Table 3. The high vacancy rate in 2006 would suggest that the market for rental units is not particularly tight now, certainly not as tight as in the 1980s and 1990s, when strict rent control was in place. In other words, vacancy rates seem to indicate that there is greater availability of units, though perhaps with higher rents.

Table 3: Vacancy Rates for All Housing Units

	1980	1990	2000	2006	2006 Confidence Interval
Berkeley	3.5	5.0	4.1	9.7	(6.0, 13.4)
Oakland	5.7	6.6	4.3	11.8	(10.0, 13.6)
Albany	2.6	3.7	3.3	-	-
Alameda County	4.2	4.9	3.1	7.6	(8.3, 9.0)

Note: Confidence intervals are 90% for 2006 American Community Survey data.

Sources: 1980 Data: City of Berkeley 1998 and County/City Data Book; 1990 Census SF3 Table H004, 2000 Census SF3 Table H6, 2006 American Community Survey Table B35002

Another sign of a tight market is low turnover of rental units, meaning that fewer people are moving and making units available for other tenants. Using data provided by the Berkeley Rent Stabilization Board, we can see that the number of units experiencing turnover has increased for the three years sampled, as shown in Table 4. While this could indicate that the rental market for these controlled units has weakened over time, it could also be the result of better reporting of turnover events to the Rent Board or an increase in the transient student population. The number of college students seems to have taken a slight drop in 2000, but increased significantly by 2006. There now seem to be more college students in

Berkeley than at any time since before 1980, as shown in Table 5, though there is a wide confidence interval around the 2006 data.

Table 4: Controlled Units with Turnover

Year	Units with Turnover
1996	3,673
2001	3,946
2006	4,875

Source: Berkeley Rent Stabilization Board

Table 5: College Students Living in Berkeley (1980-2006)

	1980	1990	2000	2006	2006 Confidence Interval
Total College Students	28,853	28,105	27,016	33,452	(27,286 to 39,618)
Students as Percentage of Total Population	27.9%	27.4%	26.3%	31.5%	(25.7% to 37.3%)

Notes: Confidence Intervals are 90% for 2006 American Community Survey data; "College students" includes undergraduate and graduate students.

Sources: City of Berkeley, 1990 Census SF1 Table P001 and SF3 Table P056, 2000 Census SF1 Table P1 and SF3 Table P36, 2006 American Community Survey Tables B01003 and B14001

Adequacy of Units

Numerous scholars have found that rent control discourages landlords from investing in their properties, since rent ceilings create shortages of housing and less pressure for landlords to compete for tenants (Friedman 2002; Navarro 1987). One study estimates that the decreased maintenance by landlords devalues the rental units and erodes about two-thirds of the benefit of lower rents to tenants (Rydell and Neels 1982). On the other hand, a 1998 report from the City of Berkeley Planning Department claims that improvements to apartments actually increased after rent control was enacted. However, the report did not study all the neighborhoods in Berkeley, and it did not assess any data after 1993, so it does not offer insights on the impact of vacancy decontrol on housing maintenance (City of Berkeley 1998).

The maintenance of rental units over time should be studied. The City's 1998 report offers useful methodology that could be updated and expanded to include more neighborhoods. Another option would be to

select a sample of rent controlled units over time and cross-reference Rent Board data with building permit data to look for correlations between the time tenants moved into their units and the amount landlords have spent on renovating the units. This strategy could determine if units experiencing turnover have been more likely to receive investment by landlords, which could partially account for any increase in the rent being charged.

Unfortunately, no other data are kept on the maintenance of housing. Even though the Berkeley Rent Stabilization Board processes applications from landlords for rent ceiling increases following specific capital improvements, it does not keep records on these improvements

Findings on Affordability: Expected Negative Impact of Vacancy Decontrol

A quick measure of housing affordability is the median gross rent, which is included in the Census. Median gross rent has been increasing in Berkeley, Oakland, and Alameda County, but it has increased the most by far in Berkeley, as shown in Table 6. After adjusting for inflation, the median rent in Berkeley increased by nearly 55 percent between 1990 and 2006, whereas it increased by approximately 14 percent and 13 percent in Oakland and Alameda County, respectively. Likewise, as shown in Table 7, Berkeley was a relatively affordable place to live in 1990; 46 percent of renters paid less than 25 percent of their income for rent. However, by 2006 Berkeley was less affordable than neighboring cities- only about 30 percent of households paid less than 25 percent of their income for rent, while nearly 54 percent paid more than 35 percent of their income on rent. These statistics seem to provide the "smoking gun" rent control advocates have been looking for. Although the confidence intervals for the 2006 data are large, there is a clear decrease in affordability of rental units in Berkeley between 1990 and 2006, even when compared to neighboring communities that should face similar market pressures.

Table 6: Real Median Gross Rent (in 2007 Dollars)

	1990	2000	2006	1990-2006 Change in Median Rent*
Berkeley	$681	$898	$1,055	(+43.5% to +64.0%)
Albany	$1,055	$1,149	-	
Oakland	$860	$844	$981	(+10.0% to +16.5%)
Alameda County	$1,001	$1,034	$1,135	(+10.8% to +14.2%)

Note: * Confidence Intervals are 90% for 2006 American Community Survey data.

Sources: 1990 Census SF3 Table H043A, 2000 Census SF3 Table H63, 2006 American Community Survey Table B25064

Table 7: Rent Burden: Gross Rent as a Percentage of Household Income

	Less than 25% of Income			25% to 34.9% of Income			35% of Income or More		
	1990	2000	2006	1990	2000	2006	1990	2000	2006
Berkeley	46.3	39.4	29.8	15.2	16.7	16.7	38.5	43.8	53.6
Albany	47.8	47.1	-	20.8	23.2	-	31.4	29.7	-
Oakland	35.7	43.6	33.0	22.2	20.2	21.0	42.1	36.2	45.9
Alameda County	40.5	45.6	36.2	22.4	20.4	19.4	37.1	34.0	44.4

Note: Margins of Error (with 90% confidence) are shown with 2006 American Community Survey data. These estimates are conservative, since income groups were collapsed.

Sources: 1990 Census SF3 Table H050, 2000 Census SF3 Table H69, 2006 American Community Survey Table B25070

One way tenants can save money on rent is by "doubling up" in apartments- taking on additional roommates. This behavior can make housing appear more affordable, but in reality less housing is being consumed per person. Looking at data on crowding in rental units over time allows us to check for this effect. Interestingly, as shown in Table 8, crowding increased right after rent control ended, but decreased dramatically by 2006 for Oakland and Alameda County. The difference between 2000 and 2006 in Berkeley is less clear, due to the large confidence interval of the 2006 American Community Survey data. Overall, it appears that while affordability has decreased (as shown in Tables 6 and 7), tenants are not choosing to live in more crowded units.

Table 8: Percentage of Rental Units with More than 1.5 Persons per Room, 1990-2006

	1990	2000	2006
Berkeley	3.2	6.1	1.4 (± 2.7)
Albany	4.9	5.5	-
Oakland	9.2	13.6	3.1 (± 1.4)
Alameda County	6.4	11.4	2.3 (± 0.7)

Notes: Margins of Error (with 90% confidence) are shown with 2006 American Community Survey data. These estimates are conservative, since income groups were collapsed.

Sources: 1990 Census SF3 Table H069, 2000 Census SF3 Table H20, 2006 American Community Survey Table B25014

Lingering Effects of Strong Rent Control

So far this paper has discussed changes in availability, quality, and affordability of rental units over time. However, most of the data presented so far has been Census data, which can only separate renters from owner-occupants. Census data do not allow us to observe the effects of time or policy change on subgroups of renters, like those whose units are stabilized, or more importantly, those who moved into their units before vacancy decontrol was implemented. These long-time residents may still be receiving benefits from the strong rent control in the form of lower rents that have not been adjusted to the market level. Data from the Berkeley Rent Stabilization Board helps identify any lingering effects of the old, strict rent control policies. For example, the data can reveal if long-time tenants experience substantial savings on rent and if they tend to be less mobile than newer tenants who likely do not receive such savings.

Length of Tenure

A simple random sample of 500 units was drawn from the sample frame of units occupied as of 1996. Of the 500 units, 94 are no longer subject to rent control, either because they were removed from the rental market, are currently vacant, or were granted an exemption from stabilization by the Costa-Hawkins Act. As shown in Table 9, of the 406 matches, 75, or 15 percent, have tenants who moved in prior to 1996, when vacancy decontrol began to be phased in. Only 17 of the households moved in during the vacancy decontrol phase-in period (1996-1998), and the remaining 314 tenant households moved in since January 1, 1999, under full vacancy decontrol. Roughly 40 percent of the whole sample of tenants moved into their units since 2005.

Table 9: Year Tenant Moved into Unit

Category	Number	Percent
Moved in Prior to 1996 (Vacancy Control)	**75**	**15.0**
1996-1998 (Vacancy Decontrol Phase-In)	**17**	**3.4**
1999-2007 (Complete Vacancy Decontrol)	**314**	**62.8**
1999-2001	35	7.0
2002-2004	79	15.8
2005-2007	200	40.0
No Match in Database	**94**	**18.8**
Owner-occupied	26	5.2
Miscellaneous	30	6.0
Missing from Database	38	7.6
Total	**500**	**100.0**

Sources: 1996 Rent Database and 2007 Online Rent Ceiling Database, City of Berkeley Rent Stabilization Board Note: Miscellaneous includes 'not available for rent', 'free', 'cooperative', and exempted by Costa-Hawkins Act

Disparity in Rent Paid Based on Length of Tenure

A simple regression of the 2007 rent ceiling (the maximum legal rent that can be charged for a unit) on the length of tenure (divided into cohorts), number of bedrooms, and neighborhood of unit shows that tenants who moved in prior to full decontrol pay much less for their units than those who moved in later. Table 10 gives the results of the regression. Those who moved in before 1996, during vacancy control, pay about $585 less than those who moved into their units since 2005, even after controlling for differences in rent based on the neighborhood of the unit and the number of bedrooms in the unit. Tenants who moved in during the phase-in of vacancy decontrol also have a significant reduction in rent paid, about $478 less than those who moved in since 2005. Tenants who moved in starting in 1999, after vacancy decontrol was completely phased in, do not have a significantly lower rent ceiling than those who moved in within the last three years. In other words, length of tenure is not a dominant factor in how much rent is paid by tenants who moved into their units since 1999.[4] Perhaps rents are higher among those who moved in since 1999 because of vacancy decontrol, which coincided with rapid

[4] See Appendix Table D for related Census data. The Census data does not seem to support this conclusion, but it does not control for neighborhood or number of bedrooms. The standard errors (as reported by the Census Bureau) are also high.

increases in rents in most of the San Francisco Bay Area (Association of Bay Area Governments 2000). Since then, rents have somewhat stabilized in the market. The correlation between the rent ceiling and time the tenant moved in may be more interesting if one were to match units in the same building. For example, a researcher could compare units in the same building and with the same number of bedrooms, matching one unit occupied by a tenant who moved in recently with another unit occupied by a tenant who moved in prior to vacancy decontrol. This would help control for differences in landlords, quality of common spaces in the buildings, building size, conditions in immediate neighborhoods, and other characteristics. While this method would not be perfect, it would help ensure that differences in rent are more likely attributable to the initial year of occupancy.

Table 10: Effect of Length of Tenure on Rent Paid for Stabilized Units
Dependent variable = 2007 Rent Ceiling

Variable	Parameter Estimate	Standard Error
Intercept	969.367	27.935 **
Number of Bedrooms	273.491	17.232 **
Location[1]		
North Central Berkeley	-87.664	41.020 *
West Berkeley	-317.993	88.355 **
Berkeley Hills	84.051	60.061
South Berkeley	-115.569	46.017 *
Year Tenant Moved In[2]		
Before 1996 (Full Control)	-584.427	40.729 **
1996 to 1998 (Phase-In of Decontrol)	-477.685	74.869 **
1999 to 2001	-23.305	54.641
2002 to 2004	-8.790	39.332
R-squared	0.545	
Number of observations	397	
F-statistic	51.56	

* Significant at .05 level, ** significant at .01 level

[1] Dummy Variables for neighborhood, base case is Downtown/South Campus. Neighborhood boundaries are shown in Appendix Figure A

[2] Dummy Variables for year tenant moved into unit, base case is 2005 to 2007

Data Sources: 1996 Rent Database and 2007 Online Rent Ceiling Database, City of Berkeley Rent Stabilization Board

Impacts on Mobility of Tenants

Although tenants living in their units since before vacancy decontrol seem to experience a large financial benefit by not moving, Berkeley does not have a greater concentration of long-time tenants than do neighboring communities. Most of Alameda County's tenants are not covered by rent stabilization, so one may expect greater mobility among Alameda County tenants, as a whole, than Berkeley and Oakland tenants, whose rents are stabilized. However, as shown in Table 11, the percentage of tenants who have moved into their units since 2000 does not vary greatly in Berkeley, Oakland, or Alameda County. Perhaps the financial incentive, though large for some tenants, is not strong enough to keep people in their units for a long period of time. On the other hand, perhaps the size of the rent savings varied by unit, and those with smaller savings already moved to other units, leaving behind those who stand to lose the most if they move to a new apartment.

Table 11: Year Tenant Moved into Current Unit (2006)

	Count			Percentage		
Tenure	Berkeley	Oakland	Alameda County	Berkeley	Oakland	Alameda County
Moved in 2005 or later	9,405	26,748	84,857	42.6	32.8	38.5
Moved in 2000 to 2004	5,692	29,099	79,454	25.8	35.7	36
Moved in 1990 to 1999	4,513	17,142	38,873	20.4	21.1	17.6
Moved in 1980 to 1989	1,522	5,263	11,126	6.9	6.5	5
Moved in 1970 to 1979	623	2,190	4,159	2.8	2.7	1.9
Moved in 1969 or earlier	335	984	2,039	1.5	1.2	0.9
Total	22,090	81,426	220,508	100.0	100.0	100.0

Note: Margins of Error (with 90% confidence) are shown with 2006 American Community Survey data.

Sources: 2006 American Community Survey Table B25038

Whatever the cause may be, there is no evidence of high immobility among long-term tenants in Berkeley. Some critics of stabilization claim that the benefits to long-term tenants lead them to avoid moving even when it would be otherwise more efficient. The comparable mobility of tenants in Berkeley and Alameda County would seem to suggest that the rent savings received by long-term Berkeley tenants does not serve as a significant disincentive to move, and therefore may not be introducing additional inefficiencies into the market.

Conclusion

There are many questions about rent control that this paper is unable to answer. However, included here are some of the most relevant statistics to provide a picture of how changes in rent control policy may have impacted the rental market in Berkeley. The main findings are that (1) rental occupancy seems to be decreasing over time, though there has been growth in the number of approved building permits for residential projects, perhaps signaling future growth in the supply of rental units. Conversion of rental properties to owner-occupancy depleted the supply of stabilized units in the 1980s and 1990s, and it will continue to be a concern in Berkeley, especially as various interest groups challenge the City's restrictive ordinance on condominium conversion. (2) Vacancy rates and turnover have been high in recent years, indicating that the market is not particularly tight right now. Together, these facts seem to support the conclusion that there is a greater availability of units, even though the number of occupied rental units has decreased. Those people willing and able to pay the market rates are likely having an easier time finding a rental unit than when vacancy control was in place.

Furthermore, (3) the costs of renting have gone up, but crowding has decreased. People are paying more for their units, but they may be getting more for their money, either through more space per person or better maintenance by landlords, though no data on the latter point is currently available. (4) On the other hand, individuals who have lived in their units since before January 1, 1999, save a lot of money on rent. Since their units have not gone vacant since the full phase-in of vacancy decontrol, their rents have not been reset to the market rate, as opposed to other units. Although long-time renters make up about 30 percent of all renters in Berkeley, Oakland and Alameda County as a whole have similar shares of these tenants. It does not seem that people in Berkeley's cohort of long-time tenants are more likely to stay in their units over time than long-term tenants in neighboring communities. It seems that the benefit received by long-time tenants may not outweigh incentives to move, so it is unlikely

that the current rent control systems are contributing to inefficiencies caused by immobility of tenants.

Unfortunately, many important questions about vacancy decontrol are left unanswered. Namely, have the increases in rent led to better quality of units, or are landlords pocketing the additional revenue as profit? The City of Berkeley Planning Department's 1998 study of landlord maintenance should be expanded and updated to answer this question.

Another important question is how much new construction has occurred since vacancy decontrol. Permit statistics indicate significant growth in residential building, but it is unknown if these permits resulted in new construction, renovations, or if the projects were abandoned. Furthermore, not all new buildings, even multifamily ones, house renters. Condos and other owner-occupied housing units contribute to the housing supply, but may be too expensive to be practical for low-income families, students, and many seniors.

Rent control continues to be an issue of controversy in California. Hopefully this paper provides some valuable initial analysis of the effects of vacancy decontrol, particularly in the Berkeley rental market. As business advocates and landlords continue to challenge rental control policies in California (Chorneau 2007), it will be increasingly important to understand the characteristics of stabilized rental markets and to further investigate the impacts of policy change on the availability, adequacy, and affordability of rental housing.

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Appendix

Table A: Occupied Units in the Rent Control Program

	1996	2001	2006
Total Units Controlled	19,735	19,513	18,493
Total Bedrooms in Controlled Units	unavailable	23,483	21,984

Sources: 1996, 2001, and 2006 Rent Databases, City of Berkeley Rent Stabilization Board

Table B: Building Permits Issued for All Residential Units

	1991-1995	1996-2000	2001-2005	Total 1991-2005
Berkeley	231	423	1,059	1,713
Albany	15	29	50	94
Oakland	2,796	2483	5,121	10,400
Alameda County	14,353	25,014	21,435	60,802

Source: Construction Industry Research Board

Table C: Building Permits Issued for Multi-Family Units

	1991-1995	1996-2000	2001-2005	Total 1991-2005
Berkeley	169	373	977	1,519
Albany	3	16	12	31
Oakland	794	1,582	3,900	6,276
Alameda County	3,789	8,040	11,642	23,471

Source: Construction Industry Research Board

Table D: Confidence Intervals for Median Gross Rent by Year Moved in for Renter-Occupied Units, in 2006 Dollars

	Berkeley	Oakland	Alameda County
Moved in 2005 or later	($1,088 to $1,276)	($948 to $1,038)	($1,147 to $1,215)
Moved in 2000 to 2004	($946 to $1,172)	($971 to $1,075)	($1,109 to $1,167)
Moved in 1990 to 1999	($696 to $800)	($762 to $858)	($851 to $935)
Moved in 1980 to 1989	($713 to $983)	($755 to $967)	($827 to $995)
Moved in 1970 to 1979	($602 to $1,212)	($693 to $1,145)	($808 to $1,034)
Moved in 1969 or earlier	($481 to $817)	($479 to $1,649)	($595 to $1,411)
Total	($950 to $1,086)	($920 to $974)	($1,078 to $1,112)

Source: 2006 American Community Survey Table B25064

Figure A: Map of Berkeley Neighborhoods

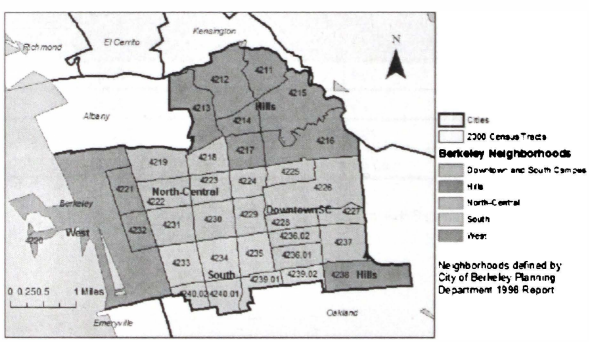
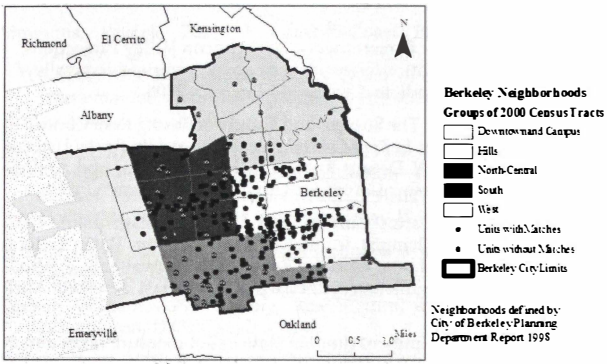


Figure B: Map of 500 Units in Sample



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Interviews

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