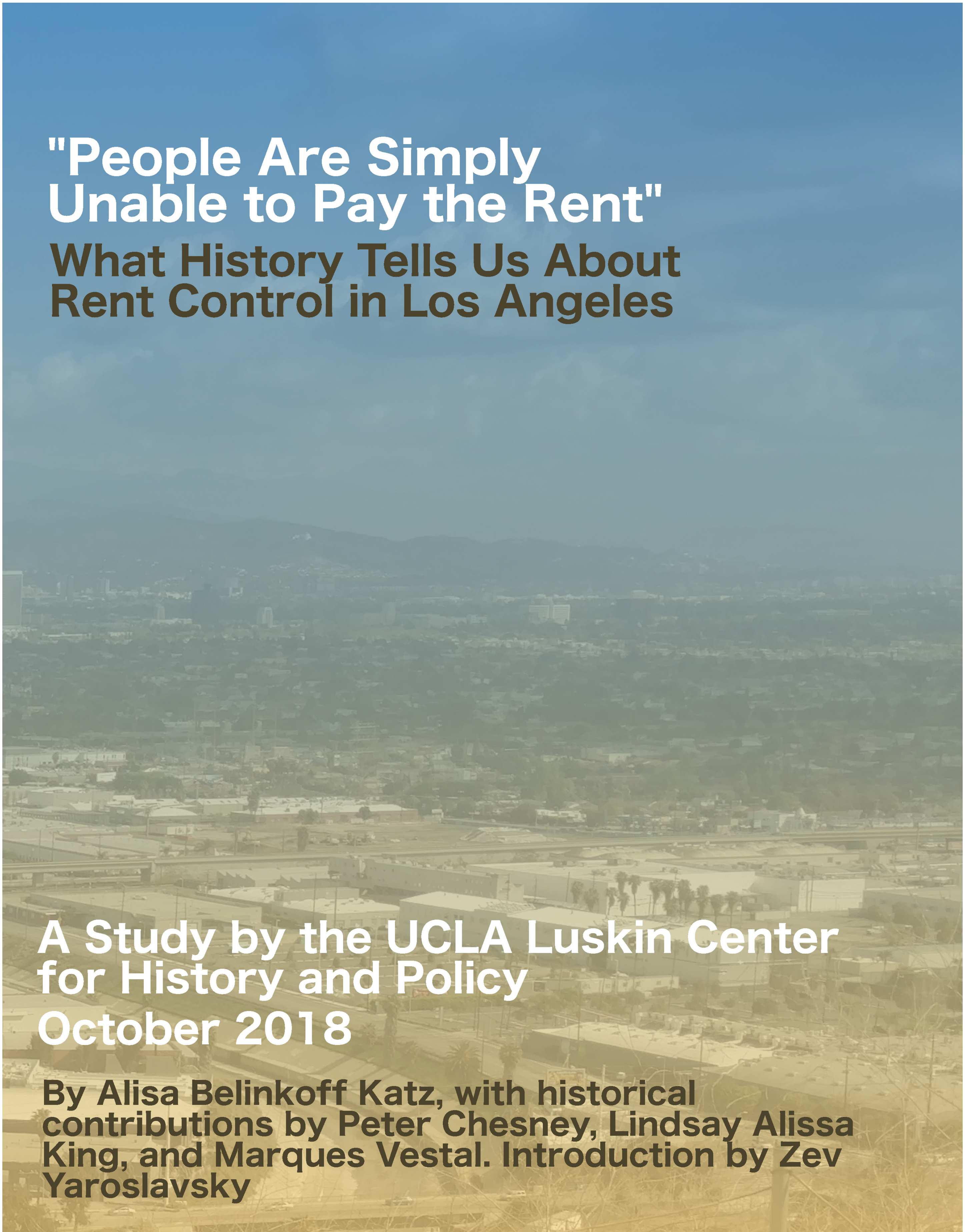

"People Are Simply Unable to Pay the Rent"

What History Tells Us About Rent Control in Los Angeles

A Study by the UCLA Luskin Center for History and Policy

October 2018

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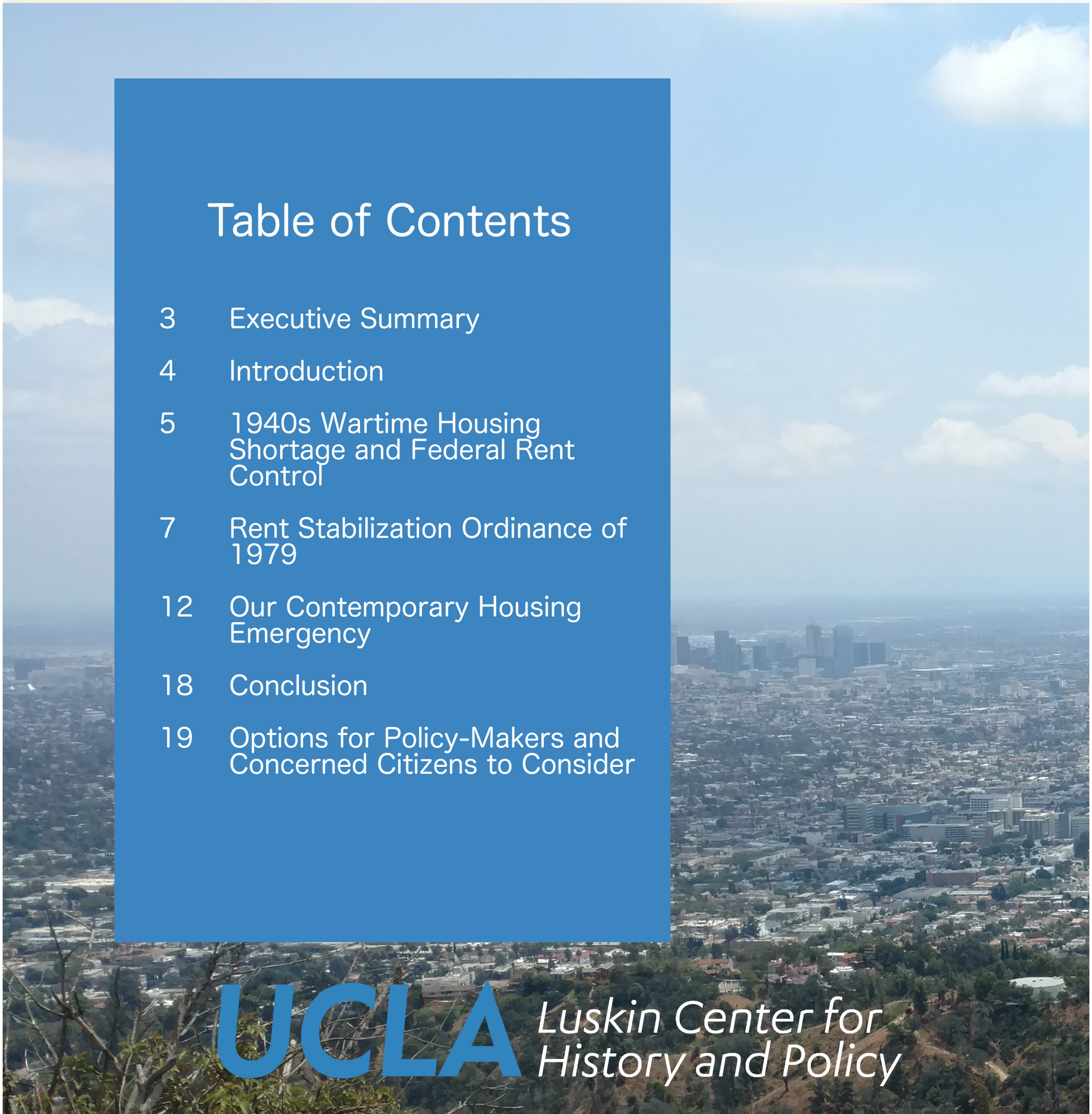

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UCLA Luskin Center for History and Policy

EXECUTIVE SUMMARY

This working paper, the first of the newly created UCLA Luskin Center for History and Policy, aims to realize the goal of adding historical perspective and depth to present-day problems. It rests on the premise that policy-making can benefit greatly from historical knowledge—and conversely, that we diminish our own capacity to solve present-day problems by ignoring history.

The case in point is the current affordable housing crisis in the City of Los Angeles, where rates of "rent burden" and, by extension, homelessness are reaching unprecedented levels. Of course, this is not the first such crisis that the city has faced. This paper examines two previous moments in which the city experienced a severe shortage of affordable housing stock. The first instance occurred in the early 1940s when hundreds of thousands of workers moved to the city to fill positions in the new war economy, overrunning the available housing inventory. Federal rent control in Los Angeles (1942-1950) successfully froze rents and narrowed the scope of evictions until housing construction expanded the city's housing supply.

The second instance occurred in the late 1970s owing to a combination of high inflation and an interlocking rise in home values, property taxes, and rental rates. The Rent Stabilization Ordinance (1979-present) ended dramatic rent increases for incumbent tenants by limiting the rate by which rents could be increased.

The current moment features a "perfect storm" of affordable housing shortfalls, rising rents, and declining incomes that began in the early 1990s and has gained momentum to this day. These trends have made housing unaffordable for almost half of middle-income renters and nearly all those who are poor. This in turn has exacerbated the epidemic of homelessness on our streets.

Drawing on our history, this paper proposes a range of options to ameliorate the economic vulnerability and anxiety of a growing number of our city's rent-burdened residents. These options include extending the city's rent stabilization law to certain units built after 1978 as well as to single-family homes; modifying the "vacancy decontrol" provisions of the city's ordinance to better maintain what remains of its affordable housing stock; and extending just-cause eviction protections to all renters. Many of these proposals require amending or repealing the state Costa-Hawkins law, a 1995 statute that largely pre-empts local government's regulatory power in the rental housing space. Other options include more fully engaging the public in enforcement of the rent stabilization law.

These options offer tools to mitigate some of the negative effects of gentrification at a time of dynamic economic growth in Los Angeles. Finally and most urgently, the proposed options offer relief from the epidemic of homelessness that threatens the soul of our city.

INTRODUCTION

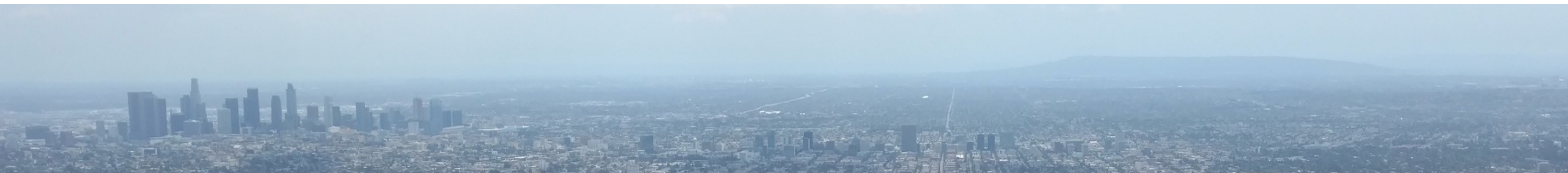
Los Angeles today faces a profound housing crisis that endangers the social fabric and public health of the city. And yet, this problem is not without a history. In the last eight decades, the City of L.A. has experienced affordable housing crises caused by shortages and hyper-inflationary price increases. These were periods in which city residents were forced to choose between staying in their homes or apartments at the expense of other vital needs or uprooting themselves from their communities in search of more affordable shelter.

Exploring the past allows us to better understand how we got to where we are today. Accordingly, this paper will analyze housing crises during three distinct moments in Los Angeles history: World War II, the 1970s, and the present moment. In each of these periods, housing prices reached crisis proportions. The war years were characterized by a massive influx of population to Los Angeles, which resulted in an immediate and severe rental housing shortage and skyrocketing housing costs. In this case, the federal government intervened to impose controls on rents.

The 1970s witnessed dramatic, upwardly spiraling property values which resulted in concomitant increases in both ownership and rental housing prices. The former spawned Proposition 13 in 1978, which rolled back property taxes and strictly capped future increases. The latter resulted in the city adopting a rent stabilization ordinance that rolled back rents and tied future increases to the cost of living index.

Today's housing affordability crisis is caused by changes in the Los Angeles economy that began in the late 1980s and early 1990s and led to affordable housing shortfalls, rising rents, and dwindling incomes. Though the causes and characteristics of the current crisis may differ somewhat from those of previous periods, the fundamental questions remain the same. Does government, particularly at the state and city level, have the tools at its disposal to aid Los Angeles renters in withstanding the economic pressures that they face? What lessons can be learned from our city's history that may inform current policy? This historical analysis seeks to answer these and other questions at this critical juncture in our history.

We will not delve into the debates over long-term housing policies, which are raging in California today. There is no shortage of public policy experts, business leaders, tenants' rights advocates, and other stakeholders who can lead that discussion. Instead, we seek to assess what government can do in the short term to stabilize this crisis and ease the anxiety of renters who are increasingly being priced out of their own homes. At the heart of this project is the belief that history is an important, if often neglected, tool in policy analysis. Historical analysis will both uncover structural continuities between the present moment and its antecedents and reveal uniquely modern factors that exacerbate the current rental problem in Los Angeles.



1940S WARTIME HOUSING SHORTAGE AND FEDERAL RENT CONTROL

In early 1942, soon after the United States entered World War II, Congress passed the Emergency Price Control Act, authorizing price ceilings on essential commodities and residential rents in designated war production areas.[1] The Office of Price Administration (OPA) was created to enforce these national rent and commodity price controls. Rent control commenced in Los Angeles on November 1, 1942. The OPA staffed a district office, area rent control offices, and over a hundred rent advisory boards throughout the Los Angeles district that controlled ceilings and evictions on about 550,000 units of housing countywide.[2]

Rent and eviction controls would prove critical in Los Angeles as wartime migration overran the city's housing supply. Workers who had struggled for a decade through the Great Depression migrated to Los Angeles by the tens of thousands to join the surge in industrial employment.[3] No stranger to phenomenal growth, the city's population increased by 20 percent (265,734 new residents) between 1940 and 1945.[4] However, unlike in previous decades, labor, money, and supplies were diverted away from residential construction and toward war efforts. An estimated 15,000 residential construction projects in Los Angeles went uncompleted due to material and labor shortages during the war.[5] With such a sharp increase in population and reduced home building following a decade of depression, Los Angeles suffered the worst housing crisis yet in its history. More than two years after the war's end, in November 1947, housing construction still had not caught up with population growth. Speaking before a congressional committee, Los Angeles Assistant Mayor Orville Caldwell reported that post-1940 immigration demanded 136,631 new housing units, but only 91,448 had been built.[6]

The lived experience of the housing shortage was oppressive. "I do not know what we are going to do," reported John W. Brooks, a returning White veteran whose wife was expecting a child. "At present I am living with 18 other ex-servicemen in a crowded apartment house. We have even tried to remodel and fix up a chicken house to make shelter."[7] African American residents were particularly affected by the housing crisis as the growing Black population was forced to find shelter in that small portion of the city to which they were consigned by custom and racially restrictive covenants. In Little Tokyo, which briefly took on the moniker "Bronzeville," 70,000 Black migrants moved into crowded residential and even commercial buildings left vacant by the Japanese American internment ordered by the Federal government in February of 1942.[8]

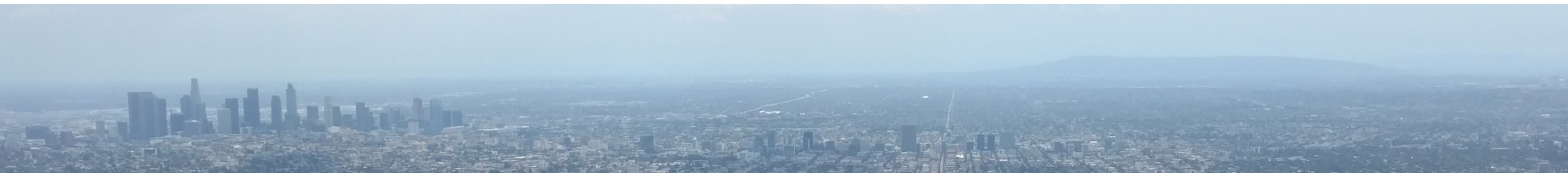
Rent control ensured that housing was made available to workers and veterans at reasonable prices despite the wartime shortage. Rents were frozen by federal government edict at March 1, 1942 levels – a time when even the poorest Americans spent less than 30% of their income on shelter[9] – and OPA regulations generally prohibited evictions of tenants paying their rent.[10] C. David Ginsburg, General Counsel of the OPA, estimated that federal rent control would save tenants $1 billion a year nationally.[11]

When controls commenced, landlords were required to register their rental properties with the OPA, reporting the rent amount on the freeze date that included the cost of housing services, such as laundry or furnishings. Landlords had to secure the signatures of tenants on their property registration forms, which ensured that tenants were aware of their rights. Thus it was tenant awareness – filing complaints, verifying prices, and checking registrations – along with federal enforcement that made rent control effective. For this reason, it was imperative that the public was informed about rent control through a variety of media and public events. The Information Department of the OPA produced leaflets, posters, and films educating tenants and landlords on the provisions of rent control.[12] A 1945 poster depicted an image of the iconic, finger-pointing Uncle Sam adjacent to the assurance that "Rent Control PROTECTS YOU" (Fig.1).

Figure 1. United States. Office of Price Administration, Rent Control Protects You. 1945. Poster, 21.5 x 28cm. Illinois State Library, Springfield, IL. From: Illinois State Library, http://www.idaillinois.org/cdm/ref/collection/isl5/id/158 (accessed June 7, 2018.

The Office of Price Administration and its successor agency, the Housing Expediter[13], pursued rent control violations made known to them through tenant advocacy.[14] In 1944, a group of over thirty mothers and children, tenants of an apartment building on Sunset and Normandie, "stormed" the OPA office demanding protection from pending evictions.[15] In 1945, the OPA reported its "greatest single enforcement drive" in Southern California, prosecuting 117 landlords for failure to register properties as required by law.[16]

Landlords were tentatively supportive of the law as price ceilings of all kinds were viewed as patriotic and temporary measures.[17] Yet, as landlords gained experience overseeing properties that were rent controlled, their complaints and resistance mounted. Discontented landlords derided what they



called the "Gestapo tactics" of the OPA.[18] "We are sick and tired of the treatment we have received from the OPA," declared David Culver, president of the Apartment Association of Los Angeles County, Inc., "and we are going to do something about it." Landlords argued that rent ceilings were too low to cover rising taxes and maintenance costs and that OPA officials were either too slow or too unwilling to approve necessary evictions.[19] By October of 1945, apartment owner associations were organizing rent decontrol campaigns and threatening to pull their rental units off the market to protest continuing rent regulations. According to its opponents, the emergency circumstances that had justified price ceilings ended with the war.[20]

The elimination of federal rent and commodity price controls was inevitable as their constitutional justification hinged on the emergency conditions of the war. The post-war federal Housing and Rent Act of 1947 weakened controls, and the 1949 federal Housing Act allowed local governing bodies to end rent control altogether.[21] Thus, in July 1950 the City Council of Los Angeles by a 10-4 vote declared the housing shortage over and decontrolled rents in the city.[22] By the end of that year the city had fully dismantled rent control, leaving residential rent prices to the whim of the market with evictions regulated only by state law.

It should be noted that support for rent control was weakened by administrative and ideological concerns. Some council members, reported the *Los Angeles Times*, declared that "the obvious unfairness of the Housing Expediter's office toward small landlords contributed more than anything else to the success of the decontrol movement."[23] Additionally, opponents of rent control in the early throes of the Cold War antagonistically described it as "communistic" and "un-American," signaling an ideological slant that would also doom the expansion of public housing in Los Angeles.[24]

The City Council abolished rent control at the commencement of a housing construction boom rivaled by no other city in the country during the postwar period. Between 1946 and 1950, the city's housing supply increased 21% (120,798 units).[25] Between 1940 and 1960, Los Angeles and Orange Counties more than doubled both their single-family and multi-family housing inventories.[26] Large, well-financed developers backed by Federal Housing Administration loan guarantees converted thousands of acres of undeveloped agricultural or recreational land into housing,[27] building numerous two-story garden apartment complexes such as Lincoln Place, Chase Knolls, and Baldwin Village located in Venice, Sherman Oaks, and Baldwin Hills, respectively.[28]

RENT STABILIZATION ORDINANCE OF 1979

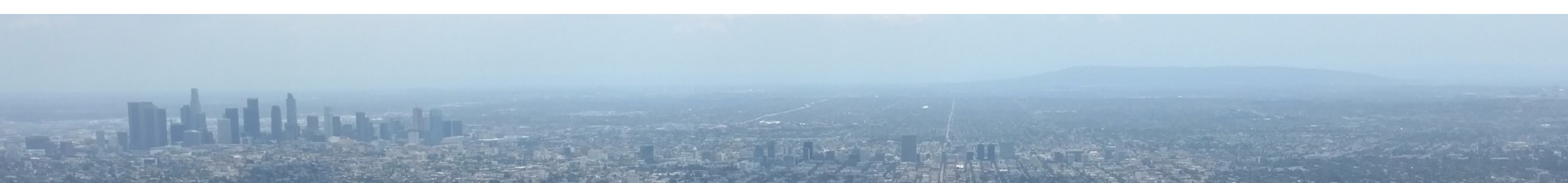
While the population of Los Angeles continued to boom throughout the 1960s, the 1970s brought uncertain economic times. In 1971 President Nixon imposed a 90-day freeze on wages and prices, including rents – the first such price controls since the war. Inflation immediately dropped, but it rose again in 1973 when the oil crisis initiated a period of "stagflation" – economic stagnation combined with rising consumer prices and high unemployment.

By the late '70s inflation had risen to nearly 10% per year. Simultaneously, Los Angeles was experiencing an enormous boom in home prices, especially in more affluent neighborhoods. According to Los Angeles financial consultant Benjamin J. Stein, in the ten years from 1970 to 1980, the price of the average home in West Los Angeles increased almost six times; the price of homes in Beverly Hills increased almost seven times; and homes in Malibu were routinely doubling in value annually.[29] During the "bull market" that ran for nearly six years, from January 1975 to September 1980, the overall rate of increase in home prices for all of Los Angeles County, adjusted for inflation, was 69%.[30]

These skyrocketing home values quickly translated into enormous increases in property tax bills. Before the mid-1960s, the Los Angeles County Assessor had routinely protected the owners of residential properties by assessing them at about 21% of market value versus 45% of market value for commercial properties. This came to an end after a bribery scandal spurred 1967 legislation requiring assessors to assess all properties at 25% of market value and to conduct subsequent reassessments frequently enough to maintain that ratio.[31] According to Jack Citrin of the University of California, Berkeley, "The unintended consequence of this reform was to increase the assessment for homeowners."[32] In fiscal 1977 overall L.A. County assessments rose 13.8%, with much higher increases in upper-middle class neighborhoods such as Studio City and Toluca Lake (88%) and parts of Northridge (111%). Just before the election that decided Proposition 13, the Assessor announced an increase in property tax assessments of 17.5% countywide.[33]

The actual tax on property is calculated by multiplying the assessed value by the tax rate. During the late '70s many taxing agencies including the county and city of Los Angeles lowered their tax rates in response to property owner concerns, only to see those savings more than wiped out by increased tax assessments. Between 1975-76 and 1976-77, the "basic" county tax rate, which covered the cost of "general government," declined by about 6 cents per $100 of assessed valuation in response to taxpayer pressure, and the combined rate for all taxing agencies paid by most Los Angeles city residents declined by forty-nine cents. Despite these cutbacks, the Los Angeles Times reported in October 1977 that "…the tax bills for roughly half the county's homeowners reassessed this year will be dramatically larger. This has kindled a bicentennial tax rebellion."[34] Indeed, by June, 1978 voters had approved Proposition 13, a state constitutional amendment which rolled property tax assessments back to their 1976 values, limited increases in assessments to 2% per year and capped property tax rates at 1% of assessed value.

The rent control movement actually predates Prop 13. During the mid-1970s rental properties were soaring in value along with other types of real estate, and rents soon followed suit as owners sought to earn a return on their investments and to pay their rising property tax bills. Soaring rents jumpstarted a tenant activist movement that worked to stage rent strikes, to force landlords to repair buildings, and to promote the passage of both state and local legislation that would curb what tenant activists described as "rent gouging." Tenants faced an uphill battle. In 1976 the California legislature defeated a bill to control rents and passed another to disallow local rent control (the latter was vetoed by Governor Jerry Brown).[35] In 1977, organizers tried but failed to pass a limited form of rent



control in the City of Los Angeles.[36] A *Los Angeles Times* story from that same year describes efforts to organize tenants in West Los Angeles and similar areas and cites case after case of those whose rent had risen dramatically after their buildings were purchased by new owners. Tenants such as Morris Passachoff, age 67, of North Hollywood had been paying $85 a month for his one-bedroom apartment until it was sold to new owners, who then charged him $165. Florence Schmidt, "over 65," of Beverly Hills, whose income was $400 a month, saw her rent jump from $125 to $250. In the summer of 1977 the State Consumer Affairs Department reported receiving 3,000 calls per month regarding rent issues in its Los Angeles office alone.[37]

The real estate industry appointed Howard Jarvis, then executive director of the Apartment Association of Los Angeles County, Inc., now known to history as the author of Proposition 13, to respond to these efforts. During the run-up to the referendum vote in June 1978, Jarvis recognized the political power of renters – 45% of the state's households – and sought to assure them that they, too, would benefit from passage of the property tax reduction measure.[38] One group of apartment owners announced an agreement to provide a 50% rebate on December rents if Prop 13 were to pass,[39] but others refused to make any such promise.[40] In fact, less than a month after Prop 13 prevailed at the polls, the tenants of one Sherman Oaks building went on strike after receiving notice of rent increases ranging from 20 to 29% per month, the second such round of increases in a year.[41]

Councilmembers led by Joel Wachs, who represented many of the neighborhoods affected by escalating rents, had already been advocating for some form of rent control for nearly a year. In mid-July 1978, the failure of many landlords to pass on property tax savings to tenants caused Mayor

Figure 2. Renters march on Los Angeles City Hall, 1978. Photo courtesy of Coalition for Economic Survival.

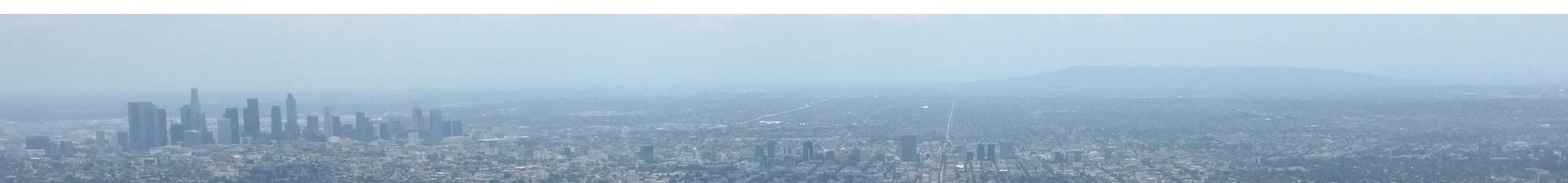
Tom Bradley, who had not previously spoken out on the issue, to call for "dramatic action" to halt what he termed "outrageous" rent increases.[42] By the end of August 1978, a rollback and moratorium on rent increases was approved, and in May of 1979, after a long and contentious battle, the City of Los Angeles enacted a one-year-only Rent Stabilization Ordinance (RSO). The RSO was renewed annually until April 1982, when it was made permanent.[43]

Unlike World War II-era rent control, the RSO sought to balance the needs of renters and landlords by allowing rents to rise annually, in accordance with limits established by the city. Landlords may further raise rents to pay for capital improvements, various utilities, and special needs. If a tenant moves, the landlord may charge a new tenant market-price rent, but further rent increases are controlled – a system known as "vacancy decontrol/recontrol." Finally, certain units are excluded from the ordinance, including single-family homes, "luxury" units, and apartments built since the Ordinance went into effect in October 1978.

The RSO has been amended well over 60 times in the nearly forty years since its passage, most recently in December 2017. The allowable annual rent increase has changed, from a flat 7% in the early years to the previous year's change in CPI with a floor of 3% and a ceiling of 8% (1985). Provisions allowing landlords to charge more for "major renovations" have been tightened (1987). The ordinance has been expanded to include two single-family homes on one lot (1995); to conform to state legislation (Ellis Act); to aid victims of natural disasters; and to address mobile home parks. Proper upkeep of rental units has been addressed through creation of habitability programs such as the Systematic Code Enforcement Program.[44] Separately, the city enacted the Rent Escrow Account (REAP) Program, which attempts to address slum conditions by allowing tenants in poorly maintained buildings to escrow their rents with the city until repairs are made.[45]

While some tenants battled rent increases in the late 1970s, others saw their units converted into condominiums and put up for sale. Still others found their buildings emptied of tenants, demolished, and replaced with new, for-sale condominium units. Condos offered a relatively low-priced entry into the over-heated housing market for would-be buyers, but they simultaneously represented the loss of affordable rentals. In 1977 alone, developers applied for permits to convert some 11,000 units.[46] "Condomania" developed in tandem with the rent-control issue. In fact, the first ordinance regulating condo conversions was passed almost simultaneously with the moratorium and rollback in rents.[47] A second, stronger version was approved in June 1979.[48] These ordinances are intended to preserve affordable rental units and protect besieged tenants by requiring building owners to provide tenants appropriate time to find new housing and to pay relocation fees. They also allow the city to deny a conversion request when the apartment vacancy rate drops below 5% in the surrounding area. In 1979 Mayor Bradley's housing director, Kathleen Connell, said that "(m)ost conversions are happening on the West Side while most of the new ones are being built in the San Fernando Valley, because that's where the land is." Hot spots included Westwood, Encino, Tarzana and Canoga Park, with pockets in North Hollywood and Sherman Oaks.[49]

A diverse group of smaller cities in the Los Angeles area also struggled with soaring rents during this period. Pasadena, Long Beach, El Monte, West Covina, Claremont, and Hawthorne all considered, but did not approve, rent control measures during the late 1970s and early '80s.[50] Thousand Oaks



passed a rent control ordinance, but it only applied to mobile homes and apartment dwellers that had moved into their units before 1987.[51] A few other cities enacted rent control ordinances for mobile homes only.[52] Los Angeles County approved a rent control ordinance for its unincorporated areas in June 1979 that expired at the end of one year. It was extended on an annual basis until 1985, after the failure of a 1983 ballot measure to make it permanent (Measure M).[53]

In addition to Los Angeles, the only cities in the metro area that approved rent control ordinances during this period, which are still in effect today, were Beverly Hills, Santa Monica and West Hollywood. In many respects, the struggle over rent control shaped the latter two cities as we know them today. West Hollywood during the 1970s was an unincorporated part of Los Angeles County whose 1984 battle for cityhood was in many respects a direct outcome of the failure of Measure M. Together with that area's significant LGBT and elderly populations, the renters' rights group Coalition for Economic Survival led the cityhood movement. Tenant activists controlled the new City Council, which approved a rent control ordinance at its first meeting.[54] Santa Monica in the '70s was composed primarily of renters, who comprised more than 80% of the population, but, according to activist Syd Rose, the city had a political leadership made up almost entirely of "landlords, owners and attorneys for landlords."[55] With double-digit rent increases hitting tenants throughout that city, the Santa Monicans for Renters' Rights (SMMR) organization spearheaded passage of a rent control ordinance in 1979. The city was labeled "The People's Republic of Santa Monica" by landlord interests due to its strong advocacy for renters' rights. Both the West Hollywood and the Santa Monica ordinances included vacancy control provisions, preventing landlords from resetting rent to market levels when new tenants moved in.[56]

Each of these ordinances and amendments was bitterly contested by landlords and tenant activists. While real estate groups and apartment owners continued to oppose rent control at the local level, they increasingly turned to the state court system and, eventually, to the legislature for relief. In 1984, Santa Monica landlord Jerome Nash took the city to court for refusing to permit him to demolish a piece of dilapidated rental property that he owned. Nash argued that because the property was in such bad repair, he could not find a buyer but neither could he afford to renovate the building since he was unable to raise rent. He was therefore forced to manage the apartments at a loss. The case made headlines across the state when it finally reached the California Supreme Court.

The court ruled in favor of Santa Monica, upholding its decision to deny Nash the option to evict tenants and demolish the property. But only months later, in 1985, the California State Legislature passed the Ellis Act, a sweeping piece of legislation motivated by the Nash ruling.[57] The Ellis Act allowed rental owners across California to evict all tenants of a given property and exit the rental market without permission from local authorities (although cities could impose requirements on any new rental units built on the same property). Pro-control lobbyists feared that the act would spur evictions, demolitions, and the replacement of affordable options with high-cost housing. When the act went into effect on July 1, 1986, it was celebrated as a major victory by the apartment housing industry.

Real estate interests secured an even bigger victory in 1995 with the passage of the Costa-Hawkins Act. This bill consisted of three main elements. First, it mandated the statewide abolition of vacancy control, allowing owners to raise rents to market levels when tenancies ended. Second, it prohibited the imposition of rent control or rent stabilization laws on any apartments, single-family homes, or condominiums built after February 1, 1995. Finally, it froze existing local rent control laws by forbidding any expansion of protections in cities with rent control laws already on the books.

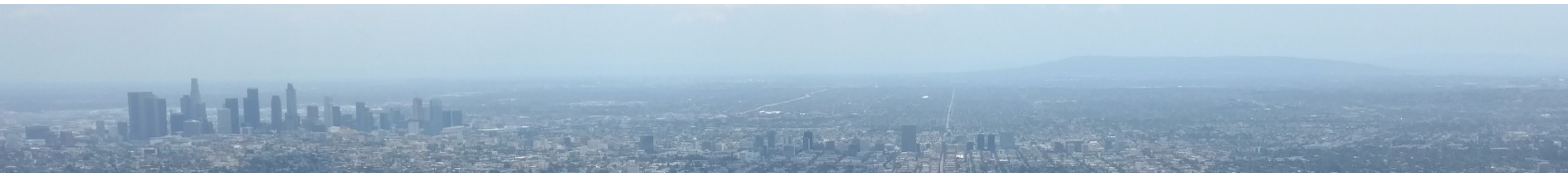
Costa-Hawkins effectively shut down the rent control movement statewide. It forced West Hollywood and Santa Monica to remove vacancy control from their ordinances. But the law had limited impact in Los Angeles because the L.A. RSO never included vacancy control and because it had always specifically excluded units built after 1978 – seventeen years earlier than the Costa-Hawkins cut-off. Nevertheless, passage of this law precluded action by the City to expand protections to buildings built between 1978 and 1995 and beyond.

OUR CONTEMPORARY HOUSING EMERGENCY

While rent control laws have hit a stalemate, the rental housing market has continued to change. Therein lies the source of our current housing crisis.

As a review of this history makes clear, the late-'70s rent control movement originated among middle-class communities and was punctuated by seniors living on fixed incomes. Individual stories quoted in contemporary news and the fact that the only three Los Angeles-area small cities with rent control today are located in the high-priced real-estate market niches of Beverly Hills, Santa Monica and West Hollywood attest to this reality. These cities and these Los Angeles communities were predominantly White. But the story of rent control was dramatically different in minority neighborhoods that had been racially segregated by a history of discriminatory laws and customs. Investors ignored these communities, which meant that they were not the focus of speculative demand or skyrocketing rents.[58] While City Council members who led the rent control movement represented predominantly White, middle-class districts, representatives of minority communities typically opposed these controls. Citing historical neglect, disinvestment, and an aging housing stock, councilmembers representing Black and Latino districts argued that the more important issues were rehabilitation and development of housing, which they believed rent control would undermine. African American Councilman David S. Cunningham led the opposition to rent control, and Councilman Arthur K. Snyder, who represented largely-Latino East Los Angeles, claimed rent control was an issue only for "affluent people in West Los Angeles and the San Fernando Valley – it has no relevance to poor communities."[59]

Today, however, the problem is no longer confined to middle-class Whites, seniors, or residents of the Westside and parts of the San Fernando Valley. Property values and rents are rising everywhere. The demographic and economic shifts that hit L.A. beginning in the late 1980s and early 1990s have contributed to a "perfect storm" of affordable housing shortfalls, rising rents, and dropping incomes



that is crushing the poorest citizens of the city, particularly Latinos and Blacks, with disproportionate force. Housing affordability has declined for middle-income Angelenos, and it has all but vanished for low-income earners. The interplay of these factors has exacerbated the great social and moral scourge of our time: homelessness.

The City of Los Angeles conducted studies on the impact of the Rent Stabilization Ordinance and the L.A. rental market on four occasions since its passage. The 1984, 1988, and 1993 studies were performed by Hamilton, Rabinovitz & Alschuler, Inc. (HRA). The 2006 study was undertaken by the Economic Roundtable (ERT). ERT conducted another study of the L.A. rental market in 2011 that was underwritten by the Pat Brown Institute.[60]

The 1984 and 1988 studies confirmed the basic outlines of the rental market that had existed in 1978. The 1993 study, however, revealed a dramatic break from the past. HRA found that “(p)owerful forces have reshaped economic and social conditions since the last review of the Los Angeles rental housing market . . . .” Among these forces they listed the end of the Cold War and the subsequent loss of hundreds of thousands of defense-related jobs in Southern California, “explosive changes in demographic trends,” civil unrest, and natural disasters. “The result,” the study argued, “is a picture which no one could have predicted even five years ago and which bears virtually no resemblance to the conditions which prevailed in 1978 when the City of Los Angeles first sought to stabilize the rental market.”[61]

Indeed, by the mid-1990s thousands of local manufacturing jobs had disappeared and been replaced by low-skill, low-wage jobs. Los Angeles added half a million residents to its population, many from Mexico, Central America, and parts of Asia. White and Black populations decreased in size. A city once known as America’s “white spot” for its lack of population diversity was renamed by one author “The Capital of the Third World.”[62] New immigrants, from predominantly rural backgrounds, swelled the ranks of the city’s poor.

In their monograph “The Trajectory of Poor Neighborhoods in Southern California,” researchers Shannon McConville and Paul Ong demonstrate how these trends contributed to a “concentration of poverty” in Los Angeles between 1970 and 2000, with particular emphasis on the 1990s. They point to three contributing factors: the arrival of immigrants who typically “experience high poverty for a variety of reasons, including issues of acculturation, English language ability, and low skill and education levels”; the resulting depression of wages and diminished economic mobility for low-skilled workers; and the disappearance of aerospace and other well-paying manufacturing jobs during the 1990s.[63]

As a result of these new demographic and economic conditions, by the mid-‘90s Los Angeles was no longer the predominantly middle-income city that had enacted a moderate form of rent control in 1979. In 1980, L.A. County’s poverty rate was 13.4%, in comparison to the national poverty rate of 12.4%. In 2000 the national rate remained the same while L.A.’s rose to 17.9%.[64] In more recent years, the official rate has remained about the same, but the “California Poverty Measure” that adjusts for housing costs and safety net impacts has approached 25%.[65]

To compound matters, while poverty has surged, property values have continued to rise. The 69% increase in home prices that spurred Proposition 13 in 1978 had, by the end of 2017, become a 238% increase in home prices (adjusted).[66] Rents followed suit. A study by UCLA Luskin researchers Rosalie Ray, Paul Ong, and Silvia Jimenez depicts the change in Los Angeles County median rents and median renter incomes since 1970. Median rents and incomes diverged during the 1970s, with rents increasing and incomes decreasing. Both rents and income rose during the '80s and fell during the '90s, but, in the first decade of the 21st century, rents rose sharply and incomes dropped. The net result is that, though 2009-11 median income was actually 2% lower than it was in 1970, median rents over that same period increased 85% (both figures adjusted for inflation).[67] More recent figures show no substantial change in this trend.

This has created a crisis of "rent burden" – the share of a renter's income that is spent on rent – in Los Angeles (Fig. 3). A household that pays more than 30% of its income for rent is considered "moderately rent burdened," and a household that pays more than 50% of its income for rent is considered "severely rent burdened."

RENT BURDEN, U.S. AND LOS ANGELES, 1970 – 2011

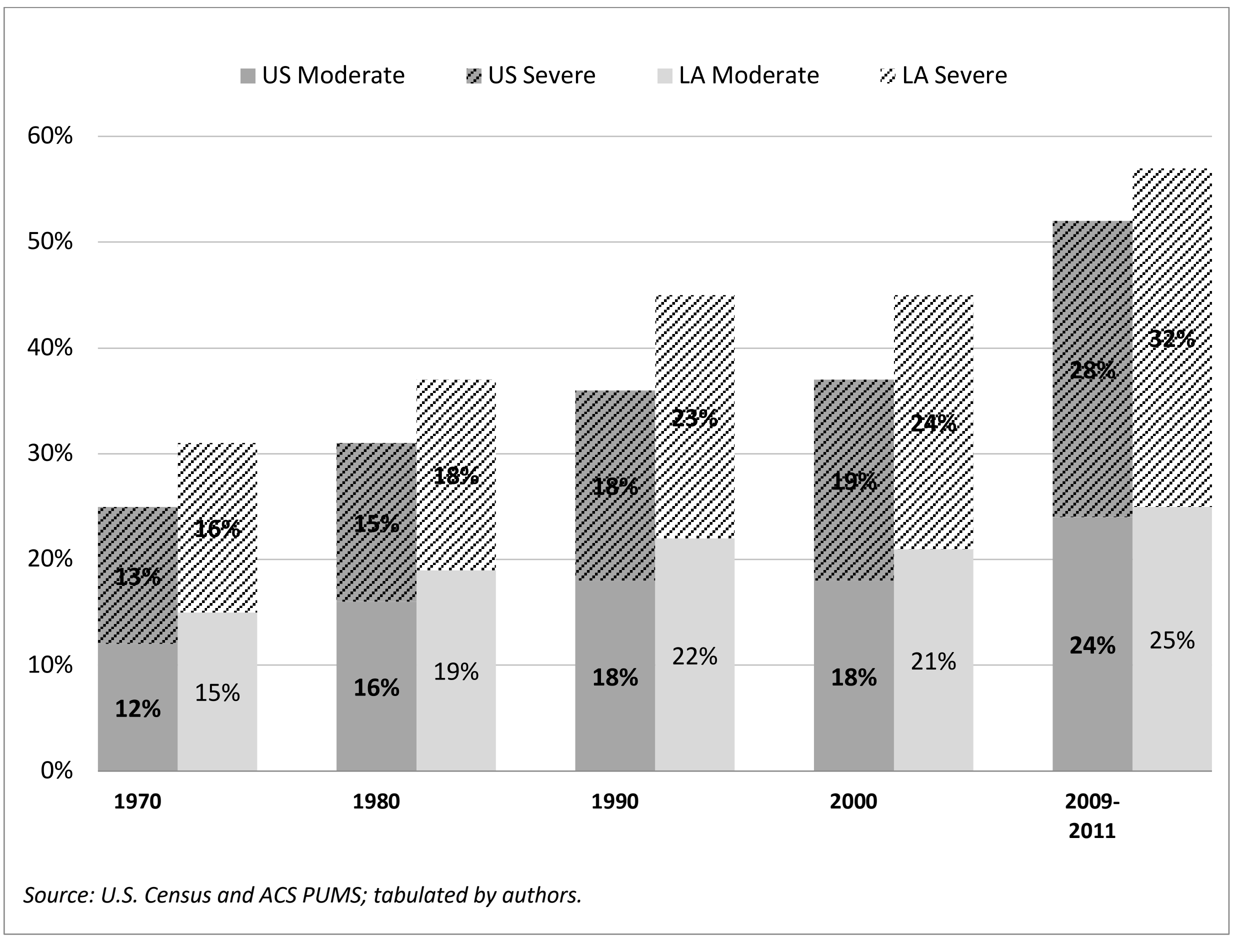
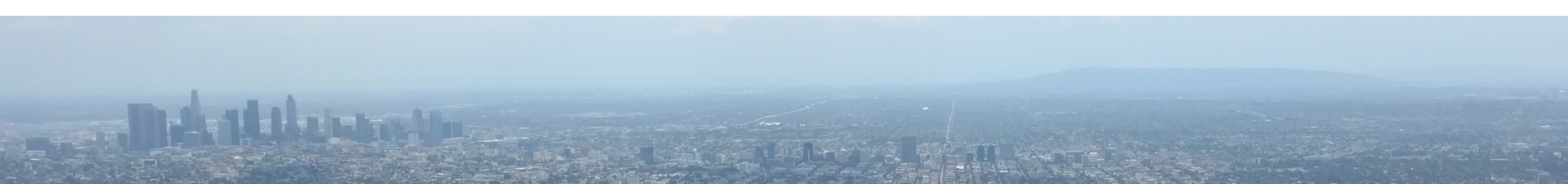


Figure 3. Ray, et.al., Impacts of the Widening Divide, Revised September 2014; Figure 7; percentage figures added by Silvia Jimenez e-mail, May 31, 2018.



Rent burden has risen rapidly. In 1970 31% of L.A renters were rent burdened. That increased to 37% in 1980 and 45% in 1990. That figure stayed about the same in 2000 but rose again in 2009-2011 to 57%. In that year one-quarter of L.A. renters were moderately rent-burdened, and nearly one-third were severely rent-burdened.[68] According to Zillow, by the end of 2013, the median renter in Los Angeles was paying 47% of their income for rent – **the highest rent burden in the nation**.[69]

The impact of rising rents hits the lowest earners (those in the bottom quintile) especially hard. Ray, et.al. found that in 1970, 54% of this group was severely rent-burdened (paying more than half of their income for rent), but by 2009-2011 that figure had risen to nearly 78%.[70] According to the California Housing Partnership, in 2016 the income needed to afford "average rent" in Los Angeles was $7,027 a month. In that year minimum wage earners only took in $1,820 a month, retail salespersons only $2,368 a month, and truck drivers only $3,561 a month. A renter would have needed to earn 3.9 times L.A.'s minimum wage to afford the median monthly asking rent.[71]

Here again we reach a point of dissonance. While the need for affordable housing in Los Angeles has grown, the number of affordable housing units and the share of rentals covered by the RSO have both dropped. New apartments built after 1978 are automatically exempt from rent control. As a result, while in 1982 almost 100% of apartments were rent controlled, today only about 80% fall within that category.[72] When single-family home rentals are included, the share of units covered by RSO drops to 73%.[73] Federal affordable housing subsidies have shrunk, and the Community Redevelopment Agency, once a source of funding for low-income housing, was eliminated in 2012. Most new apartment construction is nowhere near "affordable." Additionally, the city has lost affordable units through Ellis Act demolitions (over 24,000 units since 2001, according to the Coalition for Economic Survival),[74] home-sharing web platforms (7,316 units according to Los Angeles Alliance for a New Economy),[75] condominium conversions, seismic rehabilitation demands, loss of single-room occupancy units to new development, and other factors. L.A. County has thousands of affordable units that were built with government subsidies in return for time-limited guarantees by the developers to maintain low rents. These guarantees have now begun to expire, and additional subsidies will be required if 11,500 currently-guaranteed units are to remain accessible to low-income tenants.[76]

The high price of rent affects the middle-class as well as the poor. According to the study by Ray, et al., about 10% of middle-income renters were rent-burdened in 1970. This figure rose to almost 50% by 2011.[77] Many of these renters are those who in better times might have been able to buy a house, including young adults who must instead compete for the shrinking supply of affordable rentals. Gentrification has a dual role as both a driver and a consequence of these trends. Younger people, priced out of increasingly expensive neighborhoods, look for homes in less expensive areas. Once they move in, prices in those areas rise. This trend has been accelerated by massive public and private investment in rapidly-gentrifying South and East Los Angeles, where the Metro Expo and Gold Lines, the Crenshaw/LAX Transit Project, and the L.A. Stadium & Entertainment District in Inglewood are all contributing to inflation in residential and commercial property values within surrounding neighborhoods and beyond.[78] For example, the *LA Weekly* cites a neighborhood near Vermont and Imperial that has recently seen home prices appreciate at about 12% per year.[79]

Single-family homes, which constitute about one-fifth of rentals in Los Angeles, are exempt from the RSO.[80] In recent years this has presented a unique problem. The collapse of the subprime mortgage market in 2008 led to the Great Recession and a huge spike in foreclosures nationwide. In Los Angeles this included approximately 53,000 properties by late 2012, located primarily in low-income neighborhoods and including many single-family homes. While the City Council acted to prevent evictions from these units,[81] a different problem developed after the crisis was over. In what may be an emerging trend, many of the foreclosed homes were sold to financial institutions and ultimately turned into rental properties. For example, Invitation Homes, a unit of the private equity firm Blackstone, reportedly owns approximately 3,150 such homes in L.A. County.[82] According to the advocacy group Alliance of Californians for Community Empowerment (ACCE), many of Invitation's homes are located in working-class neighborhoods heavily populated by minorities.[83]

The Economic Roundtable's 2011 study of the rental housing market revealed an interesting statistic: between 1970 and 2010 the population of the City of Los Angeles grew by 35%, while the number of rental housing units grew by slightly more – 39%. ERT explains that the rental housing inventory grew 8% in just three years, between 2007 and 2010, largely because foreclosed homes were turned into rentals, as discussed above (Fig. 4).[84] Ownership of a noticeable portion of the housing stock by Invitation Homes and similar firms makes it hard for first-time home-buyers to get a toehold in the market because they are competing with institutional investors. It also adds to the number of residents who are renting without the protection of rent control.

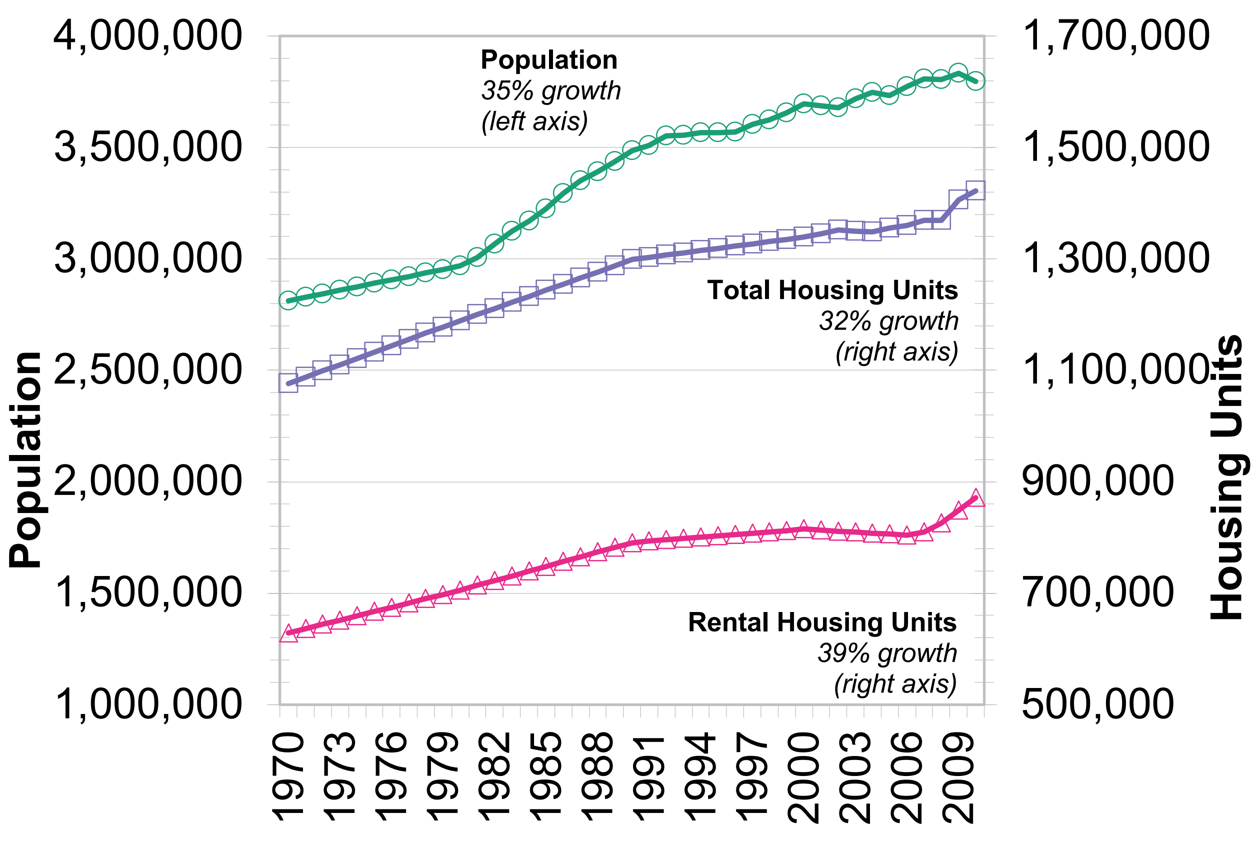
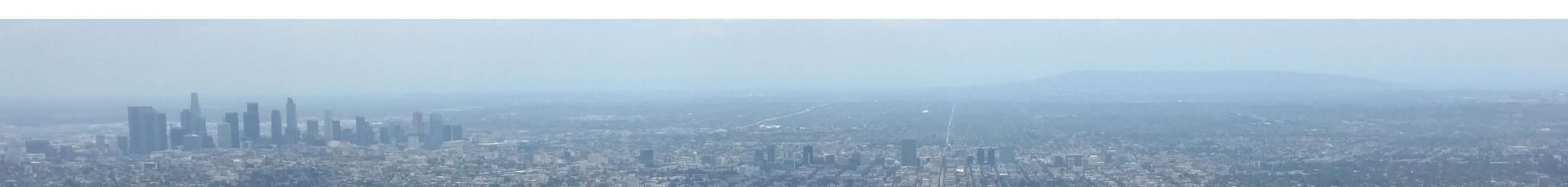


Figure 4. Economic Roundtable 2011, Fig. 2.



Indeed, Invitation Homes has raised the rents substantially on many of its properties. The company justifies these increases as consistent with market trends, and they point to renovations the company has made to their rental properties. But many tenants are having difficulty hanging onto their homes. Steve Lopez of the *Los Angeles Times* cites the case of Invitation tenant Renita Barbee whose rent was $1,850 in 2013 and $2,120 in 2017. It was increased to more than $3,000 at the end of 2017. After ACCE stepped in, it was adjusted to $2,330 – still a 10% increase over the course of a year when inflation ran only 2.1%. As of November 2017 Barbee was planning to move. As Lopez describes, "She may stay a while longer, but still intends to leave. At least temporarily, she said, her daughter and husband will move in with relatives and she will either rent a room from a co-worker or sleep on a friend's couch while saving money for her next real estate adventure. 'If this keeps happening,' Barbee said, 'we're all going to end up on the street.'"[85]

UCLA economist Michael Storper calls today's Los Angeles a "superstar" region to which high earners are drawn, squeezing out the poor. He writes, "Superstar metropolitan areas like L.A. are increasingly composed of high-skilled, high-income, highly educated people. This has led to an explosion in rents and housing prices, and a lot of people getting less housing than they need."[86] Storper's comments emphasize the urgency of the issue we currently face. Left unaltered, the problem is only going to get worse.

Perhaps the most visible expression of the crisis is the explosion of homelessness on Los Angeles' streets. The National Law Center on Homelessness & Poverty (NLCHP) says that "(a) lack of adequate affordable rental housing is the primary cause of housing instability and homelessness…Housing cost burdens leave people at risk of homelessness if they experience an interruption in income from job loss, illness, injury, divorce, or any other destabilizing life event."[87]

These factors can lead to evictions, which according to NLCHP, are "a direct cause of homelessness."[88] The RSO permits evictions only for specified reasons ("just cause"), one of which is failure to pay rent. Los Angeles County courts receive more than 50,000 eviction filings each year.[89] According to advocacy organization Tenants Together, this represents "the tip of the iceberg" for involuntary displacement since landlords are required to give notice of eviction and many tenants, knowing they have limited rights and limited access to legal representation, "just move out." Once a family has been destabilized by an eviction, it may be difficult to secure new housing as many landlords screen for those with eviction records.[90]

Homelessness has surged countywide to about 53,000 people in 2018,[91] due in significant part to unaffordable rents. The 2018 UCLA Luskin Quality of Life Survey found that 41% of L.A. County renters and over half of workers earning the lowest incomes have worried about losing their homes and becoming homeless in recent years.[92] According to Phil Ansell, Los Angeles County's point person on homelessness, the growing number of first-time homeless people is evidence of severe financial strain. As Ansell told radio station KPCC, "People are simply unable to pay the rent."[93] Ansell said the 2017 count of first-time homeless people was "very high" at 8,044, but the 2018 count was even higher – 9,322. Nearly half the 2018 newly homeless blamed financial setbacks for their situation.[94] As Jerry Jones of the Inner City Law Center told the *Los Angeles Times*, "It's not as if over five years there's been an upsurge in mentally ill people or people with substance abuse issues. . . . People are winding up in the streets because they can't afford the rents."[95]

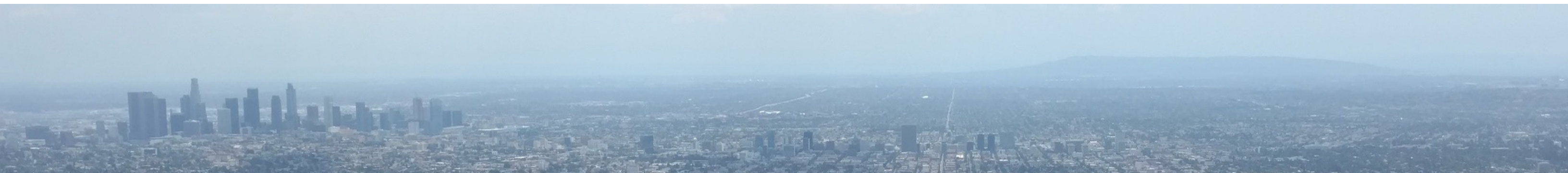
CONCLUSION

Los Angeles’ history is marked by periods of severe housing affordability crises. Each of these periods was classified by unique social and economic circumstances. During World War II, rent control was part of a national effort to tamp down price gouging and support the war effort. The 1970s was characterized by hyper-inflation that drove up home prices and rents in predominantly White, middle-class communities.

Today’s crisis is different. While seniors and other tenants in the 1970s were hard hit by rent increases, they were decidedly “middle class.” They had something to fall back on – job skills, small savings, or investments. When push came to shove, many could find ways to make do. The victims of today’s housing affordability crisis include the lowest-income renters who make up a much-higher percentage of the city’s population. They have little to fall back on – except the street.

What began as a problem for largely White, senior, middle-class tenants living in L.A.’s most desirable areas has turned into a problem for every segment of the rental population, from the very poor to the middle class to those who have been priced out of homeownership; from South LA to the Westside to the San Fernando Valley. What began as an effort to protect seniors living on fixed incomes is today not enough to keep renters of all ages in their homes and off the streets. This problem extends beyond city boundaries as evidenced by rent control movements now active in Inglewood, Long Beach, Glendale and Pasadena. There are also movements afoot to amend or repeal Costa-Hawkins and the Ellis Act. Indeed, Los Angeles Mayor Eric Garcetti and the *Los Angeles Times* have endorsed the Costa-Hawkins repeal.

This crisis demands action. The time has come to reassess the City of Los Angeles’ Rent Stabilization and related tenant protection ordinances to address our most vulnerable, rent-burdened populations. The ability to effect change at the city level is limited by state law, but that does not preclude political leaders and concerned citizens from advocating for changes to that law and amending local law where possible.



OPTIONS FOR POLICY-MAKERS AND CONCERNED CITIZENS TO CONSIDER

In today's Los Angeles, renters are increasingly priced out of their homes and, in many cases, forced into homelessness. This is an emergency that threatens the stability of our economy and our community. As this paper has demonstrated, government has not hesitated to use its powers to address housing emergencies in the past. Listed below are options that the authors believe City leaders must consider in order to address the crisis facing Los Angeles today. Most of the options involve additional use of the government's power to control residential rents, including repeal or amendment of the State's Costa-Hawkins Act where applicable. To be sure, rent control is controversial, and many believe it to be a disincentive to new apartment construction. The Los Angeles City Council recognized that argument four decades ago when it exempted new construction, and included vacancy decontrol/recontrol, in its Rent Stabilization Ordinance. Indeed, government has a responsibility to create and preserve a healthy rental housing market. That includes encouraging new apartment construction, but **it also means taking action to ensure the availability and affordability of rental housing for all income levels.**

CHANGES TO STATE LEGISLATION

- Repeal or amend Costa-Hawkins, allowing local governments to reassert themselves in stabilizing rents.
- Extend rent protections to single-family homes.*
- Apply the Rent Stabilization Ordinance to properties built between October 1978 and February 1995, which are currently exempted by Costa-Hawkins.*
- Amend the Rent Stabilization Ordinance to void the exemption for new construction after a set period of time.*
- Change the formula for RSO rent increases to allow CPI plus a small premium in exchange for establishing vacancy control, potentially for short-term tenants only.*

*Requires amendment to Costa-Hawkins Act.

CHANGES TO THE EXISTING RENT STABILIZATION ORDINANCE AND OTHER CITY LAWS

- Amend the standard for annual rent increases from 100% of the change in CPI to approximately 70% of the change in CPI.
- Lower the floor for RSO rent increases. Currently rents may rise with the CPI, limited by a floor of 3% and a ceiling of 8%. The CPI has risen less than 3% many times since 1978 and, therefore, it may be appropriate to lower or eliminate the floor. (CPI has not exceeded 8% since the early 1980s).

- Extend just-cause eviction protections to non-RSO units and enact laws that would provide tenants the "right to counsel" in eviction cases.

PUBLIC ENGAGEMENT

- Require landlords and tenants to sign property registration forms, as was done during World War II, so that tenants are aware of their rights.
- Conduct a public relations campaign that casts the crisis as a serious social and public health problem and provides information and resources to renters in need of affordable housing (such as the 1945 federal campaign that reminded citizens that "Rent Control PROTECTS YOU").

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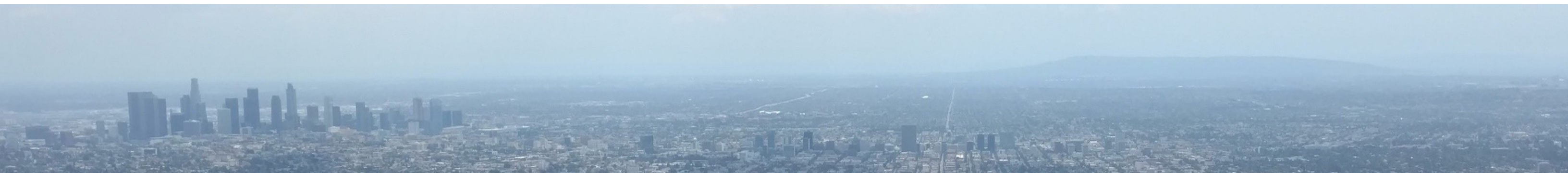

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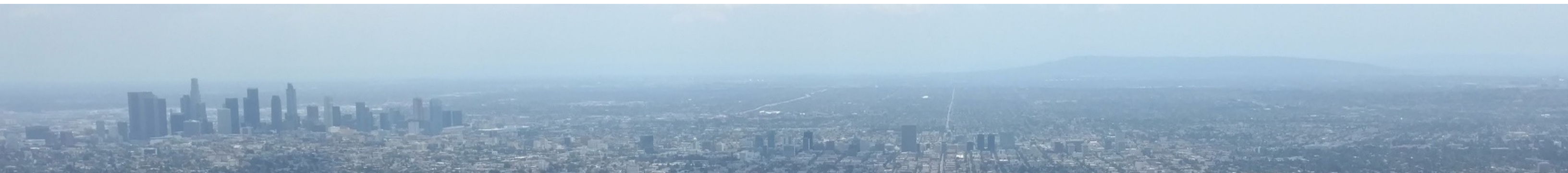

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