



CALIFORNIA ASSOCIATION OF REALTORS®

## San Francisco's Rent Control Study

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### PURPOSE

**The San Francisco Board of Supervisors conceived rent control as a temporary measure.** The original rent control ordinance No. 181-79 was scheduled to last 60 days, from April to June 30, 1979. In the meantime, the City and County of San Francisco was to develop and adopt *other* measures to alleviate the City's housing crisis. A moratorium, several amendments and ordinances have extended the life of the Rent Control ordinance to this day.<sup>1</sup>

The purpose of the ordinance was to

1. *Solve the lack of affordable and decent rental housing and*
2. *Address the displacement and financial burdens created by it to:*
  - a. *Low and moderate-income households, and*
  - b. *Senior citizens.*

This study will explore if indeed it has accomplished its purpose.

### METHODOLOGY

#### Sources

- Bureau of Labor Statistics, U.S. Department of Labor, *Consumer Price Index* at <http://www.bls.gov/cpi/home.htm>;
- San Francisco Government, *San Francisco Administrative Code, Chapter 37, Rent Control Ordinance*.
- San Francisco Rent Board, *San Francisco Housing DataBook* at [http://sfgov.org/site/rentboard\\_page.asp?id=6130](http://sfgov.org/site/rentboard_page.asp?id=6130)
- U.S. Bureau of the Census, *American Housing Survey San Francisco/Oakland PMSA* for the years 1985, 1989 and 1993; *Annual Housing Report San Francisco-Oakland SMA* for the years 1975, 1982; *1980 Census of Housing, Subject Reports: Space Utilization of the Housing Inventory*;

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<sup>1</sup> San Francisco Government, *San Francisco Administrative Code, Chapter 37, Rent Control Ordinance*, Section 31.1 Title and Findings (b) (4), (5) and (6).

- U.S. Department of Housing and Urban Development (HUD), *HUD Data Sets* at <http://www.huduser.org/datasets>; and *State of the Cities Data System* (SODCS) at <http://socds.huduser.org/scripts/odbc.exe/census/Screen3.htm>.

## **Inflation**

All dollar amounts are inflation adjusted and indexed to 1980. Comparison statistics vary depending on data available. Whenever it was possible, statistics from before the effective adoption of rent control in 1979-1980 were used. If these figures were not available, the year closest to rent control adoption was used.

Figures for the San Francisco Metropolitan area stop in 1993 because the American Housing Survey changed the geographical definition for San Francisco-Oakland area in 1998 and the emergence and crash of the dot-coms in Silicon Valley skewed significantly all posterior housing data.

## **Definitions**

“**San Francisco area**” or the “**regional market**” is the San Francisco-Oakland Metropolitan Area as defined by the Bureau of the Census, *American Housing Survey San Francisco/Oakland PMSA*, years 1985, 1989 and 1993.

“**San Francisco City**” or “**San Francisco**” refers to the City/County of San Francisco exclusively as currently defined by the Bureau of the Census.

“**FMRs**” (Fair Market Rents) are gross rent estimates. HUD publishes standards of what is considered a fair market rent. That is the rent that determines the eligibility of rental housing units for the Section 8 Housing Assistance Payments program. The calculation for the rent includes the shelter rent plus the cost of all utilities, except telephones. HUD sets FMRs to assure that a sufficient supply of rental housing is available to program participants. To accomplish this objective, FMRs must be both high enough to permit a selection of units and neighborhoods and low enough to serve as many low-income families as possible. The level at which FMRs are set is expressed as a percentile point within the rent distribution of standard-quality rental housing units. The current definition used is the 40th percentile rent, the dollar amount below which 40 percent of the standard-quality rental housing units are rented. The 40th percentile rent is drawn from the distribution of rents of all units occupied by recent movers (renter households who moved to their present residence within the past 15 months). Public housing units and units less than 2 years old are excluded. HUD, *Fair Market Rents For The Section 8 Housing Assistance Payments Program*, <http://www.huduser.org/datasets/fmr/fmrover.doc>.

## **FINDINGS**

### **1. Rent Control does not preserve or enhance ethnic diversity.**

- Rent control does nothing to preserve or enhance ethnic diversity in the **regional rental market**. In 1978, just before rent control was adopted 90,200 Black/African-

American renters resided in the San Francisco area, representing 16% of the total rental population (570,700). By 1993, the percentage in the regional market had dropped to 12%, (70,700 Black/African-American renters out of 587,600 total renters).

- Rent control does nothing to preserve or enhance ethnic diversity within the rent control units in the regional market. In 1982, 15%, or 20,400, of the rent control units were occupied by Black or African American households, in 1993 this percentage dropped to 8% (10,600).

## **2. Rent control does not generate affordable and decent rental housing**

- Rent control increases prices in the general rental market. Rent control increases pressure for housing in the surrounding uncontrolled rental market. Increased demand is caused by “cheap units” (below market prices for rent-controlled units whose prices are expected to fall even more as time passes by). But the number of rent-controlled units is limited and this supply is not likely to increase in the same magnitude demand is growing (due to a lag in production as well as removal of units from the market).
  - Between 1970 and 1980 rent prices actually **decreased** 5.8% (\$297.32 to \$281). From 1980 to 1993 prices **increased** 46.3% (\$281 to \$411.14).
  - The average annual percent increase in rent was 3.6% for the period 1980-1993; the average annual percent increase in rent from 1970 to 1980 was -.58% (yes, minus six percent!).

## **3. Rent control does not benefit low and moderate-income households**

- Wealthier tenants are occupying rent-controlled housing. 1993 tenants were 18.7% wealthier than 1982 tenants. The median income of such a tenant rose from \$13,833 in 1982 to \$16,415 in 1993. That is wealthier tenants are displacing lower income households from the rent controlled units and the rental market.
- New tenant households (those who moved within last year into rent controlled units) tend to be wealthier than average tenants. In 1993, new renters were 123.7% wealthier than elderly renters, 16.8% wealthier than Hispanics and 4% wealthier than Blacks. That is, replacement in the rental units is being done with wealthier, rather than low and moderate- income households.
- A very small percentage of low-income households are housed in rent-controlled units, while the rest face excessive rents. In 1993, the FMR (Fair Market Rent) for San Francisco, according to HUD, was \$177/month or \$2,121.4/yr. For the same year, the median rent in San Francisco was \$411/month or \$4,932/yr. (\$234/month, \$2,808/yr. or 232.49% higher than the FMR). Only 10% of the households housed in rent-controlled units that year were classified as below-poverty (13,100 from a total of 135,800 units) and they represented 21% of the total below poverty rental population (13,100 from a total of 62,000). The other 79% (48,900) of below poverty households faced rents 232.49% higher than HUD's FMR. These households faced substantially expensive free market rents, while wealthier households kept profiting from rent control, and had to devote above 30% of their household income in rent.
- Rent control does not alleviate needy households' rent burden. The households that already are paying above the 30% of their income, as suggested by HUD, will continue to do so, while wealthier ones find comfort in the current rental prices. For example, in 1993, given a median annual rent of \$4,932, the rent burden for:

1. a Black household in a rent controlled unit with an annual median income of \$11,685.4 was 42.2%,
  2. an elderly household in a rent controlled unit with an annual median income of \$7664.1 was 64.3%,
  3. a Hispanic household in a rent controlled unit with an annual median income of \$17,111 was 33.7%,
  4. a “moved within last year” household in a rent controlled unit with an annual median income of \$17,111.8 was 28.8%.
- In 1985, 11% of rent control units were occupied by below poverty households; in 1993, the percentage was 10%.

#### **4. Rent control does not benefit Senior citizens**

- In 1970, senior citizens constituted 18% of the rental population, in 1993 their percentage had dropped to 11%.
- Rent control does not increase housing for senior citizens in rent-controlled units. In 1985, senior citizens occupied 11% of the rent-controlled units; by 1993 the percentage remained 11%.

### **CONCLUSION**

Based on the findings, rent control has not created a pool of affordable and decent rental housing and has not increased the number of very-low and low-income households and seniors housed in rent-controlled units. In the twenty-four years that rent control has been used in the City of San Francisco it has not solved the problem it was designed to alleviate.