

EXPLORING THE EFFECTIVENESS OF TENANT PROTECTIONS IN SILICON VALLEY

POLICY BRIEF

November 8, 2019



**URBAN
DISPLACEMENT
PROJECT**

UNIVERSITY OF CALIFORNIA BERKELEY

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TENANT PROTECTIONS IN SILICON VALLEY

As communities nationwide face displacement pressures, tenant protection advocacy in cities and states around the country is growing as a part of comprehensive strategies to address this problem. In the Bay Area, low-income renters' wages have not kept up with rising housing costs. Between 2000 and 2015, rent burden, or the share of households spending more than 30% of their income on rent, went up for all income groups, but most of all for low- and very low-income households.¹ The growing challenge and strengthened tenant organizing has led to the passage of new rent stabilization and just cause for evictions policies with the goal of stabilizing tenants.² Just this year, both Oregon and California passed statewide anti-gouging rent regulations to prevent rent hikes for some renters, with California's legislation also including evictions protections. In Silicon Valley, at the jurisdiction level, Mountain View, San Jose, and East Palo Alto have either passed or strengthened their tenant protections policies in the last few years.

Previous research indicates that rent regulation can contribute to housing stability; in Los Angeles, mobility rates of renters significantly declined in the two years after the adoption of rent control in 1979.³ In New York City, renters with rent control benefits stayed in their homes significantly longer, indicating greater rates of stability.⁴ However, these studies have looked mostly at an older generation of rent control policies. There is little evidence on how effective recent rent stabilization policies, paired with evictions protections, are in meeting their objectives of protecting vulnerable residents and promoting housing affordability and stability.ⁱ

Using the Silicon Valley region as a case study, this policy brief explores the impacts of tenant protections, specifically rent regulation and just cause for evictions protections, on residential displacement. The brief builds on key findings from a recent working paper by UDP partners Jackelyn Hwang (Stanford University) and Bina Shrimali (Federal Reserve Bank of San Francisco)⁵ to discuss implications for future anti-displacement policy-making focused on tenant protection.

Key implications include:

- **Tenant protections are helpful in mitigating displacement;** for vulnerable populations, tenant protections might be essential to their housing stability. In East Palo Alto, as compared to similar cities without protections, out-migration rates decreased following amendments to rent control and just cause for eviction policies that expanded the coverage of these protections. Additionally, average low-credit-score renters moving from blocks with tenant protections were more likely to move to areas with higher socioeconomic status, which may suggest a higher probability of planned moves as opposed to involuntary displacement.ⁱⁱ
- **Policy design matters.** For example, even though San Jose has had some rent regulation in place since 1979, their out-migration patterns were similar to cities of similar demographics without tenant protections. In 2016, the policy was amended to lower an 8 percent cap to a 5 percent cap, and in 2017 the policy was amended to include just cause for eviction protections. However, the effects of this amendment were likely not captured in this analysis

ⁱ Some studies that look at impacts on supply do assess more recent rent stabilization policies. See Diamond et al, 2018, which finds that landlords may be more likely to convert rent-controlled units to condos to exempt them from rent regulation.

ⁱⁱ Circumstances of moves to areas with higher socioeconomic status may vary, and more research is needed to better understand these dynamics. Examples of circumstances behind moves to such areas might include increases in income, moving in with family members, getting off waitlists for subsidized housing, or applying savings accumulated from low rent to higher rents in higher resource areas.

because the data did not extend beyond 2018 at the time of the analysis. The out-migration rates observed may be due to elements of the pre-amendment policy, including the high 8 percent rent control cap, rent control not being paired with just cause for evictions protections, or both.

- Relatedly, **while statewide anti-gouging is a first step, more stringent tenant protections at the jurisdiction level may be necessary to truly promote greater housing affordability and stability.** While anti-gouging will be a critical stopgap measure in individual cases, policies that look more like anti-gouging in terms of their rent caps, like San Jose's pre-2016 8 percent cap policy, might not have a stabilizing impact at the neighborhood level.

METHODS

The Federal Reserve Bank of San Francisco study that this brief builds on was unique in using fine-grained data on units covered by tenant protections and household mobility.

- To **quantify units with tenant protections**, researchers estimated the number of units that are covered by just cause for eviction and rent control by applying parameters of ordinances to Zillow property data and subtracting the number of subsidized units obtained from a California Housing Partnership Corporation (CHPC) database.⁶
- To **examine residential mobility patterns**, researchers computed out-migration rates, the percentage of people who moved out of their block group within one year, relying on the Federal Reserve Bank of New York Consumer Credit Panel/Equifax (CCP) data.⁷ The data provided information on individuals' census block groups but not their exact addresses. Because there is no information on race, ethnicity, income, or tenure status in CCP data, household mortgage status and low or missing credit scores were used to proxy if individuals are renters and/or financially disadvantaged, respectively.⁸
- To **compare out-migration trends**, researchers identified comparable cities and block groups to each city and block group with tenant protections, using demographic, socioeconomic, and housing characteristics from the 2000 Census.⁹ The out-migration rates describe the percentage of individuals who moved from a block group over a given year, but the analysis was not able to link renters to specific units to know whether an individual renter lived in a unit with tenant protections, due to limitations in the data.

FINDINGS

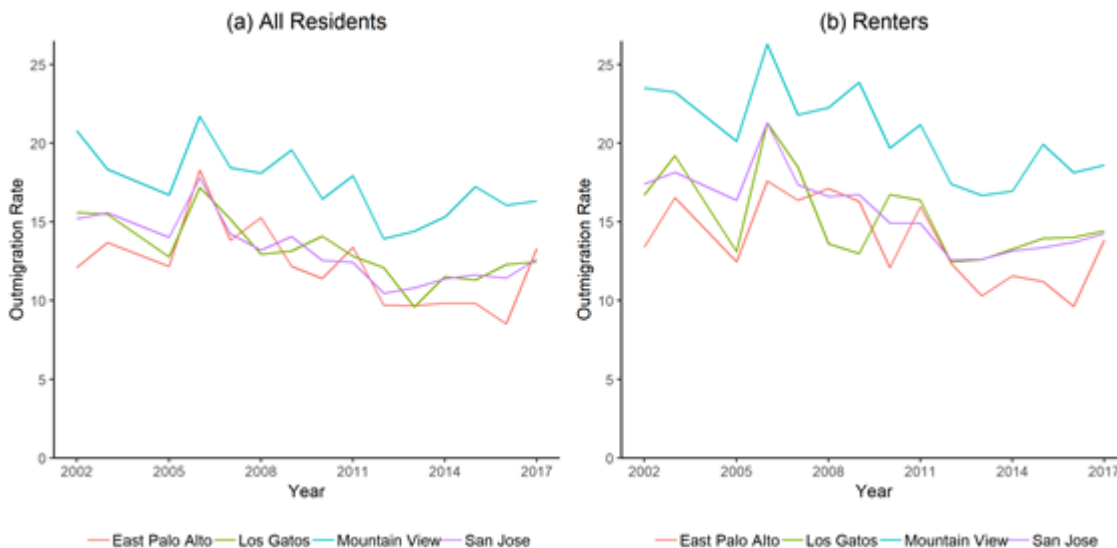
The research results discussed here include overall findings across four Silicon Valley cities, East Palo Alto, San Jose, Mountain View, and Los Gatos, and site-specific findings for East Palo Alto, San Jose, and Mountain View.ⁱⁱⁱ Residential mobility trends observed in the analysis roughly match with the housing boom-bust cycle (see Figure 1). Across all cities with tenant protections, out-migration rates were higher during the Recession years and then subsequently declined,

ⁱⁱⁱ Los Gatos findings have not been discussed here due to the relatively weaker enforcement and policy design of its Rental Dispute Mediation and Arbitration Ordinance. See <https://www.frbsf.org/community-development/publications/working-papers/2019/october/increasing-access-to-affordable-housing-opportunities-in-silicon-valley/> for details.

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reaching lows in 2011-2012. Since then, out-migration rates have increased again as the housing market has been heating up intensely. As expected, out-migration rates among renters were generally higher compared to out-migration rates for all residents.¹⁰ Mountain View has substantially higher out-migration rates than the other cities, possibly due to a large number of demolitions (especially between 2012-2016), high share of rental housing, and/or steady influx of new high-income earners.¹¹

Figure 1. Out-migration Rates for Each City for (a) All Residents and (b) Renters¹²



Source: Federal Reserve Bank of New York Consumer Credit Panel/Equifax Data

East Palo Alto: Tenant Protections Likely Prevented Displacement

In East Palo Alto, where just cause and rent control ordinances have been in place since 1988,¹³ tenant protections appear to be effective in mitigating displacement. See Figure 2 for comparison of out-migration rates for renters between East Palo Alto and San Pablo, which has similar demographic, socioeconomic, and housing characteristics to East Palo Alto, but no tenant protections. East Palo Alto showed a decline in out-migration rates in 2010, while out-migration rates in the comparable city, San Pablo, increased or remained constant. The same was true when comparing similar block groups within East Palo Alto; block groups that had units with tenant protections showed more of a decline in out-migration rates in 2010 than similar block groups that did not have units with tenant protections.

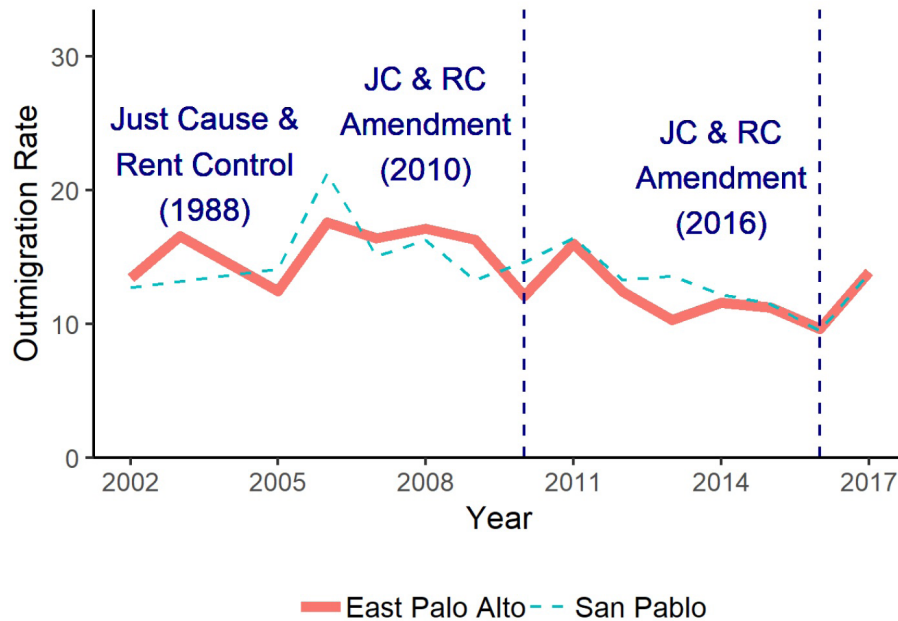
In 2010, the city amended its tenant protection ordinance to protect more units under rent control: any property with two or more rental units, previously uncovered by either just cause or rent control, became subject to rent control and paired with just cause for eviction,¹⁴ with the exception of owner-occupied duplexes or triplexes.^{iv} Despite increases in out-migration in 2011, the decline in out-migration in 2010 is likely the result of the increased coverage of the policy,

^{iv} Prior to this 2010 amendment, East Palo Alto's tenant protections had only applied to buildings with four or more units.

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especially given the context of the city's high eviction rates caused by Equity Residential; Equity Residential served as the singular landlord for many of the units on the Westside, and has since been involved in lawsuits with the city related to rent hikes, evictions, and harassment.¹⁵

Figure 2. Comparison of Out-migration Rates for Renters in East Palo Alto with San Pablo (Comparison City with Similar Characteristics to EPA but without Tenant Protections)¹⁶



Source: Federal Reserve Bank of New York Consumer Credit Panel/Equifax Data

Rent control in East Palo Alto also helped prevent downward mobility, which refers to moving from a neighborhood with relatively higher socioeconomic status to a neighborhood with relatively lower socioeconomic status. Comparing those who moved from block groups containing units with both just cause and rent control protections to movers from block groups with units that only have just cause protections,¹⁷ those from block groups with units covered by both policies moved to block groups with higher socioeconomic status and higher median gross rents. On the other hand, low-credit-score movers from block groups with units covered by just cause only moved to block groups with higher shares of renter-occupied housing and multifamily units and lower median gross rents. This implies that low-credit-score movers from neighborhoods with rent-controlled units were more likely to make upward moves, which may be planned, whereas those from neighborhoods without rent-controlled units seemed to seek more affordable areas.¹⁸ This finding is consistent with prior research about rising housing costs and displacement, showing that involuntary movers are likely to end up in more segregated neighborhoods.¹⁹

San Jose: Policy Design Matters

San Jose's results suggest that policy design matters. While San Jose has had some version of rent control in place since 1979, until recently this policy was not paired with just cause for evictions protections and had a high 8 percent rent cap. During that time, out-migration rates among renters living in block groups with rent control were similar to out-migration patterns in

comparable cities and comparable block groups that did not have tenant protections in place.²⁰ Before the amendment to the Apartment Rent Ordinance in 2016, the city allowed an 8 percent annual rent increase, which was changed to a 5 percent cap with the update in 2016. If the 8 percent rent cap were effective in mitigating out-migration, out-migration rates would have been lower than for the comparable groups. The city did not show declines in out-migration rates during 2016 and 2017, which might be due to an absence of just cause for eviction protections, a delay in the effect of the amended policy, or both. The city saw no declines in out-migration rates even after 2017 when the Tenant Protection Ordinance was enacted to protect tenants living in rent-controlled units from eviction, which could also be due to a delay in the effect of that policy amendment.²¹ Comparably, low-credit-score renters tended to move to similar types of neighborhoods, in terms of socioeconomic level, as where they started, regardless of the presence of rent-controlled units.²²

Mountain View: Protections Passed Too Recently to Assess

The results for Mountain View are still preliminary, given the recency of its policy, thus more research is needed to conduct a more robust analysis of the effectiveness of tenant protection policies there. Although Mountain View saw a slight decline in out-migration rates in 2016 when just cause and rent control ordinances were adopted, it is uncertain whether lowered out-migration rates were a result of these policies.²³ A longer time frame after the passage of tenant protections would be necessary to determine the residential mobility impact in this case.

AREAS FOR FUTURE RESEARCH

The findings of this research were limited to Silicon Valley cities with tenant protections, which means that only a small set of cities, some with recently passed protections or recently updated policies, were analyzed. There is still a need for similar research that differentiates impacts by policy design (for example, comparing the 5 percent rent increase cap in San Jose to 80 percent of consumer price index cap in East Palo Alto), and better accounts for other factors that influence residential displacement (such as market-rate housing construction, new tech campuses, and employment growth). Future research should analyze additional cities with tenant protections at the regional scale and beyond. Addressing these research gaps will further advance our understanding of the connection between specific tenant protections and mobility trends, towards policies that optimally protect tenants.

CONCLUSION

These findings contribute to the ongoing debates emerging from recent efforts to expand tenant protections in American cities. Mitigating out-migration and downward mobility, tenant protections are essential to vulnerable populations for their housing stability, as demonstrated by results from East Palo Alto. Results from San Jose showed that previous high caps on rent, such as the 8 percent cap that was in place until 2016, may not have impacts in the short-term at the neighborhood level. Thus, while the new anti-gouging cap in California (AB 1482) will be a critical stopgap measure in individual cases,²⁴ the findings explored in this brief suggest that such protections may be insufficient for bringing down displacement rates at the neighborhood level.

NOTES

- 1 Urban Displacement Project. 2019. Rising Housing Costs and Re-Segregation in the San Francisco Bay Area. https://www.urbandisplacement.org/sites/default/files/images/bay_area_re-segregation_rising_housing_costs_report_2019.pdf
- 2 Chew, Amy, and Sarah Treuhaft. 2019. "Our Homes Our Future: How Rent Control Can Build Stable, Healthy Communities." PolicyLink, Center for Popular Democracy and the Right to the City Alliance. <https://www.policylink.org/resources-tools/our-homes-our-future>
- 3 Clark, W.A.V, and Allan Heskin. 1982. "The Impact of Rent Control on Tenure Discounts and Mobility." *Land Economics* 58 (1): 109-17.
- 4 Ault, Richard and Richard Saba. 1990. The economic effects of long term rent control: the case of New York City. *The Journal of Real Estate Finance and Economics* 3: 25-41; Gyourko, Joseph and Peter Linneman. 1989. Equity and efficiency aspects of rent control: an empirical study of New York City. *Journal of Urban Economics* 26: 54-74; Simmons-Mosley, Tammie X. and Stephen Malpezzi. 2006. Household mobility in New York City's regulated rental housing market. *Journal of Housing Economics* 15(1): 38-62.
- 5 Hwang, Jackelyn and Bina P. Shrimali. 2019. Increasing Access to Affordable Housing Opportunities in Silicon Valley. Working Paper 2019-01. Federal Reserve Bank of San Francisco. <https://www.frbsf.org/community-development/publications/working-papers/2019/october/increasing-access-to-affordable-housing-opportunities-in-silicon-valley/>
- 6 For cities with tenant protection policies, we considered East Palo Alto, Mountain View, San Jose, and Los Gatos. Los Gatos findings have not been discussed here due to the relatively weaker enforcement and policy design of its Rental Dispute Mediation and Arbitration Ordinance. See <https://www.frbsf.org/community-development/publications/working-papers/2019/october/increasing-access-to-affordable-housing-opportunities-in-silicon-valley/> for details.
- 7 Estimates were validated against the numbers from tenant protection data provided by each city (East Palo Alto, Mountain View, San Jose) and 2017 American Community Survey.
- 8 The CCP data includes an anonymized 5% random sample of consumers over 18 years old who have Social Security numbers and a credit history.
- 9 An individual was considered to be financially disadvantaged if they have an Equifax Risk Score below 580 or if they have a missing score.
- 10 For East Palo Alto, San Pablo city is selected; For San Jose, Fremont city and Millbrae city are selected. Control groups were defined for policies that have been in place before 2002 (e.g. just cause for eviction and rent control in East Palo Alto and rent control in San Jose) in order to explore out-migration patterns related to the presence of tenant protection policies.
- 11 Note that the study was unable to properly capture residential displacement patterns for low-score renters in East Palo Alto, Los Gatos, and Mountain View because of small sample sizes.
- 12 Hwang, Jackelyn and Bina P. Shrimali. 2019. Increasing Access to Affordable Housing Opportunities in Silicon Valley. Working Paper 2019-01. Federal Reserve Bank of San Francisco. <https://www.frbsf.org/community-development/publications/working-papers/2019/october/increasing-access-to-affordable-housing-opportunities-in-silicon-valley/>
- 13 Interview with Anky van Deursen, Program Manager CSFRA Rent Stabilization, City of Mountain View. October 10, 2019.
- 14 In 1988, East Palo Alto first adopted the Rent Stabilization and Eviction for Good Cause Ordinance (RSO), which was subsequently modified in 2010. The city allows annual rent increases by 80 percent of the increase in the prior year's Consumer Price Index for All Urban Consumers (CPI-U) in the Bay Area. In East Palo Alto, all rent-controlled units are also covered by just cause for eviction.
- 15 Interview with Victor Ramirez. Rent Stabilization Administrator. City of East Palo Alto. October 14, 2019. Urban Displacement Project. 2015. An Island of Affordability in a Sea of Wealth: Case Study on Gentrification and Displacement Pressures in East Palo Alto, CA. https://www.urbandisplacement.org/sites/default/files/east_palo_alto_final.pdf
- 16 Hwang, Jackelyn and Bina P. Shrimali. 2019. Increasing Access to Affordable Housing Opportunities in Silicon Valley. Working Paper 2019-01. Federal Reserve Bank of San Francisco. <https://www.frbsf.org/community-development/publications/working-papers/2019/october/increasing-access-to-affordable-housing-opportunities-in-silicon-valley/>
- 17 Note that due to data limitations, the study was unable to identify whether low-score movers moved from the actual rent-controlled units.
- 18 Tenants from rent-controlled units still face a risk of forced moves due to the Ellis Act, Owner or Relative Move-In Evictions, etc.
- 19 Urban Displacement Project. 2019. Rising Housing Costs and Re-Segregation in the San Francisco Bay Area. https://www.urbandisplacement.org/sites/default/files/images/bay_area_re-segregation_rising_housing_costs_report_2019.pdf
- 20 See Figure 4d & Figure 6d in Hwang and Shrimali (2019).
- 21 In San Jose, all units covered by rent control are also protected under just cause for eviction.
- 22 See Table 9 in Hwang and Shrimali (2019).
- 23 See Figure 4b in Hwang and Shrimali (2019).
- 24 Turner Center for Housing Innovation. 2018. Finding Common Ground on Rent Control. A Turner Center Policy Brief. http://turnercenter.berkeley.edu/uploads/Rent_Control_Paper_053018.pdf

