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CALIFORNIA & CO

Berkeley Offers a Rent-Control Lesson for S.F.

October 29, 1991 | DANIEL ASKT



It's strange behavior for a fat cat. Five mornings a week, Jim Smith rises at midnight to work the graveyard shift as a mail handler. When he gets off at 9:30 a.m., he begins his building maintenance chores.

Smith had hoped to quit the Postal Service long ago, but he made one big mistake. He plowed his hard-earned money into rental housing in Berkeley, where he and many other working-class landlords were stuck with 1970s rents and no way to recoup investments in their own property.

All that may be changing. A slate of reformers elected to the Berkeley Rent Stabilization Board is trying to ease Draconian local rent regulations, prompting a legal challenge from the City Council that has cost taxpayers perhaps \$600,000 in legal fees, with no end in sight.

Through some strange confluence of the planets, San Francisco, envy of Berkeley landlords, is suddenly a rent-control battleground as well. A Nov. 5 ballot measure proposes to extend controls even to units that turn over--a practice known as vacancy control.

San Francisco already has rent control, of the kind found in Los Angeles and elsewhere: When a tenant moves, the landlord can charge what the market will bear before controls are reimposed. Thus, most units in San Francisco are at or near market rents.

Predictably, landlords are fighting vacancy control tooth and nail. Fearing that it will spread, landlords across the state have contributed to a fund of \$650,000, raised mostly in San Francisco, to fight the measure.

The brouhaha in Berkeley, which has had vacancy control all along, could have wider implications as well. In a lawsuit against the rent board, the City Council contends that steps taken by the rent board to raise rents are illegal without an environmental impact report. The case may thus help define the limits of the California Environmental Quality Act.

Like many other cities in California, Berkeley and San Francisco adopted rent control only after Proposition 13 rolled back property taxes in 1979. The rationale was that tenants should reap some of this landowner's windfall. Today perhaps a quarter of all rental units in the state are covered by some form of rent control.

For San Franciscans, and everyone else, Berkeley's experience with vacancy control should be illuminating.

Berkeley is a desirable place to live. Houses are expensive. There's great shopping, abundant cultural resources and good transportation.

But in 1990, the median rent was \$392, the lowest of any community in the Bay Area. During the 1980s, inflation-adjusted rents in Berkeley actually fell.

At the same time, the city lost about 3,600 rental units (it now has perhaps 24,500), and since it made no sense for landlords to invest, its rental housing became increasingly dilapidated.

Finding an apartment became extremely difficult; they were so cheap that hardly anyone gave one up. Single-family homes, many of which were rented by groups of students, disappeared from the market.

For students, in fact, housing was increasingly scarce, but it became common to hear stories of tenants in dirt-cheap apartments owning BMWs or using their savings on rent to buy rental units of their own--in a town without rent control.

Despite huge demand for rentals, many units are left vacant; legal rents are so low, it isn't worth the trouble to rent them. Some buildings are even boarded up. Since condominium conversions were barred, many landlords cashed out by converting to a sort of cooperative ownership known as "tenants-in-common."

If there was little investment in rental housing, there was a good deal of investment in rental-housing regulation. David Bryden, the reform-minded chairman of the rent board, says the city's rent control apparatus will spend \$2.5 million this year.

Yet Berkeley only spends \$2.2 million a year to shelter and care for some of its perhaps 1,000 homeless residents, who are about 1% of its population. William Tucker, a New York social critic who has studied these issues, found that homelessness is highly correlated with rent control in American cities.

For all the rhetoric of compassion in Berkeley, the city has passed up a chance to help the truly needy. Berkeley's strict controls not only strangle the supply of rental housing; they also suppress the value of units already in existence, depriving the city of tax revenue.

Michael St. John, an economist whose UC Berkeley doctoral dissertation was on the city's rent control system, figures that the city has forgone \$104 million in property taxes since the system was adopted, and that "something like \$400 million has been transferred from owners to tenants since 1980" in the form of sub-market rents, without regard to need.

As Bryden observes, there is also a racial dimension to rent control in Berkeley. Despite the sacredness of diversity as a municipal ideal, Bryden and Smith say blacks are being pushed out of town by rent control.



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