A TERNER CENTER & TECHEQUITY COLLABORATIVE BRIEF - SEPTEMBER 2022

Rising Rents, Not Enough Data

How a Lack of Transparency Threatens to Undermine California's Rent Cap

ALEXANDER CASEY

HOUSING AFFORDABILITY DATA LAB DIRECTOR, TERNER HOUSING INNOVATION LABS

SAMANTHA GORDON

CHIEF PROGRAMS OFFICER, TECHEQUITY COLLABORATIVE

TERNER CENTER PROJECT TEAM: CAROLINA REID, Faculty Research Advisor | BEN METCALF , Managing Director DAVID GARCIA, Policy Director | QUINN UNDERRINER, Data Scientist | MUHAMMAD ALAMELDIN, Policy Associate

TECHEQUITY COLLABORATIVE PROJECT TEAM: CATHERINE BRACY, CEO & Co-Founder | HANNAH HOLLOWAY, Director of Policy and Research | MATTHEW BROOKS, Director of Civic Tech

Amid years of rising rents, eroding affordability, and concerns over rising evictions and displacement, California passed the Tenant Protection Act of 2019 (AB 1482). Substantial research has demonstrated that sharp rent increases particularly harm lower-income households, and often result in displacement or severe rent burdens. The 2019 state law was passed to mitigate these negative outcomes for tenants and the broader societal costs of eviction and displacement. The law requires landlords to have a "just cause" to evict tenants and limits the amount rent prices can increase year-over-year. This rent cap was designed to shield tenants from steep rent increases, balancing renter protections with concerns about how stricter rent control may impact housing supply and investment. The law extends historic protections to a large share of the state's renters, particularly in parts of the state without local rent control measures. The law exempts renters in some properties (e.g., newer buildings or in single-family homes), and partially pegs the allowable annual rent increases to inflation (5 percent plus consumer price index, or 10 percent, whichever is lower).

When the law was crafted, the rent for a typical unit increased roughly 3 percent year-over-year in both Los Angeles and San Francisco, a rate much lower than the threshold set by AB 1482. Three years later, however, annual rents in these markets were growing roughly 3 to 5 times faster[1] than when the law was passed. Our new analysis, presented in more detail below, shows a stark reality for rent increases across the state: 60 percent of rental listings posted this past springtime had annual price increases above the rate set by the rent cap. Available data do not allow us to differentiate between rent increases for those households who are eligible for rent cap protections and those who are not. However, intense appreciation among advertised rentals demonstrates rising market pressure, raising significant questions about the extent to which households eligible for the rent cap are seeing their rents rise in excess of what is allowed under state law.

Rapidly increasing prices put a spotlight on the limitations of AB 1482's rent cap. A lack of reporting requirements built into the law make it difficult to assess whether the rent cap is working as intended to shield or stabilize renters. Tenants and property owners may not know about the law in part due to limited outreach and education. Since renters disproportionately have lower incomes and may not receive wage increases that keep pace with recent rent inflation, renter households are particularly vulnerable if protections are not enforced and may not have resources to enforce the law themselves.

This analysis examines recent rent trends in the context of AB 1482 and makes recommendations for policies that might strengthen accountability and enforcement. Our findings do not mean the law is necessarily being broken by owners renewing leases at rates that exceed the AB 1482 cap: our analysis only captures market rents, not those for a lease renewal. However, these trends raise concerns that the implementation of the law—which was designed to protect tenants from rent increases of this scale—has lacked the outreach to owners and tenants and back-end monitoring needed to ensure enforcement. The trends also illustrate that recent market pressure may exacerbate the incentive to property owners to skirt the regulation or replace existing tenants with new ones.

AB 1482 At a Glance

- AB 1482 makes it illegal for landlords to annually raise the rent by more than 5 percent plus the regional rate of inflation, or 10 percent, whichever is lower.[2]
- After living in a unit for one year, tenants cannot be evicted without a "just cause".
    - "Just cause" is limited to scenarios such as failure to pay rent, participating in significant damage to the property, etc.[3]
- The law applies to ease rent increases for existing tenants, not price changes between tenants due to a unit vacancy.
- AB 1482 does not apply to several types of properties: properties less than 15 years old, single-family homes not owned by a corporation, and duplexes with the landlord living in one of the units.

Methodology

The lack of accurate, publicly-accessible, real-time data on rents makes it difficult to know how rent prices are moving, especially for different segments of the market (e.g., newer, higher-cost rentals vs. lower-cost, lower-quality units) or different size places (e.g., a studio apartment vs. a three-bedroom single-family home). To provide one window into rental market conditions in California in the last two years, we analyzed a dataset of matched repeat rental listings[4] throughout California provided to us by online real estate listing platform Zillow.[5]

The listings from Zillow cover units statewide and are also broken out for major metropolitan areas.[6] To make comparisons across regions and years, we group listings posted between March 1st and May 31st as "springtime" rental listings. Zillow's methodology for identifying matched rental listings includes a 90-day buffer on either side of 365 days since the initial list date. According to Zillow this adequately accounts for units advertised before the existing 12-month lease expired or were listed after the lease expired.

An important caveat is that we cannot analyze rent increases for households who renew their lease: the renters that AB 1482 targets (see AB 1482 At a Glance on Page 2). Because Zillow listings are intended to advertise to new tenants, our analysis does not show that a large number of rental agreements are violating the terms of the law. Rather, it is meant to show how market pressures, combined with inflation, are pushing a significant share of the market above the rent cap. Zillow and other online listing platforms also do not capture the entire universe of available rental units. It is therefore also possible that there are other units also available to new tenants but not advertised on these platforms that are appreciating at a different rate than those listed on online platforms.

Findings

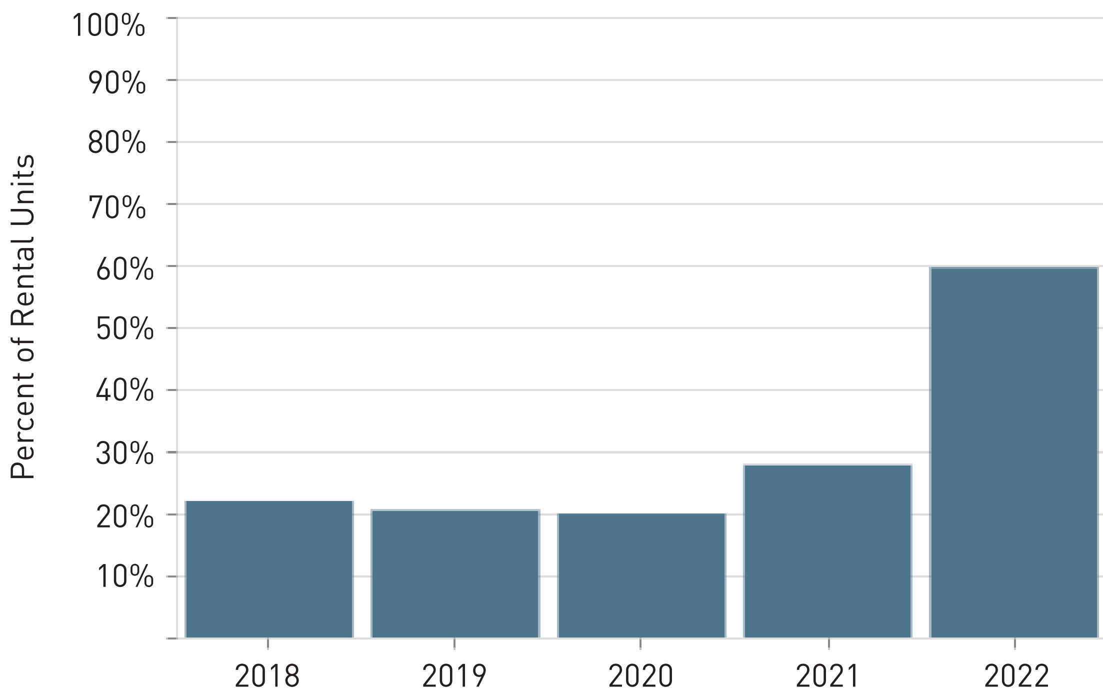
Breadth of the Crisis: A Significant Majority of Advertised Listings Appreciating at Higher Rates than Rent Cap for Renewals

The pressures on rents are real. We find that 60 percent of rental units in California that were relisted following a one-year lease were advertised with a new price increase above the rent cap. This is double the share exceeding the cap than during the same months in 2021 and nearly triple the share in 2019 when the law passed. Limiting the analysis to a sample that more closely resembles the structures covered by AB 1482—non-single-family residences and buildings older than 15 years—the trend looks similar. Among those properties 57 percent across the state were advertised with a price increase above the rent cap.

Widespread price increases of this magnitude were far less common when the law was passed and enacted. In late 2019 and early 2020 only about one in every five rental listings increased in price by more than the cap (or what would have been the cap) at the time (Figure 1).

Price increases are rising across the board for various goods and services, and the rental market is experiencing even higher inflationary pressures due to a combination of unique supply and demand pressures. While there was some softening of rents during the early portion of the COVID-19 pandemic, demand has since rebounded.[7] And while some listing

Figure 1: Share of Rental Listings Exceeding AB 1482 Threshold, California 2018-2022



Source: Data courtesy of Zillow
Notes: Data represent repeat listings on Zillow between March - May of the given year. Threshold here reflects AB 1482 caps annual rent increases at 5 percent plus the local Consumer Price Index, or 10 percent, whichever is lower.

platforms show median rent prices have slowed their rate of appreciation in more recent summer months, they remain significantly elevated relative to recent years. If CPI remains elevated above the 5 to 6 percent range, the Los Angeles market, for example, could return to year-over-year rent increases of 5 percent—similar to trends during 2016 through 2018[8]—and the 10 percent rent cap would likely be reached.

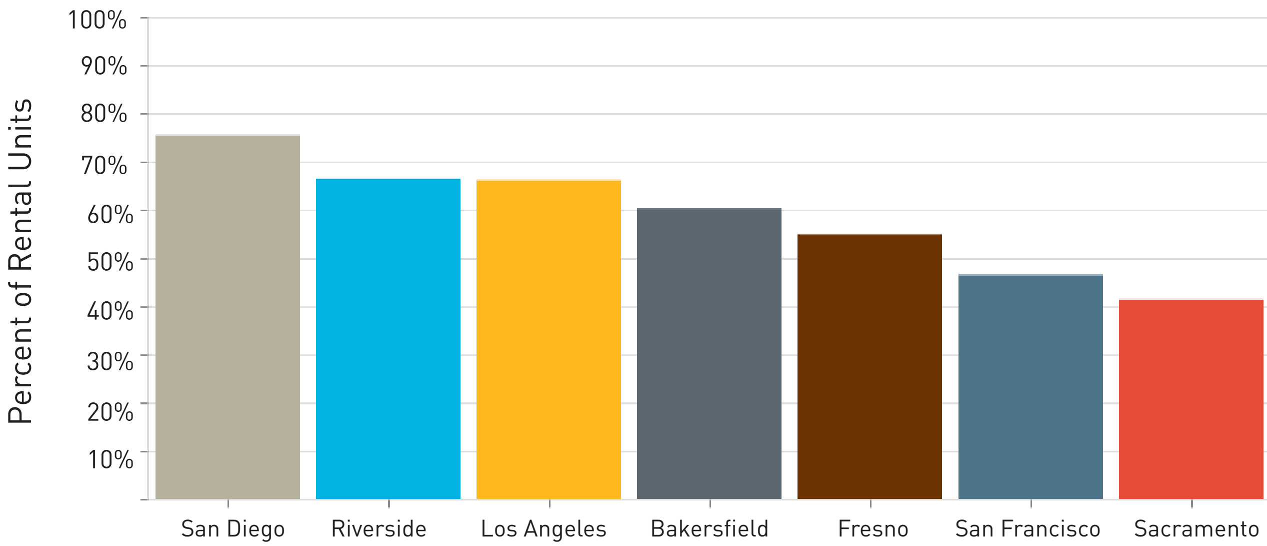
This trend is not driven solely by a rebound in prices in the state's coastal markets. Several major California metros, including inland communities such as Fresno, Bakersfield, and Riverside, saw a majority of units listed in the spring increase in price by more than the corresponding local AB 1482 rent cap (Figure 2).[9] San Diego led the way with three out of every four advertised rents appreciating annually by more than the local rent cap.

Depth of the Crisis: Rental Listings Appreciating at Rates Much Higher Than in Previous Years

Current California housing market pressures are significant with a large share of the units this year that appreciated beyond the rent cap doing so by a significant margin.[10] Forty-six percent of rental listings across California in 2022 increased at least 40 percent more than the upper bound allowed by AB 1482 (Figure 3). Only 8 percent of units hit that threshold in 2019. These steep increases have implications for the average renter household, translating to monthly rents that are an average of $372 higher than just a year ago.[11]

The rise in rents is especially concerning in that the steepest increases seem to be occurring in lower-rent neighborhoods. While they are not apples-to-apples comparisons with online rental listings,

Figure 2: Share of California Rental Listings Exceeding AB 1482 Threshold, 2021-2022



Source: Data courtesy of Zillow
Notes: Data represent repeat listings on Zillow between March - May of the given year. Threshold here is calculated by CA region and reflects AB 1482 caps annual rent increases at 5 percent plus the local Consumer Price Index, or 10 percent, whichever is lower.

the Small Area Fair Market Rents determined by HUD and derived from Census survey data demonstrates that across the state the fair market rent has increased the most in lower-rent ZIP codes between 2021 and 2022 (Figure 4). As a result, an increased burden may be falling the greatest on lower-income households who may have fewer resources to enforce the rent cap in court or who are disproportionately likely to live in units owned by smaller, non-professional landlords who may have less of an ability to stay on top of changes to state law.

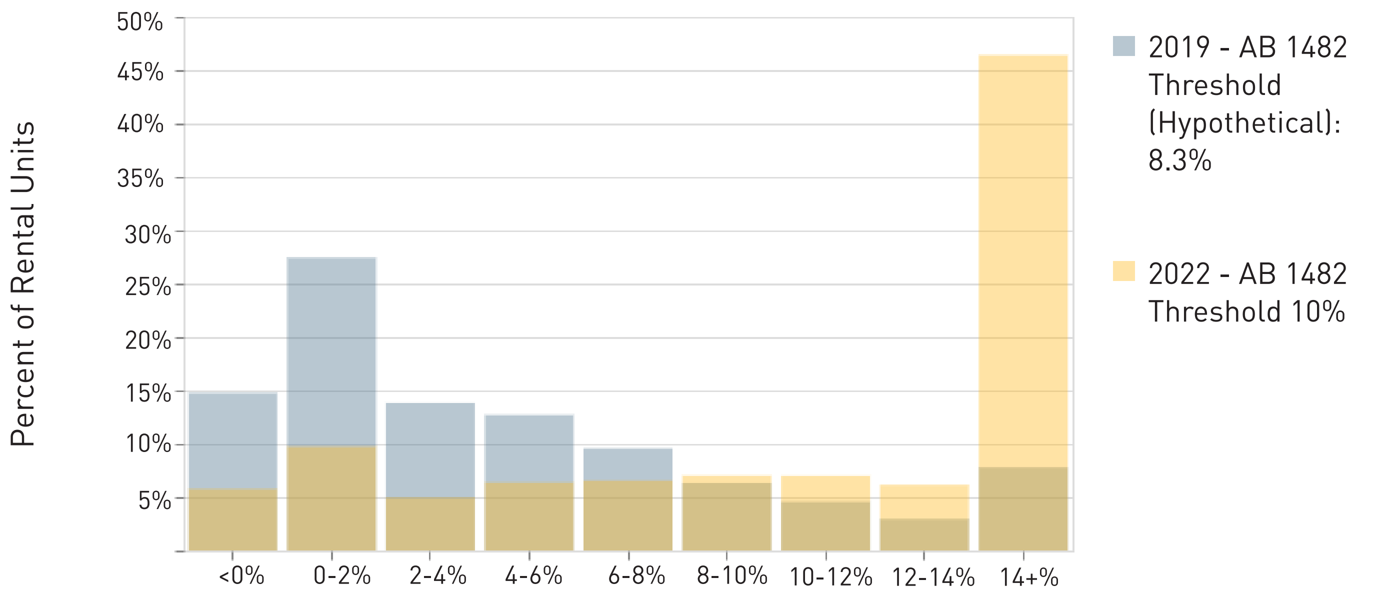
Increasing Transparency: Real-Time, Accessible Data Would Allow for More Targeted Housing Policy and Implementation

While it does not assess whether or not the law is being broken under AB 1482, this analysis does reveal market conditions that are hospitable to large rent increases. For instance, inflationary market pressures may increase the incentive for property owners to raise rents beyond those allowed by state law. In addition, if the gap between renewal rents and new lease rents continues to widen, the incentives are high to terminate leases (e.g., via eviction or other methods), leaving some existing tenants potentially vulnerable. Amid the West Coast's lowest rental vacancy rates ever recorded by the Census Bureau[12] and strong competition for a relatively small number of available units, landlords may have an even greater incentive to find new tenants who can pay a higher price.

Unfortunately, there is no way to determine where landlords are exceeding AB 1482 rent limits due to a lack of real-time, accessible data. Unit-level data on the rental market is largely non-existent, and private data sources miss rental units that do not advertise vacancies online or are covered by rent control. These factors make it hard for policymakers and researchers to accurately track rent increases.

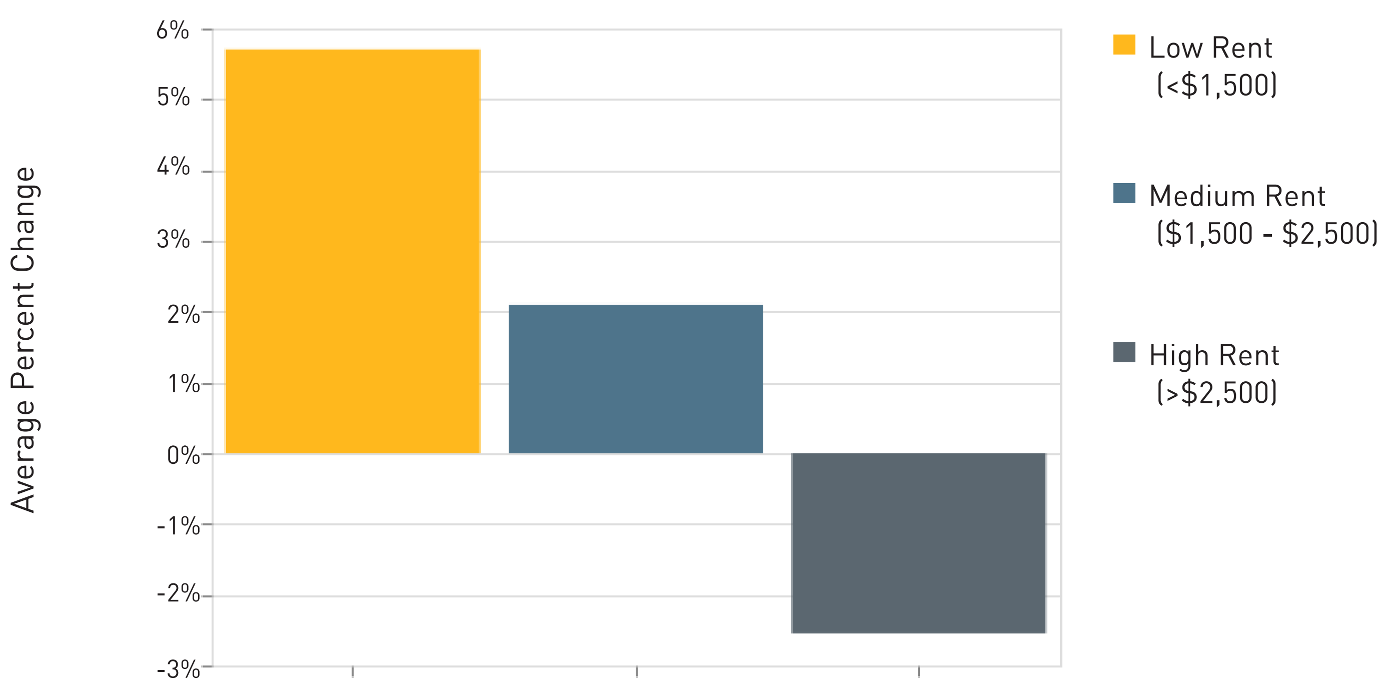
At the local level, several cities have taken it upon themselves to collect some of this

Figure 3: Distribution of California Rental Listings Price Increases



Source: Data courtesy of Zillow
Notes: Data represent repeat listings on Zillow between March - May of the given year. The AB 1482 threshold for 2019, while hypothetical as the law was not yet in place, was calculated using the same methodology.

Figure 4: Average Small Area Fair Market Rents, California 2021-2022



Source: HUD Small Area Fair Market Rents data
Notes: HUD Small Area Fair Market Rents are calculated at the zip code level.

data via rental registries, though methods of doing so vary widely. Specifically, nearly two dozen jurisdictions require landlords to report residential lease terms to some degree. However, there are significant inconsistencies across local rent registries. In cities like Los Angeles and Richmond, units that are under local rent control ordinances are registered with the city, and landlords are required to provide information such as current rent amounts and vacancy status. Other places such as Marin County or the city of Berkeley include units beyond those subject to local rent control, but limit data collection to structures built before a certain date or of a certain size. The city of Fresno requires all rental units to register, but the primary use of the database is to enforce building codes and therefore rent prices and lease durations are not currently recorded.

To the best of our knowledge, no city currently collects the data needed across all qualified rental units to properly monitor compliance with AB 1482. However, existing registries demonstrate the capabilities for a reporting structure, data management, and enforcement procedures necessary to collect and maintain detailed rent and lease term data that could ensure compliance with the law. Ideally a registry would be dynamic, with landlords inputting relatively simple data points whenever an aspect of a rental agreement changes, such as the start, end, or extension of a lease. At a minimum, this information should include the amount of rent paid per month as well as basic information about the property owner. That amount of information across cities alone could prove incredibly effective at monitoring AB 1482 compliance. State-funded technical assistance, as well as phased adoption for smaller landlords, could greatly ease the roll out of such programs and bolster adherence.

Moreover, local-led efforts to collect this data could feed into an eventual statewide rental registry effort and allow for coordinated monitoring and policy responses across regions. The establishment of a comprehensive, statewide rental registry would significantly increase the capacity of state officials to monitor rent increases throughout the state and identify instances where AB 1482 rent allowances have been illegally exceeded. Such a registry would provide crucial insights into where the policy is working and where additional intervention could be warranted.

Conclusion

As lawmakers in California and across the country take steps to fight inflation, more attention is being paid to the impact of inflationary pressures in the housing market, particularly for low-income renters. While our research is limited to the share of advertised rental units for new tenants, with 60 percent of new listings appreciating beyond what would be the corresponding cap, we demonstrate significant market pressures that may incentivize property owners of units with renewing renters to more closely mirror the market trends for new lease renters.

In addition to demonstrating the need for more data and transparency about rental prices, the steep rent increases examined in our analysis highlight the need for programs or policies to ensure vulnerable renters are afforded the stability protections the law promises. Our analysis of rent increases in California since AB 1482's adoption points to two other important areas that warrant further research and policy consideration:

- *Education and Awareness*. Because AB 1482 is so broad in scope, educating and informing both landlords and tenants on how this law applies to them remains challenging. Further development of programs to ensure landlords understand their responsibilities and that tenants are able to enforce their rights is critical to AB 1482's long-term success.
- *Accountability and Enforcement*. The protections provided by AB 1482 are only effective if landlords comply with the law. With no way of determining rates of compliance and no built-in enforcement mechanism, it is not clear how effective AB 1482's rent protections are. Research on other types of tenant protection policies consistently shows that tenants, particularly from vulnerable populations, are at a disadvantage in ensuring their rights are enforced. Without the development of accountability mechanisms, it will be difficult to achieve AB 1482's goals, even with robust education and outreach efforts.

AB 1482 is a critical tool in building statewide renter protections and ensuring that renters are protected from steep rent increases. However, without adequate transparency and data, renters, landlords, and policymakers are not fully benefiting from its promise.

Endnotes

1. Apartment List data shows 3 percent appreciation between Spring 2018-2019 in both Los Angeles and San Francisco metros, and 17 percent (LA) and 11 percent (SF) appreciation between Spring 2021-2022. This is similar to Zillow's ZORI index, which shows an appreciation of 4 percent in Los Angeles and San Francisco in Spring 2018-2019 and 16 percent (LA) and 11 percent (SF) between Spring 2021-2022. Rent data from other data firms like Zumper and RealPage show markets appreciating at a similar magnitude.

2. The annual rent cap created by AB 1482 is set by two factors: the amount of local inflation as measured by CPI and a fixed 5 percent to account for market appreciation. Importantly, the law also stipulates that if the combination of those two percentage points is greater than 10 percent, the rent cap is instead 10 percent.

3. AB 1482, (CA 2019). https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201920200AB1482.

4. Repeat listings means that the data reflect the asking rents for the same rental unit listed at two different time periods (a year apart) and calculating the percent increase in listed rent price between those two periods.

5. We also analyzed similar granular listing data from rental data firm Yardi Matrix for two metros and found similar results. To track the magnitude of the overall rental market appreciation, we also analyzed data from ApartmentList, RealPage, Zumper, and HUD's Fair Market Rents. All data sources show similar rapidly rising rents, complementing the granular listing data demonstrating a significant share of properties experiencing year-over-year increases near or above the AB 1482 rent cap.

6. This data is presented as counts within one percent wide bands (e.g., count of units in a given market with a 1-2 percent increase, etc.). Throughout this brief when we wanted to calculate fractional counts we assumed a uniform distribution within each band.

7. Some of this rent growth can be attributed to increases from a lower benchmark during a softer rental market early during the pandemic. While it is possible some year-over-year increases may moderate to some degree as a result, the current price caps do not allow for a greater increase one year if prices fell or grew slower the year prior.

8. Zillow Observed Rent Index for the Los Angeles Metro.

9. Very similar shares were calculated for the Los Angeles and San Francisco metros (62 percent and 45 percent) using another dataset from Yardi Matrix.

10. Inflation alone cannot explain the significant increase in rental prices. In California during the spring of 2022, 70 percent of units increased in price at a rate higher than the inflation rate and 60 percent of units increased at a rate 50 percent greater than inflation.

11. Based on Zillow's ZORI index for March-May 2021-2022 at the MSA level and weighted by population using 2020 5-year ACS data.

12. Between 2020 and 2022 the West Coast's rental vacancy rate is the lowest ever recorded by the United States Census, sitting between 3.8 to 4.3 percent. https://www.census.gov/housing/hvs/index.html

ABOUT THE TERNER CENTER

The Terner Center formulates bold strategies to house families from all walks of life in vibrant, sustainable, and affordable homes and communities. Our focus is on generating constructive, practical strategies for public policy makers and innovative tools for private sector partners to achieve better results for families and communities.

For more information visit: www.ternercenter.berkeley.edu

ABOUT TECHEQUITY COLLABORATIVE

TechEquity Collaborative mobilizes tech workers and companies to advance structural change that addresses economic inequity at its roots. We provide education, craft corporate practice, and advocate for equitable public policy in housing and labor.

For more information visit: techequitycollaborative.org/

ACKNOWLEDGMENTS

Thanks to Zillow's Economic Research team and Zillow Senior Economist Joshua Clark for providing detailed rental listing data to support this analysis.

This research does not represent the institutional views of UC Berkeley or the Terner Center's funders. Funders do not determine research findings or recommendations in Terner Center's research and policy reports.