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Open letter to the Los Angeles City Council
RE: Municipal Code Section 151.28: Ellis Act

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Dear Council members,

We have been studying the California economy in total for well over a decade. During that time, we have been forced by circumstance to become experts on our local real estate markets. We were some of the first economists to warn of the impending bubble, and as far as we know the first economists to predict that the current housing crisis would begin to form once this bubble popped. When we say crisis, we are not referring to rapidly rising rents in the City. That is a symptom of the problem, but not the problem itself. The true problem is a critical lack of workforce housing – as we define it: moderately priced rental units.

The 1980s was the decade of the apartment. Stock in the city and county grew at a very rapid pace and provided the city with plenty of room for growth. The 1990s, in contrast, was a decade marked by stiff resistance by local zoning boards to any sort of densification, particularly when it came to workforce housing – NIMBYism in its cruelest form.

This resistance led to a lack of construction that has given Los Angeles County the dubious distinction of having the worst crowded-housing situation in the nation, with 13% of all housing units and 20% of rental units having more than one person per room living in them. This is not just a personal crisis for these families, but a social crisis given what we know about the impact that such situations have on our public education, health, and safety systems.

The only thing preventing this situation from reaching crisis status in the early part of this decade was the building boom within the owner-occupied segment of the housing market. This building was driven by the real estate bubble and has created just enough trickle-down housing to keep the market relatively stable. However, with the collapse of the bubble and drop in home and condo construction building has slowed and rents are on their way back up. This housing shortage has gone to the point of driving families away from the area. Last year saw a net out-migration from the county of about 0.4%. The last time population growth was so slow here was in 1994 – but then it was a lack of jobs rather than a lack of homes that drove people away.



The solution to this problem is relatively straightforward. The power of local zoning boards to restrict construction should be reduced and densification promoted. City and county regulations must be streamlined and fees reduced. There should be the implicit recognition that the construction of rental units at any level of the apartment market will help relieve the pressures on rents for all levels of the market. Accordingly, all housing should be promoted. In addition, it should be realized that rising rents is a powerful stimulant to new construction. Efforts to stabilize rents will only exacerbate the problem.

The Ellis act is clearly well meaning. It seeks to prevent landlords from rebuilding simply to raise rental rates on tenants. It provides an incentive to create workforce housing by exempting rebuilt units that would include 20% affordable housing units—presumably for rental to low income households. However, the act only addresses the symptoms of our housing problem. It does not work to solve the root causes of the problem. As such, this bill will only make the problem worse in the long run.

This provision will increase the financial and regulatory burden on landowners which will further discourage new construction and densification. This is particularly true in the urban infill market—which at this stage of the city's development should be its central focus. While some low income households will be made better off by having affordably priced units built for them, this will only serve to increase rents elsewhere in the system due to the implicit subsidization that inclusionary housing creates. Lastly, by reducing the incentive to rebuild the existing housing stock, housing in the city will slowly decay. This will hurt the very neighborhoods most in need of new development.

Rent control, in any form, has never served to help housing shortages. Instead, it has only led to sizable inequalities among those in the rental market, diminished the overall incentive for construction, and as a result caused inner city neighborhoods to decline in the long run as development is pushed to areas outside the control of the city.

We are worried about the Los Angeles economy. The lack of workforce housing has severely restricted our ability to grow and in the process it is driving out the young families who represent the future of this fine city. We are hurting businesses by reducing the supply of labor and in doing so are reducing our compete in an increasingly competitive world. This can be fixed, but the right tools must be used. Rent control is not that tool.

Sincerely,

Christopher Thornberg and Jon Haveman
Principals, Beacon Economics LLC