CITY OF KIRKLAND
Planning and Building Department
123 Fifth Avenue, Kirkland, WA 98033
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MEMORANDUM

To: Kurt Triplett, City Manager

From: James Lopez, Deputy City Manager, External Affairs
Adam Weinstein, Planning and Building Director
Dawn Nelson, Planning Manager
Stephanie Croll, Senior Assistant City Attorney

Date: July 20, 2022

Subject: TENANT PROTECTION POLICIES UPDATE

RECOMMENDATION

City Council considers one of the following actions:

- Adopting Ordinance O-4810, which would implement tenant protections formulated by the A Regional Coalition for Housing (ARCH) Executive Board via Resolution No. 2022-01;
- Adopting Ordinance O-4810 with amended language to implement alternatives from other jurisdictions or suggested by stakeholders;
- Delaying action and directing staff to complete additional stakeholder outreach and return with further options for Council action; or
- Take no action and leave current state law and city code to define landlord/tenant relations.

BACKGROUND

As noted in staff memos for the May 3, 2022 and July 5, 2022 City Council meetings, a combination of economic factors associated with the COVID-19 pandemic and the increasing influx of high-wage jobs into the region has created economic challenges across the community, but particularly for lower-income households. The ongoing growth in median income in the community has exerted additional pressure on the housing market, raising housing costs, while supply chain issues and constraints in the construction labor market have made it more difficult to increase housing supply. The net result is that lower-income households are finding it harder to find and remain in affordable housing, a phenomenon which is being compounded by inflation. Tenant protections regarding rent increases and fees are a potential means of addressing a portion of the affordability crisis.

At the May 3 and July 5 meetings, Council discussed considerations surrounding adopting the following minimum-level tenant protections that were formulated by the ARCH Executive Board via Resolution No. 2022-01:

1. Notice of Rent Increase. Require landlords to provide a minimum 120 days written notice of rent increases greater than 3%, and 180 days notice of rent increases greater than 10%, except in subsidized housing where rent is set based on the income of the tenant.

2. Limits on Late Fees. Establish a cap on fees for late payment of rent at 1.5% of a tenant's monthly rent.

3. Limits on Move-In Fees. Establish a cap on move-in fees and security deposits of no more than one month's rent except in subsidized tenancies where rent is set based on the income of the tenant and allow tenants to pay in installments.

These tenant protection measures were identified by the ARCH Executive Board with the expectation that additional public outreach and engagement would occur in individual jurisdictions, and that the measures could be tailored to local needs. It is important to note the ARCH recommendations did not include a section on any increase in landlord liability for violations of the proposed new law, other than the liability that currently exists for violations of existing tenant protections.

DISCUSSION

On July 5, staff returned to Council with a timeline for conducting additional public engagement on the potential tenant protections, a summary of themes expressed by stakeholders in the outreach conducted to-date, and a summary of a compromise proposal introduced by local housing provider Muse Management, LLC/Natural and Built Environments. At the July 5 meeting, Council requested that staff return to Council with an ordinance encapsulating the ARCH proposal, with the expectation that staff would also bring back an alternative proposal at a subsequent meeting if the ARCH proposal did not gain sufficient Council support. Council members differed somewhat on their support for the ARCH proposal and in assessing how impactful the proposal would be on both tenants and landlords. Council also made the following comments:

- Focusing the tenant protections on low-income households should be explored;
- Additional outreach to both landlord and tenant groups is desired;
- Staff should collect information on tenant protection actions that other communities in the region are taking;
- There is a need for better understanding of the likely enforcement mechanisms for the tenant protections, along with associated costs for the City; and
- Keeping people in housing is a primary objective of the tenant protection measures, but attention should be paid to reducing adverse impacts on the rental market and on landlords.

To date, staff has either met with or received correspondence from the following organizations:

- Rental Housing Association of Washington (RHAWA)
- Commercial Real Estate Development Association (NAIOP)
- Washington Business Properties Association (WBPA)

- Washington Multi Family Housing Association (WMFHA)
- Bellevue Chamber of Commerce
- Waddell Properties, Inc.
- MainStreet Property Group, LLC
- MRM Capital, LLC
- Muse Management, LLC
- Eastside Legal Assistance Program
- Hopelink
- King County Promotores Network
- Stay Housed / Stay Healthy Coalition, consisting of:
    - Transit Riders Union
    - Housing Justice Project
    - 45th District Democrats Endorsement Committee
    - Eastside For All
- King County Housing Authority

Materials provided by these organizations are included as Attachments A-K.

Following is a summary of some of the key themes expressed by these groups:

<u>In Opposition</u>

The following themes are synthesized from various conversations, supplied materials, and other correspondence:

- High inflation has resulted in an unusually dramatic need to increase rents. Rates of inflation and cost escalation for maintaining rental units has been difficult to predict. In addition, landlords have been unable to cover rising costs through matching rent increases during the pandemic due to emergency state law. At the same time, as of July 15, 2022, the average household income for a family of four in King County has grown to $134,600 per ARCH data.
- Regulations requiring several months advance notice of rent increases will likely force housing providers to increase rents to mitigate the risk of misjudging the market so many months in the future.
- Increasingly complex tenant protection rules may discourage some landlords from leasing housing and may discourage the construction of rental housing over the long-term.
- Mandating a low late fee will likely result in more delinquent payments which could significantly harm the financial performance of properties, resulting in challenges to secure financing and therefore less affordable housing development.
- If security deposits are subject to limitations that are too stringent, some landlords may simply not rent to tenants with compromised credit. This would have a disproportionate impact on disadvantaged community members.
- Should the Council move forward with the proposals, there was strong concern over implementing the new law with the standard 5-day effective date, and a desire instead to make the effective date consistent with the notice period, or a period long enough for effective communication about the changes to assist both tenants and housing providers.

In Support

The following themes are excerpted and paraphrased from materials provided by the Stay Housed / Stay Healthy Coalition (Attachment B):

- Seattle has long had much more significant tenant protections in place. Multi-family rental construction continues apace, with no evidence of a reduction.
- Generally, small property owners sell when they believe the real estate market is peaking or due to a change in life circumstances, not solely due to new regulations.
- The residential rental industry prices its product like other industries, in which rents are set at a rate that is as high as what the market commands. Of course, there are exceptions—compassionate investors who charge less, usually to their existing long-term renters. These exceptional property owners, who keep their rents below market, will not be using the 180-day notice (or any of the other ARCH recommendations) as a pretext to increase their rents; they already have the option to raise rents higher and have chosen otherwise.
- Late fees do not function as an incentive to pay rent on time – at least in a market as imbalanced as ours. Renters rely on their landlord's *reference* [emphasis in original] in order to find future housing. They can't risk paying late by choice if they ever hope to find another place to live.

Tenant groups met with City staff and were available to answer questions and provide insight into their support of the ARCH proposals. Given the expedited nature of the outreach, staff suggested a joint meeting with tenant groups and a housing provider which the tenant groups declined, noting that the ARCH proposals being considered by the City are among the most modest of tenant related protections, and that given the amount of work done to date and where we are in the process, it would not be the most productive use of time. The tenant groups did express a strong interest in working with housing providers in the future to address a strong joint interest in increasing housing supply in the region.

City of Redmond Action

While the City was conducting its outreach, on July 19, 2022, the City of Redmond (on a 6:1 vote) adopted tenant protections that were generally consistent with the ARCH proposal, but also included some additional protections and clarifications, including:

- 30-day notice of rent increases in subsidized housing, where rent is set based on the income of the tenant;
- Under certain circumstances, tenants may alter their rent due date;
- Social security numbers may not be required by landlords for the purpose of screening tenants (but may be requested);
- Specific tenant protections may be waived with a written agreement, subject to certain conditions (e.g., "there is no substantial inequality in the bargaining positions of the two parties"); and
- Authorizing liability against a violating landlord of up to double the tenant's economic and noneconomic damages or three times the monthly rent and reasonable litigation costs and fees.

The City of Redmond Ordinance is attached as Attachment L.

Enforcement

Tenants can currently enforce their rights under landlord tenant law, including their rights under the proposed new regulations, as a private right of action in the court system. The ARCH recommendations did not include adding additional enforcement measures or increased damages as part of their proposal. Staff have not included any change from the ARCH recommendations to increase in landlord liability for violations of the proposed regulations.

Council may note, however, that some jurisdictions like the City of Redmond have opted to include additional liability against landlords for violations of these new regulations, as set forth in the Redmond ordinance language below:

> Violation of chapter by landlord - liability.
> A *landlord* found in violation of any of the provisions in this chapter, unless otherwise of double the *tenant's* economic and noneconomic damages or three times the monthly rent of the *dwelling unit* at issue, and reasonable litigation costs and attorneys' fees. (Emphasis added.)

Additional Staff Recommendations (included in the proposed ordinance)

Should the Council elect to move forward with the ARCH proposal, staff has included in the draft ordinance the following recommended additions:

A) Added to **7.75.030 Notice of rent increase** – "Any rental agreement or renewal agreement shall state the dollar amount of the rent or rent increase and include, or shall be deemed to include, a provision requiring not less than …"

The concern addressed by this language is that a landlord might send out notices of rent increases of "greater than 10%" with the final rent increase being any number above that. Adding this requirement provides the specific rent amount to the notice which is the needed information for the tenant to make an informed decision on whether to remain in the dwelling unit, and how much additional income may be required to do so.

B) Added to **7.75.030 Notice of rent increase for income-based subsidized housing** – Requiring a 30-day minimum notice requirement that applies to renters of "subsidized housing *where the amount of rent is based on the income of the tenant*." This provision does not apply to all subsidized housing, but only "where the amount of rent is based on the income of the tenant." The rationale for this provision was provided by the King County Housing Authority which noted that it would apply to limited programs, such as the Federal Low-Income Public Housing and Project-Based Programs, where rent (and utilities) are set at approximately 30% of the tenant's income. These HUD programs allow for rents to change as incomes do, meaning that if a resident's income decreases, rents will be adjusted downward. Likewise, increases in incomes mean that rents may rise, but a tenant will not pay more than approximately 30% of their income on rent and utilities.

Because incomes of low-income households frequently change, the 30-day notice is fairer and more feasible, both for the tenant *and* the administering agency. It is especially helpful for

tenants whose income is reduced. And because rent and utilities will not exceed more than 30% of a tenant's income, increases will not cause displacement.

Adding Section .030 ensures these federal rental assistance programs may continue to operate efficiently while at the same time providing clarity for tenants.

C) Added to **Section 4** – "This ordinance shall be in full force and effect 45 days from and after its passage by the Kirkland City Council and publication pursuant to Section 1.08.017, Kirkland Municipal Code in the summary form attached to the original of this ordinance and by this reference approved by the City Council."

The 45-day effective timeline is recommended to ensure there is sufficient time for City staff to educate landlords about the requirements and responsibilities required as a result of this ordinance, and to give landlords time to update their administrative processes to be in compliance with these requirements. A reference to this 45-day effective date and its purpose is also included in the "WHEREAS" section of the ordinance.

Additional Considerations

To assist the Council in discussion of potential alternatives to the ARCH ordinance provisions, staff has included a tenant protection comparison chart summarizing the approach of nearby jurisdictions at the end of the memorandum. (See Page 9)

Council could also consider adding a section that allows the landlord and tenant to waive the landlord's requirements in this ordinance only for move in fees and security deposits. This would address situations raised by landlord stakeholders where there is a legitimate mutual interest of the parties, such as a landlord who desires to rent to a tenant that does not have sufficient credit. Currently a landlord can require a more substantial security deposit. That would not be allowed under the proposed ordinance. Landlords could simply refuse to rent to those with poor credit. This may have a disproportional impact on disadvantaged communities. Adding this provision could allow the two parties to create a separate agreement. Such a provision would likely require safeguards that ensure fair bargaining positions of the parties such as described below:

> **Rental agreement that waives tenant's remedies prohibited – Exception.**
>
> A. No *rental agreement*, whether oral or written, may provide that the *tenant* waives or foregoes rights or remedies under this chapter, except as provided by subsection B of this section.
> B. A *landlord* and *tenant* may agree, in writing, to waive specific requirements of this chapter regarding the limitations a landlord can require relating to move in fees and security deposits if all of the following conditions have been met:
> 1. The agreement to waive specific provisions is in writing and identifies the specific provisions to be waived; and
> 2. The agreement may not appear in a standard form written *lease* or *rental agreement*;
> 3. An attorney for the *tenant* has approved in writing the agreement as complying with subsections B.1 and B.2 of this section.
>
> In the absence of this type of provision, any agreed upon waivers by landlords and tenants would be considered "void" and of no effect per **Section .060A**.

If Council desires to add this provision, staff has drafted the above language as an amendment that can be incorporated into the ordinance.

Finally, some important additional insights from the stakeholder outreach for Council consideration include:

- That the City play a more direct role in helping both landlords and tenants mitigate against risk. Staff is exploring the development of a landlord - tenant mitigation fund to make it easier for housing providers to rent to low-income, or low-credit-score households, or other at-risk households. ARPA funding may be an option to establish a mitigation fund.
- Tailoring the proposed regulations to apply only to low-income households could be administratively difficult to monitor and would exclude some moderate-income tenants who are currently housing cost-burdened.
- There is mutual interest for groups to work together at the local level to design and prioritize strategies that increase the supply of affordable housing. This work would include finding additional equitable and efficient mechanisms to ensure compliance with landlord tenant rules and regulations such as utilizing the City's code enforcement process.
- That the City play a significant role in providing effective, easy to understand communication strategies to inform tenants and landlords about their rights and responsibilities under local landlord and tenant rules and regulations.

NEXT STEPS

Council considers adopting an ordinance that would implement tenant protections formulated by the ARCH Executive Board via Resolution No. 2022-01 or an alternative approach. Some options available for the Council include:

1. Adopt the ARCH proposals (considered individually) as presented. An ordinance containing the ARCH proposal with recommended additions is attached to this memo.
2. Adopt the ARCH proposals (considered individually) as amended by the Council.
3. Delay action pending additional stakeholder outreach.

Cc: Lindsay Masters, ARCH, lmasters@bellevuewa.gov

From Stay Housed / Stay Healthy Coalition, consisting of: Transit Riders Union; Housing Justice Project; 45th District Democrats Endorsement Committee; Eastside For All

Attachment A: Letter to Council Re: City of Redmond Tenant Protections
Attachment B: Questions and Answers About the ARCH Tenant Protection Recommendations
Attachment C: Stay Housed, Stay Healthy's Renter Protection Recommendations for King County Cities
Attachment D: Email re: Kirkland's frame for the decision on ARCH's recommended tenant protections

From Bellevue Chamber; NAIOP, WA State Chapter; Rental Housing Association of Washington; Washington Business Properties Association; Washington Multifamily Housing Association
Attachment E: Email to Council Re: ARCH Recommendations

From Washington Multifamily Housing Association
Attachment F: Email RE: Proposed Tenant Protection Policies

From MainStreet Property Group LLC
Attachment G: Email to Council Re: Proposed ARCH Ordinance Resolution 2022-1
Attachment H: Article: Incentivizing Condominium Development in Washington State: A Market and Legal Analysis
Attachment I: Article: The Effects of Rent Control Expansion on Tenants, Landlords, and Inequality: Evidence from San Francisco
Attachment J: Article: What does economic evidence tell us about the effects of rent control?

From King County Housing Authority
Attachment K: Email re: Tenant Protections & Subsidized Housing References

Attachment L: City of Redmond Tenant Protection Ordinance

Ordinance O-4810

Renter Protections Comparison

	Seattle	King County (unincorporated)	Kenmore	ARCH Recommendations	Redmond
Notice of rent increases	180 days for *any* rent increase	120 days for >3%	120 days for >3% 180 days for >10%	120 days for >3% 180 days for >10%	120 days for >3% 180 days for >10%
Move-in fees	Similar to other listed examples but more complicated; see city website for details.	Capped at 1-month rent, right to pay in installments over 6 months (or 2 mo. for leases shorter than 6 months.)	Capped at 1-month rent, right to pay in installments over 6 months (or 2 mo. for leases shorter than 6 months.)	Capped at 1-month rent, right to pay in installments.	Capped at 1-month rent, right to pay in installments over 6 months (or 2 mo. for leases shorter than 6 months.)
Late fees	–	Capped at 1.5% of monthly rent	Capped at 1.5% of monthly rent	Capped at 1.5% of monthly rent	Capped at 1.5% of monthly rent
Just Cause	Local Just Cause w/ no lease loophole (also in Auburn & Federal Way)	Local Just Cause law w/ no lease loophole	Local Just Cause law w/ no lease loophole*	–	–
Tenants on fixed income can adjust rent due date	–	Yes	Yes	–	–
No SSN required to apply for rental home	–	Yes	Yes	–	Yes
Ban on abusive, deceptive & unfair practices	–	Yes	Yes*	–	–
No rent increase if property is in poor condition	Yes	Yes	–	–	–
Rental property registration program for purposes of data & inspection	Yes (also in Renton, Tukwila, Burien, Auburn, Federal Way, & Kent)	–	–	–	–
Landlord-paid relocation assistance if >10% rent increase	Yes, for tenants up to 80% of area median income	–	–	–	–
Relocation assistance when property is torn down or renovated	Yes, for low-income tenants (paid ½ & ½ by city & property owner)	–	–	–	–
First-in-time rental application law	Yes	–	–	–	–
Fair Chance Housing law (no criminal background checks)	Yes	–	–	–	–
Ban on most winter evictions	Yes	–	–	–	–
Ban on most evictions of children's families & educators during the school year	Yes	–	–	–	–

*pending action at July 25th council meeting

July 21, 2022

Dear Mayor Sweet and Members of Kirkland Council,

Good News! Redmond just passed an ordinance to implement ARCH's recommendations on Tenant Protections! Redmond also banned requirement of a social security number to apply for a rental home, helping to ensure that immigration status is not a barrier to housing. In all this, Redmond follows both Kenmore and unincorporated King County, which implemented these protections *and more* earlier this year and last year, respectively. These protections benefit everyone—not only tenants—by helping to stabilize our communities.

Vanessa Kritzer, City Council Vice President for Redmond, said, *"In a time when many in our community are facing housing instability and unforeseen rent increases, I am glad our council could implement some common sense tenant protections that will give renters more time to plan their lives when rent increases, reduces the burden of move-in and late fees, and ensures that anyone can access housing regardless of immigration status. To support more predictable policy across our jurisdictions, we focused on using the ARCH recommendations and policy already passed by King County and Kenmore to guide the language in our ordinance."*

We are part of Stay Housed Stay Healthy, a coalition of over 50 organizations that has been working with cities across King County to pass legislation that better protects renters from displacement and homelessness, including ARCH's recommendations on Tenant Protections.

Attached is a chart comparing the protections already passed by various jurisdictions within King County to help stabilize our communities, and a supporting document "Renter Protection Recommendations for King County Cities" that provides additional information on these and other proposals supported by our coalition. It's our hope that you, as a leader of a city which is a member of ARCH (A Regional Coalition for Housing) will follow in the footsteps of these nearby communities and promptly pass, *at a minimum*, the ARCH recommendations. These provide a *regional floor* for local legislation to stabilize our communities which are being shattered by unprecedented rent increases.

The ARCH recommendations, attached, have three elements:

1. 120 days notice for rent increases above 3%, and 180 days notice for increases above 10%;
2. A cap on move in fees (above the first month's rent) equivalent to one month's rent and the ability for the tenant to pay in installments; and
3. A cap on late rent fees of 1.5% of monthly rent.

These measures *don't regulate rents*, but they do potentially enable renters to *adjust to the rental market* with the time and possibly the resources to remain in their community when the rent becomes unaffordable. They are a modest subset of the policies and programs that are truly needed to stabilize our communities (and some jurisdictions in King County have already taken further important steps) but they're a meaningful beginning.

The notice time allows renters to potentially remain in their home by getting an additional roommate, a better-paying job, or more work hours. Or it may give them time they need to move nearby. Most people want to keep their kids in the same school or childcare arrangement, and to be near their work, family, faith community, and friends. That's not easy when rental vacancies commonly attract dozens of applicants. It takes a long time to find something affordable; apply and get accepted by a landlord to fill a vacancy; and line up one's notice to one's current rental situation as best as possible to avoid paying double rent for months. The ARCH recommendations are a starting point for preventing homelessness, and offer a bit of dignity to renters of all incomes.

The ARCH recommendations are good for kids and schools. The ability to stay in the same school enrollment area means that all kids and classrooms are less impacted by students moving in and out.

The ARCH recommendations are good for local businesses—large and small. When employees quit in order to move to distant more affordable housing, businesses lose their valued, trained, and experienced employees. When renters don't need to spend all or most of their savings to come up with three times a high monthly rent plus moving costs just to move into a new apartment, they may have some disposable income to frequent the local coffee or ice cream shop, buy a meal, or all of the groceries they need.

The ARCH recommendations are also good for faith communities, neighborhoods, and care-relationships by making stability a bit more possible. Having neighbors that you know is not only one of life's joys, but for many it's a lifeline of people you can depend on to take you to the grocery store or doctor, or watch your kids for a few minutes. Stable neighborhoods also reduce crime.

Please let us know how we can work together. We are available to answer your questions, and we have access to research and attorneys that may be helpful. Attached is a Q&A that provides answers to some of the claims that you can expect to hear from the residential rental property industry.

Your courage and willingness to follow in the footsteps of other local governments to establish a regional standards floor to address this issue will pay high dividends to your community. We look forward to working with you, and appreciate your willingness to consider this.

Sincerely,

For the Stay Housed / Stay Healthy Coalition:

Katie Wilson, General Secretary, Transit Riders Union
Tram Tran-Larson, Community Engagement Manager, Housing Justice Project
Kraig Peck, Member, 45th District Democrats Endorsement Committee
Guillermo Rivera and Debbie Lacy, Eastside For All

Cc Mayors, City Councils, City Managers and ARCH Board Members

Questions and Answers About the ARCH Tenant Protection Recommendations

The residential rental property industry is not the enemy. The construction of more rental property is key to any resolution of the housing crisis. These investors have legitimate needs. Yet much of the industry has made unfounded claims about the ARCH recommendations that are intended to dissuade local governments from these modest reforms. We have heard these claims in every jurisdiction where tenant protections and community stability proposals have already passed. You may wish to speak with officials in those jurisdictions to understand why they found the industry claims to be unconvincing.

Q. Will the ARCH recommendations reduce the supply of rental units by a reduction in new rental construction, or the sale of existing rental property?

A. There is no evidence to support this claim. Seattle has long had much more significant tenant protections in place. Multi-family rental construction continues apace, with no evidence of a reduction. The Seattle area is growing fast as tech companies continue to hire tens of thousands of new employees. The high demand is driving up rents, rental income, and thus investors and construction. Generally, small property owners sell when they believe the real estate market is peaking or due to a change in life circumstances (eg moving, retirement, need for cash). https://docs.google.com/document/d/1Q4LApfQlbOZQREqBU0fYUlbvV81JUe_Pj05Ipd4qbnM/edit?usp=sharing

Q. Will the ARCH recommendations make it difficult for investors to get financing?

A. There is no evidence of this. Financial institutions make loans based on projections of net income, and the likelihood of repayment. Severe limits on rent increases (rent control) for new construction could impact financing, depending on how such a law is written. The ARCH recommendations, however, don't regulate rents. State law currently preempts local rent control. However, industry claims often conflate modest reforms such as these with rent control or other more significant reforms to forestall any changes in the status quo.

Q. Why would 180 days notice for increases over 10% be needed? That's a long time.

A. When renters receive notice of an increase over 10%, which is currently common, it's a life-changing crisis for most—and not simply low income renters. Their options are to get an additional roommate; get a better job or more work hours; or move. Most move. Moving within the community is difficult, as there are often dozens of other applicants for each rental vacancy. Those with the best pay & credit generally are generally selected. Thus it often takes months to find an affordable alternative in the community, if one is found at all. Then the move out notice needs to be navigated with their existing property owner to time a move without paying rent for multiple months to both property owners. If 60 days notice by the renter is required, then 180 days is actually 120 days.

Q. Will a 180 days notice requirement cause property owners to raise rents even higher or sooner?

A. The residential rental industry prices its product like other industries. They have shareholders or partners to whom they're accountable for producing the highest return. Thus, in general, rents are as high as the market (ie demand) will bear at any time. Investors charge the highest rent they can secure, consistent with the level of turnover and risk their model allows. Of course, there are exceptions—compassionate investors who charge less, usually to their existing long term renters. These exceptional property owners, who keep their rents below market, will not be using the 180 day notice (or any of the other ARCH recommendations) as a pretext to jack up their rents; they already have the option to raise rents higher and have chosen otherwise.

Q. Will the cap on security deposits/move in fees (one month's rent equivalent above first month's rent) cause property owners to raise rents in order to cover the risks previously covered by these?

A. See above. If the market permits investors to raise rents, rents will rise. Demand is by far the driver of large rent increases, not expenses or risks. High rents generally cover these. However, some investors may choose to shift the income they receive from security deposits/move in fees to rents (particularly those owners whose practice is keeping these). Because many renters don't have the savings required for high move in fees/security deposits, slightly higher rents—payable monthly—are the better alternative if this occurs. But rents will rise as long as high demand allows, regardless of this modest reform.

Q. Will a cap on late fees of 1.5% of monthly rent cause a significant increase in late or non-payment of rent?

A. Late fees do not function as an incentive to pay rent on time---at least in a market as imbalanced as ours. Renters rely on their landlord's *reference* in order to find future housing. They can't risk playing games and paying late by choice if they ever hope to find another place to live. It'd mean moving back to one's parents, or sleeping on a friend's couch, or homelessness. When renters pay late, it's not by choice. It's due to a crisis, like the loss of a job, medical issues, or even car repairs. Adding late fees when renters are already struggling to pay rent doesn't get them to pay their rent sooner. It further depletes any savings, and for many makes the next month's payment more difficult and can lead to homelessness. Furthermore, credit agencies will soon be including rental payments in credit scores.

Q. Should "luxury" (very high rent) units be exempt from any of the ARCH recommendations?

A. While very high income renters are unlikely to become homeless, their needs for these reforms and the potential stability they provide are no different. They need the same time to adjust to the market. Higher late fees would provide more income to the owner/investor, but wouldn't provide any additional incentive to paying rent on time; the landlord reference and good credit needs are a huge incentive. The cap on move in fees/security deposits are also necessary, as many very high income renters also have high debt payments, and may not have

savings. Keep in mind, as well, that renters, regardless of income, get their current security deposit returned up to two weeks *after* they vacate and have made their security deposit/move in fees on their new rental. Finally, any exclusion line (eg $10,000 per month rent) may, over time, cause some investors to remodel and transition their rentals that are close to that exclusion over the line, if they can.

Q. Are the ARCH proposals or the kinds of tenant protections passed in other jurisdictions bad for business?

A. The residential rental industry is one sector of business. These modest reforms are clearly a change for them, and an inconvenience. Other sectors of business benefit by these reforms. Local businesses—large and small—benefit from a stable community of customers. Retail business—coffee shops, restaurants, salons, grocery stores, and even auto dealers---benefit when renters have funds to spend, instead of deposits/move in fees or late fees held by property investors. All businesses benefit when valued employees can move within the community and retain their jobs. Preventing homelessness is key to thriving business districts. Stability enhances the value of owner-occupied condos and houses. And local institutions—faith communities, clubs, schools, and more---rely on stability for their success. The community as a whole clearly benefits. The ARCH recommendations are insufficient to achieve the stability our communities need, but they will allow some renters to adjust to the market and remain in their communities.

Renter Protection Recommendations for King County Cities

Link to Model Ordinance

Background: Stay Housed Stay Healthy is a broad coalition of over 50 King County-based community organizations, service providers, faith organizations, labor unions, and housing advocacy groups. The coalition came together in early 2021 to advocate for vulnerable renters and advance policies that could help to prevent a wave of evictions due the COVID-19 pandemic. The coalition supported local jurisdictions in implementing emergency measures such eviction moratoriums, and at the same time began to advocate for stronger permanent renter protections. Long before the pandemic, displacement due to rapidly rising rents and preventable evictions were already a major driver of homelessness in our region and were disproportionately impacting communities of color, women and LGBTQ renters.

Through collaboration with the King County Council, in July 2021 we won a strong set of permanent renter protections for Unincorporated areas of the county such as Skyway and White Center. These protections supplement and fill in some of the gaps that exist in state-level protections. To achieve a higher level of housing stability around King County, we recommend that cities implement similar protections. Our model ordinance starts from and builds upon the King County ordinance, adding in some stronger protections that already exist in one or more cities in King County.

We are aware that some developers may claim that passing stronger renter protections could dampen their desire to move forward on projects. We know of no evidence to back this up. We note that developers who have made claims to take their projects elsewhere are currently developing projects in Seattle. The City of Seattle has implemented a number of renter protection laws that are far stronger than what Kenmore was then considering, including a ban on winter evictions; a ban on evictions of schoolchildren, their families and educators during the school year; and landlord-paid relocation assistance equal to three-months rent in cases where rent increases more than 10% in a single year. Apparently these stronger protections have not deterred this developer from developing in Seattle. We are unaware of any developments being abandoned, or even any claims that a specific development was abandoned or not undertaken, due to any of these regulations.

Longer Notice of Rent Increases

Model Ordinance: 180 days notice of any rent increase

Precedents:

- *Seattle:* 180 days notice of any rent increase (09/2021)
- *Kenmore:* 120 days notice for rent increases larger than 3%, 180 days notice for rent increases larger than 10% (03/2022)
- *Redmond:* 120 days notice for rent increases larger than 3%, 180 days notice for rent increases larger than 10% (07/2022)

- *Unincorporated King County:* 120 days notice for rent increases larger than 3% (07/2021)
- *Auburn:* 120 days notice for rent increases larger than 5% (2020)
- Proposed state law HB 1904, in its original form, would have required landlords to offer tenants between 180 and 220 days notice of rent increases of more than 3%.

Why this is important: Rents are increasing throughout King County at a rapid pace. Families are routinely getting monthly rent increase notices of $200, $300 and sometimes far more. Many can't afford this. People need time to find new housing or figure out a way to pay the additional rent, and the 60 day notice period mandated by state law is simply not enough. In a hot housing market, it is extremely difficult and labor-intensive for a family to find a new home, especially one in the same school district or near existing community networks and services. This provision makes it more likely that renters receiving a significant rent increase can adjust their finances or find a new rental home instead of falling into homelessness, which is ultimately far more harmful and costly.

Late Fee Cap

Model Ordinance: Late fees are capped at $10.00 per month

Precedents:

- *Auburn:* capped at $10.00 per month (2020)
- *Kenmore:* capped at 1.5% of monthly rent (03/2022)
- *Redmond:* capped at 1.5% of monthly rent (07/2022)
- *Unincorporated King County:* capped at 1.5% of monthly rent (07/2021)
- Proposed state law HB 1904 would have capped late fees at 1.5% of monthly rent.

Why this is important: Currently, there is no state regulation on how much landlords can charge in late fees. We often see a flat rate of anywhere from $50-200 and then a daily fee of $5-50 until rent is paid in full, meaning if a tenant is even five or six days late on rent, they now owe an additional $70-400. This sets renters up to drown in debt and makes it near impossible to catch up. Mistakes happen; there can be an accounting delay resulting in a late paycheck, or something goes awry with public benefits, or an unexpected expense comes up. If someone is unable to pay their rent on time, how can they pay a couple hundred dollars on top of that? The main impact of punitive late fees is to destroy a person's credit history; as state law stands, a renter cannot be evicted for late fees and the courts only require them to pay up to $75 of late fees once an eviction process has started. The argument that limiting late fees will cause tenants to de-prioritize rent payments does not hold water. Even during a worldwide pandemic, with eviction moratoriums in place, renters continued to prioritize rent over medical bills, food, and other household necessities. As they say, "the rent eats first." All large late fees accomplish is punishing the most vulnerable members of our community even when they've gotten caught up on rent.

Move-in Fee Cap & Payment in Installments

Model Ordinance: Total move-in fees (all charges beyond the 1st month's rent) are capped at one month's rent, and the tenant has a right to pay in installments over 6 months.

Precedents:

- *Kenmore:* Total move-in fees (all charges beyond the first month's rent) are capped at one month's rent; right to payment plan with 6 installments if lease is 6 months or more, or 2 installments if lease is less than 6 months. (03/2022)
- *Redmond:* Total move-in fees (all charges beyond the first month's rent) are capped at one month's rent; right to payment plan with 6 installments if lease is 6 months or more, or 2 installments if lease is less than 6 months. (07/2022)
- *Unincorporated King County:* Total move-in fees (all charges beyond the first month's rent) are capped at one month's rent; right to payment plan with 6 installments if lease is 6 months or more, or 2 installments if lease is less than 6 months. (07/2021)
- *Seattle:* Non-refundable fees are capped at 10% of monthly rent. Security deposit and fees combined cannot exceed one month's rent. 6-installment payment plan allowed for security deposit, fees and last month's rent for leases of 6 months or more; 4 or 2 installments allowed for shorter leases. (01/2017)
- *Auburn:* Security deposit and fees can't exceed monthly rent. Somewhat complicated rules for installment payments can be found here. (2020)

Why this is important: Large upfront costs are one of the main reasons renters have trouble finding new housing. In addition to the costs of hiring moving help and/or taking time off work to move, most rentals require upfront payment of first month's rent, last month's rent, a security deposit and various fees that often add up to another month's rent. King County is one of the most expensive rental markets and depending on the unit size, the average rent is anywhere from $1,500-$3,200. Moving into a new apartment can easily cost $5,000-$9,000. In a country where the average person doesn't have an extra $600 in their bank account as a safety net, how do we expect people to come up with thousands of dollars to move? People often stay in unsafe housing or abusive relationships because they can't afford the costs of moving. In other cases, they simply become homeless. In a hot housing market where many renter households are getting notices of large rent increases and having to seek new housing, limiting move-in fees and allowing payment in installments is essential to preventing homelessness. This also relieves the strain on social services funding, who are often footing the bill for move-in costs for low-income families and domestic violence survivors to flee their abuser and find safer housing.

Relocation Assistance

Model Ordinance: Increases over 10% of monthly rent requires landlord to pay relocation assistance equal to 3-month's rent for economically displaced tenants

Precedents:

- *Portland, OR:* The Mandatory Renter Relocation Assistance law covers rent increases of 10% or more over a 12-month period and some other situations. Upon request of the tenant, the landlord must pay relocation assistance of $2,900 - $4,500, depending on unit size.
- *Seattle:* CB 120173, passed in 2021, covers rent increases of 10% or more over a 12-month period, and requires the landlord to pay relocation assistance equal to three months' rent. Seattle's Tenant Relocation Assistance Ordinance provides assistance for renters displaced by

development; low-income renters receive relocation assistance of $4,232, half paid by the city and half by the property owner. (09/2021)

Why this is important: Large rent increases are one way of getting rid of lower-income tenants in a gentrifying neighborhood, if a landlord is unable to evict them due to just cause eviction protections. Due to Washington state's ban on rent regulation, local jurisdictions cannot directly limit the size of rent increases, as some other states and localities have done. Mandatory relocation assistance is one way of at least mitigating the worst impacts of large rent increases. It provides some funds for households that are economically displaced by rapidly rising rents, increasing the chances that they can find new stable housing instead of becoming homeless or housing insecure.

Case Study: Testimony from a Kenmore Renter

I live with my father and am the sole provider for the both of us, my father is ill and can no longer work. This is a very hard situation for me since I have to be at work full time. I have a single income of $2100 a month and pay over half of it to rent. My apartment complex is now trying to increase my rent by $400 a month to $1530. I have already been struggling to pay the current amount and am unable to make that payment. There have been times in which I am unfortunately late on rent and management charges me late fees of $50 as well as an additional $15 a month for parking. The apartment complex I live at has been renovating different units and charging the same price of $1530. My unit has yet to be renovated so I don't see why I should be paying the same amount as a newly renovated apartment. There is no response to fixing anything, I have asked for multiple things to be fixed in my unit and no one has come to do so. I would like to see some change in the amount that rent can be increased, especially for those like me that need the defense.

Analysis:

- This renter and her father are having their rent raised from $1,130 to $1,530. **That's an increase of over 35%.** Unfortunately, this is far from uncommon. Rents are rising far faster than overall inflation, let alone wages.
- Since her rent was over half her income even before the increase, occasionally she pays a little late. **Our model legislation would limit her late fees to more like $20**, instead of the $50 her landlord is currently charging. For someone in her situation, $50 might be a week's worth of groceries.
- She and her father can't afford the extra $400 a month. **Our model legislation would give them 6 months to find a new place to live.**
- When she and her father start searching for an apartment, they will find that landlords expect them to pay first, last and deposit up front. **Our model legislation would make sure they don't have to pay more than one month's rent in move-in fees, and it would allow them to pay in installments.** Without this protection, it's going to be very challenging for them to move in anywhere.

- Finally, since the rent increase is greater than 10%, the relocation assistance provision of **our model legislation would ensure that they get a payment of $3,390 from their landlord** to help them with all the costs of moving. This could help to cover move-in fees; hire movers; and/or allow her to take some time off work to search for a new apartment, pack and move.
- Our model legislation does not solve all their problems. It doesn't fix the unresponsiveness to requests for repairs, and it doesn't fix the $400-a-month rent increase itself. But it's a start.

Ability to Adjust Rent Due Date for Tenants on Fixed Incomes

Model Ordinance: Rental agreements must include a provision allowing tenants to adjust the due date of rent payments if the tenant has a fixed income source such as SSI that makes it hard to pay rent on the date otherwise specified in the rental agreement.

Precedents:

- *Unincorporated King County:* Same as model ordinance (07/2021)
- *Kenmore:* Same as model ordinance (03/2022)

Why this is important: Renters on fixed income such as SSI or SSDI may not receive it on the 1st of the month, leading to situations where they don't have enough left over for rent when it comes due. Renters who are on a (very low!) fixed income shouldn't have to worry about being charged late fees when they don't have control over when their income arrives. Washington state already has a weaker version of this protection that allows a change in the rent due date of up to 5 days. The language in our model ordinance would allow the date to be adjusted based on when the tenant actually receives income.

Just Cause Eviction Protections for All Renters

Model Ordinance: Requires good cause to evict, regardless of lease type.

Precedents:

- *Federal Way:* Just cause protections with no loophole passed by initiative in 2019.
- *Auburn:* Passed just cause protections with no loophole in 2020.
- *Seattle:* Closed the loophole in its longstanding just cause eviction ordinance in 2021.
- *Unincorporated King County:* Passed just cause protections with no loophole in 2021.

Why this is important: This closes a loophole in the statewide just cause law that excludes many renters on fixed term leases, leaving them vulnerable to no-cause evictions at the end of their lease. This loophole was added to the statewide bill as a result of political jockeying, not for any good policy reason. Evictions very often lead to homelessness and landlords should always have a legitimate reason to take this disruptive step. Just Cause protects renters from being evicted because of discriminatory or retaliatory reasons. All renters deserve this basic protection.

Protections for Immigrants

Model Ordinance: Prohibits landlords from requiring a social security number for the purposes of screening a prospective tenant.

Precedents:

- *Kenmore:* Prohibits landlords from requiring a social security number for the purposes of screening a prospective tenant. (03/2022)
- *Redmond:* Prohibits landlords from requiring a social security number for the purposes of screening a prospective tenant. (07/2022)
- *Unincorporated King County:* Prohibits landlords from requiring a social security number for the purposes of screening a prospective tenant. (07/2021)

Why this is important: The practice of requiring a social security number impacts immigrant communities, making it hard for undocumented people to find housing. Our model legislation does not prevent landlords from requesting a social security number, they just cannot require it. Credit reports are obtainable without a social security number. This provision is essential to ensure fair access to the basic human right of housing for some of our most vulnerable neighbors.

Bans Abusive, Deceptive, and Unfair Practices

Model Ordinance: Landlords are prohibited from unfair, abusive or deceptive acts or practices.

Precedents:

- *Unincorporated King County:* Landlords are prohibited from unfair, abusive or deceptive acts or practices. (07/2021)

Why this is important: Landlords generally have greater knowledge of landlord-tenant laws than renters do. This provision helps to protect tenants from misrepresentations and landlords who take unreasonable advantage of a lack of understanding on the part of the tenant regarding the conditions of the tenancy or the tenant's rights under the law. For example, a landlord may threaten to evict a tenant or issue notices for late or legal fees, even when this is illegal. A landlord may refuse to do repairs and make tenants believe they are responsible for all repairs. A landlord may convince tenants who don't speak English to a) sign mutual termination forms or b) repayment plans without going through the mediation process or c) give them a new lease or change the terms without approval from the tenant.

No Rent Increase if Property is in Poor Condition

Model Ordinance: A landlord shall not increase the rent to be charged to a tenant by any amount if the dwelling unit has defective conditions making the dwelling unit unlivable, if a request for repairs has not been completed, or is otherwise in violation of RCW 59.18.060.

Precedents:

- *Seattle* (06/2016)
- *Unincorporated King County* (07/2021)

Why this is important: Tenants shouldn't be subjected to uninhabitable or unsafe living conditions and rising rents. A landlord is required under the law to maintain the unit and make sure it is fit for human habitation but a tenant has no quick remedy under the law to force a landlord to fulfill such obligations. There is nothing in the law that prevents the landlord from raising rent in these situations as a means for retaliation for any tenant that exerts their rights.

Protections for Children and People with Disabilities

Model Ordinance: Landlord may not demand child or person with disability to be signatory to lease if tenant of record is already a signatory

Precedents:

- None

Why this is important: Where we've seen this become an issue is when there's a minor or student in the house who turns 18 while they are still in high school, so a landlord demands that they sign the lease. If the household is evicted, the student would be named on the paperwork and the eviction would appear on the student's background check and subsequently make it very difficult for them to be able to rent on their own as an adult when they actually graduate or move out. Evictions impact credit history, which impacts not only the ability to rent, but can impact getting loans, applying for credit cards, purchasing a car, all things that students often rely on to get a higher education. It punishes a child for something they had zero control over solely because they were unlucky to turn 18 during high school. This also impacts people with disabilities for similar reasons. Banning landlords from requiring a child or person with disability from being a signatory on the lease would prevent this from happening.

Create a Rental Housing Registration and Inspection Program

Model Ordinance: *Establishes a mandatory rental housing safety inspection and registration program.*

Precedents:

- *Renton:* Rental registration program (02/2019)
- *Tukwila:* Rental registration and inspection program (01/2011)
- *Burien:* Rental registration and inspection program (2019)
- *Seattle:* Rental registration and inspection ordinance (2012)
- *Auburn:* Rental registration program (2020)
- *Federal Way:* Rental registration program (2019)
- *Kent:* Rental registration and inspection program (2018)

Why this is important: A rental registration and inspection program is essential groundwork for effective policy making and enforcement of rental housing rules and legislation. More and more cities are adopting rental registration and inspections programs in Seattle and across the country. Furthermore, business registration and licensing programs are common practice.There is no reason to that landlords, who provide goods and services that are essential to their client's health and stability, are excluded from this standard practice.

A rental registration and inspection program is an efficient and evidence-backed approach for identifying and remedying dangerous code violations in rental properties. A severe lack of inspection and enforcement mechanisms of basic housing codes and rules leaves renters with few options to report code violations or advocate for themselves when their housing unit is not compliant with basic health standards or stipulations laid out in their lease. Many renters, especially those from immigrant communities, are afraid to report code violations for fear of retaliation. Evidence shows that without a rental registration and inspection program, many code violations are not reported. A study in 2010 showed that when seattle adopted its new mandatory registration program, 78% of the buildings had unreported code violations, including many with the most serious violations.

There are many other benefits to rental registration programs. They are preventative - allowing code violations to be discovered and responded to before they become increasingly dangerous or too expensive to fix. They incentivize safe properties and they can be structured to have minimal burdens on landlords and property managers who adequately maintain their properties. They are also low-cost and effective. With a rental registration program, code inspections and enforcement practices can be funded by small annual fees charged to registrants.

A rental registration program also gives city policy makers and citizens important information about the amount and state of rental housing stock in a given city. This data can help policymakers support landlords, developers, and renters to ensure policy choices are helping to support a healthy, adequate and sustainable stock of rental housing to meet the needs of an equitable and thriving community.

Source: Way, Heather K. “The Facts About Rental Registration”. July 2013. The Entrepreneurship and Community Development Clinic University of Texas School of Law. <https://law.utexas.edu/wp-content/uploads/sites/11/2015/07/2013-07-ECDC-THE-FACTS-ABOUT-RENTAL-PROPERTY-REGISTRATION.pdf”>

From: Kraig Peck <kraig.peck@outlook.com>
Sent: Friday, July 22, 2022 1:23 PM
Subject: Kirkland's frame re tenant protection deliberations

Re: Kirkland's frame for the decision on ARCH's recommended tenant protections

Dear Mayor and Council Members,

I appreciate the work that the Kirkland City Council and staff are doing to move forward to an August 3 decision on the ARCH recommendations for tenant protections.

I believe that you've received the Coalition's letter informing you that the City of Redmond passed the full ARCH recommendations, with the addition of a prohibition on requiring renter applicants to provide their Social Security numbers. Their vote was 6-1, with all Democrats on the Redmond City Council voting in favor. The King County Council ordinance was also passed with the votes of every Democrat.

My purpose in writing is to suggest a decision-making frame that is complete, accurate, and useful for your deliberations.

At the prior Council meeting where the ARCH recommendation was discussed, and in more recent conversations with some Council members, the matter appears largely framed as "A compromise between ARCH's recommendation vs. those of local for-profit rental property developers/owners." This is a distorted frame---not one that is complete, accurate, or useful for your deliberations.

The frame should begin with the *need,* as should all policy decisions. We have provided you with information about the need for each of the three elements---the needs of renters and the needs of the community for greater stability.

If you have any doubts about the need for any of the three specific modest recommendations by ARCH, please contact me or another member of the Coalition. We'd be glad to have a discussion with you. I have personally spoken with somewhere between 100 and 200 renters (mainly in Redmond) in the past few weeks, and recently spent three hours talking with renters during Kirkland's downtown Farmers Market. I hope that you, too, are taking the time to talk with renters to understand what the community is facing.

The frame must also include the regional context. Kirkland's housing crisis does not present issues that are new or unique to the region. There are no Kirkland-specific issues that we are aware of that would benefit from a lesser version of the regional floor that ARCH is shaping, and on which King County, Redmond, and Kenmore have taken action.

We have great respect for ARCH's regional leadership, and believe that they have intelligently calibrated what should be implemented immediately and with little controversy. Ignoring the regional context or viewing the ARCH recommendation as the *starting point* for a compromise is an incomplete and distorted frame for your deliberations. It undermines ARCH's leadership and credibility.

Council members should have an understanding of what other local jurisdictions have already acted upon, and how the ARCH recommendation is but a small subset. We've sent you several documents, including a chart entitled "Renter Protections Comparison"; "Renter Protection Recommendations for King County Cities"; and I long ago provided information about King County's ordinance and the testimony they received from rental property investors, renters, and other stakeholders.

The frame must also include the *impacts* of any action *or inaction*. The current frame appears to center the question of impacts *on claims by some rental property owners.* (We sent you a document entitled "Questions and Answers About the ARCH Tenant Protection Recommendations" to address these claims.) This frame doesn't address the impact of *inaction or passing a lesser version of the ARCH recommendation.*

Kirkland tenants will continue to get destabilizing rent increases with or without ARCH's recommendations. **These impacts should be part of your frame:**

You can expect that passing a lesser version of the recommendations will result in fewer renters having the ability to move *within* the community and thus more moving elsewhere; businesses losing valuable employees as they move further than they're willing to commute; less customer money to spend at local businesses (with larger move in fees/security deposits and late fees held by rental property owners instead); more disruption in our schools; and an increase in homelessness due, in part, to a lack of time and funds to adjust to the market.

Another impact is less obvious, but is one that everyone who is committed to democracy, especially Democrats, should take note of: the erosion of support for our democracy. Today, the majority of non-college educated white people support a political party that seeks to eliminate our democracy. An additional substantial portion of the public doesn't vote. Their support for democracy, or even their knowledge of it, is far from solid.

If those we elect don't deliver the security and dignity the public seeks, support for democracy will continue to erode, and a majority of the public will either support or acquiesce to authoritarianism. This is the crisis we are facing today. FDR acted on that knowledge when facing this crisis in the 1930's. Joe Biden is seeking to act on it. **I urge each of you to include these consequences, based on the lessons of history, as part of the frame in your deliberations.**

Thank you for your consideration. Please don't hesitate to contact me.

Kraig Peck

Member, 45th District Democrats

Attachment E

May 19, 2022

Dear Mayors and City Councils,

We are writing to you today to discuss a recent policy proposal made by A Regional Coalition for Housing. We believe in and support their goal of creation and preservation of affordable housing. However, we do not agree with their recent resolution supporting increasing the already onerous burdens placed on small housing providers.

Everybody has been impacted by rising costs since the start of the COVID Pandemic. Housing providers have been further burdened by the dramatic increase of property taxes, maintenance, utilities, insurance, and other associated operating costs. Increasing the minimum notice period requires the housing providers to take on those costs for even longer as these cost increases are nearly impossible to predict. Housing providers will be forced to increase their rents annually as they will be penalized for failing to do so.

Additionally, these increased costs must be paid by the housing provider in a timely manner. Failure to pay a mortgage or property taxes can have grave consequences for both the housing provider and the tenant. Having a late fee be limited to a nominal amount provides no incentive for a tenant to pay their rent on time, which many small housing providers rely on.

Finally, in light of all the recent changes and regulations added to at the state and local level, housing providers must be more cautious and diligent when screening applicants. Increased security deposits or move in fees allow housing providers to mitigate the risk associated with an underqualified tenant. By removing this option, you would be preventing these tenants from gaining access to much needed housing.

We would love to work with you to incentivize and facilitate the creation of more affordable housing. Our immediate focus should be on preserving the dwindling supply of naturally occurring affordable housing. Existing, older stock is being sold and remodeled into high end, market rate housing. We should focus on robust Multifamily Tax Exemption programs, grants, and density zoning.

We have seen over 11,000 rental housing units leave the Seattle market over the last year. A survey of our membership shows that 40% of respondents sold their rental properties in 2021 due to increased regulatory burdens. As rental supply is dwindling across the state, now is not the time to increase the already onerous burdens and push more housing providers out of the market.

Sincerely,

Joe Fain | President & CEO
Bellevue Chamber
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James Lopez
Deputy City Manager
City of Kirkland
123 5th Ave
Kirkland, WA 98033

July 25, 2022

RE: Proposed Tenant Protection Policies

Mr. Lopez,

Thank you for taking the time to meet with the Washington Multi-Family Housing Association and our other industry partners to learn about and understand our concerns related to proposed "tenant protections" being considered in Kirkland. While intended to be simple, reasonable, and effective, from our perspective, they do more harm than good toward solving the housing crisis in our region. Following is an overview of the issues to provide further clarity, balance and understanding:

Notice Requirements
The notice requirements under consideration are burdensome and do not take into account the realities of rental property operations. Housing providers do not know what operating costs, market conditions or other circumstances will exist four to six months in advance and to expect housing providers to effectively notice an accurate rent increase to a tenant in that time frame isn't feasible. For example, property taxes are posted once a year with approximately four months' notice. Further, insurance premiums change one to two times annually with only 30-60 days' notice. In addition, inflation is currently double the proposed minimum requirement of 3% for 120 days' notice. As such, housing providers will mitigate risk by estimating larger annual rent increases to protect actual rent at the time of the rent increase. This is occurring in Seattle now with their untested 6 months' notice for any rent increase.

Move-In Deposit Restrictions
Damage and other deposits are levied to offset costs incurred by housing providers should a tenant damage the property or quit paying their contractual obligation. If these deposits are too low, one of two things occur; 1) either the housing provider pays for it, or 2) the cost is born by others via future rent increases. Ultimately, these restrictions only serve to protect those that are responsible for these added costs. When providers incur these costs, it can have a number of impacts:

WASHINGTON MULTI FAMILY HOUSING ASSOCIATION

600 SW 39th Street
Ste. 220
Renton, WA 98057

wmfha.org

(T) 425.656.9077
(F) 425.656.9087

- Limits their ability to pay for other needed repairs or services
- Forces them to increase rents unilaterally or over time
- With enough market pressure or frequency, causes them to leave the market all together or at a minimum, stop pursuing new housing development projects

Damage and other deposits are designed to mitigate risk for housing providers, but don't solely exist for the benefit of the provider. The fees are used to offset costs incurred due to failure to pay, damage and other expenses, that although limited to a few bad actors, do occur. By requiring reasonable deposits to offset these costs, housing providers are also protecting their other tenants. Ultimately, if individuals who are responsible for these costs are not charged through these deposits, the costs will be absorbed by all tenants in the rental complex and in the case of single-family properties by other renters in the owner's portfolio. Similarly, the car insurance market faces similar consequences. When you pay for insurance, you are part of a larger risk pool and although individuals with claims have a higher deductible, everyone in the market pays, to some extent, for those who have added costs to the system.

Without the ability to charge reasonable fees to offset risk, the riskiest tenants will be pushed to the edges of the rental market rather than being allowed to participate, with reasonable accommodations.

Installments

Although installments seem to be a reasonable accommodation, they are counter to the intent and design of deposits. Deposits and fees are assessed based on the risk level of a tenant and offering installments only extends the risk over a longer time period which also increases exposure for the housing provider. If the tenant is a financial risk and they default prior to the end of installments, the cost burden on the owner is higher. This is true of damage as well, which leaves the housing provider and other tenants responsible for these costs. Both of these proposals, although seemingly "fair" in theory, only shift the cost burden from those responsible to housing providers and ultimately fellow tenants. In the end, the rental housing market as a whole is impacted through higher rents and less units being developed.

Late Fee Cap

Capping late feeds to 1.5% of monthly rent is simply unreasonable and provides no incentive for tenants to pay on time. For a $1,200 rent payment, this equates to $18, the price of a movie. Although we understand the concern that some tenants may find themselves in a cycle of late rent payments exacerbated by additional fees, lowering the maximum fee amount to an amount which provides no consequence, only allows late and missed payments to become the norm as tenants prioritize other expenses. Our members work with tenants to help them remain in their units and to ensure they are able to continue paying their contractual lease obligations through reasonable accommodations. This cap removes all incentives for them to continue this practice. Property owners and housing providers don't get to pay their pay their mortgage, maintenance or other contracts without penalties, which are much higher than 1.5%. Under this proposal the city may be asking them to pay these higher costs if

tenants default, thereby affecting their cash flow. In addition, if tenants are unable make monthly payments on time, it points to a larger problem that needs to be addressed and possibly mitigated through more reasonable and relevant late fees.

Summary

These regulations place a significant and unwarranted burden on housing providers – especially small landlords, which leads to unintended consequences including higher than expected rent increases and the stagnation or reversal of rental unit development at a time when supply is the biggest issue facing our region.

The following chart helps illustrate these points. Data is based on the recent rental housing activity in Seattle, where similar restrictions requirements and prohibitions have been adopted.

According to data provided by the City of Seattle through the Rental Registration and Inspection Ordinance (RRIO) report, between May 2021 and June 2022 there has been a loss of 3,363 properties and 9,519 units. More important is the loss of properties and units in the "50 units and less" size class of properties which accounts for 3,348 and 8,208 losses respectively.

These numbers are significant because many suburban communities do not produce or maintain properties larger than 50 units due to land use and zoning issues, so the loss of these properties provides a better equivalent for most communities around the state.

	May-21		**Jun-22**		**Loss of Properties**	**Loss of Units**
Size Class	**Properties**	**Units**	**Properties**	**Units**		
Single Unit	21,363	21,363	18,844	18,844	**(2,519)**	**(2,519)**
2 to 4 Units	4,598	12,007	4,126	10,808	**(472)**	**(1,199)**
5 to 20 Units	2,802	27,249	2,502	24,566	**(300)**	**(2,683)**
21 to 50 Units	836	26,298	779	24,491	**(57)**	**(1,807)**
51 to 99 Units	296	20,886	294	20,717	**(2)**	**(169)**
100 to 200 Units	174	24,423	160	22,357	**(14)**	**(2,066)**

200+ Units	93	26,658	94	27,582	**1**	**924**
TOTAL	**30,162**	**158,884**	**26,799**	**149,365**	**(3,363)**	**(9,519)**

While there may be a mix of factors that contribute to the property and unit losses, we maintain that more onerous restrictions, reporting requirements and prohibitions are responsible for a large part of the decline, especially with small developments, whose owners are generally not able or willing to continue operating under such conditions.

When reviewing larger unit properties like those of WMFHA members, it is important to note that development at any scale of 100 units plus, has a design, financing, review, permitting and construction lifecycle of 3-5 years, so they are not always a good barometer of the effect of these legal changes. We will likely begin to see the impact of these changes on larger properties in the next few years. In addition, when looking at the net gain or loss of properties and units in total, larger properties serve to mitigate the loss in other areas because they already had financial and contractual building obligations in place, regardless of the laws passed after their planning, design and construction phase. The Puget Sound, specifically, and Washington State, generally, are in a housing crisis and replacing one unit type with another rather than adding 100s of new units year over year is not a sign of success.

We urge the Kirkland City Council and staff to recognize the negative impacts the proposed “tenant protection” policies will have on the ability of housing providers to continue offering housing opportunities to Kirkland residents as well as the chilling effect, they would have on new rental housing creation.

If Council chooses to pursue any or all of these options, we respectfully request consideration of a reasonable effective date of 120-days or more. For example, if a 120-day noticing requirement is enacted, the effective date must, at a minimum be at least 120 days post ordinance passage so properties have time to properly notice tenants and remain in compliance. If a reasonable effective date is not adopted, the notice requirement It is in fact a temporary moratorium on rent increases which goes beyond the proposal as discussed to date and places an undue financial hardship on properties.

Ryan Makinster
Director of Government Affairs
Washington Multi-Family Housing Association

May 2, 2022

Kirkland City Council
City of Kirkland
123 5th Ave
Kirkland, WA 98033

RE: Proposed ARCH Ordinance Resolution 2022-1

Dear Councilmembers:

As a long-time supporter of affordable housing on the Eastside, I am surprised that ARCH is supporting proposals that would reduce affordable housing within the area. Furthermore, after decades of collaboration, ARCH is advocating these proposals without input from developers, for-profit and non-profit, who have built thousands of affordable residences and building property owners on the Eastside. Yet, there is a long history of the development community working with our cities and ARCH.

My goal is to raise awareness that the proposed ordinances may lead to dire results that is the similar in impact to the Washington State Condominium Act has had in reducing affordable condominiums and housing in the Puget Sound Region. A research paper for the UW's Runstad Center in 2016 provided data that the more expensive condominiums is a result that more revenue is required to offset the risks of litigation. (See attachment "Condo Report")

Therefore, I am going to highlight two areas of focus in my letter:
1. How the proposed "tenant protections" will result in less affordable housing if enacted.
2. How the collaborative approach with the real estate community on the Eastside has resulted in thousands of affordable housing units with limited taxpayer's dollars subsidies.

Unintended Consequences of Proposed Regulations

The "proposed tenant protections" are a form of rent control. The resolution of ARCH has two elements that will increase the cost of managing rental properties which may result in less affordable housing being created within the City of Kirkland. Professor Rebecca Diamond of Stanford University seminal research paper demonstrated the negative impacts of rent control on affordable housing. (See attachments "Effects of Rent Control" and the article "Rent Control.")

1. **Late Fees**: The proposed cap on **Late Fees** is significantly lower than late fees lenders charge property owners who make a late mortgage payment. Most late fees by lenders are more than **4%** and late penalties for utilities exceed **10%.** Timely rent payments are critical to ensure there are sufficient funds to meet the

mortgage payments, property taxes, and utility payments associated with the building.

2. **Move-in Fees:** In our communities, the move-in fees are less than one month's rent. Most rental units on the Eastside fall within this category. The concern is the proposal to spread the move-in fee over a period of 6 months increases the likelihood of rents not being paid on time by residents.

Increasing the Supply of Affordable Housing

It is important to highlight the importance of a collaborative approach to increasing affordable housing. My personal experience with ARCH started almost 30 years in the community of Lakeview Park within the City of Kirkland in which we built a duplex targeting for-sale ownership for families earning 80% of AMI. This successful project led to a relationship that has resulted in additional affordable housing targeted at households 50% and 80% of median incomes. Creative public-private partnerships such as Greenbrier Heights (Woodinville) enabled a wide variety of income levels to live in a neighborhood that created ownership of single-family housing, low-income family rental and low-income housing. Greenbrier Heights received the Smart Communities Award in 2008 from Governor Gregoire. These examples are just a small sample of the great work that has been done by Homebuilders and Developers throughout the Eastside where hundreds of units have been built without government subsidy.

This approach has enabled ARCH and its member cities to pool their money to target low-income housing such as the preservation of Plum Creek Apartments in Kirkland. Further benefits of this collaborative strategy have been building work-housing throughout market rate buildings throughout the Eastside which has resulted in these residents being closer to jobs and high-quality schools.

Thus, in closing, I strongly suggest that ARCH work with the development community and property owners to ensure policies are created that result in more affordable housing on the Eastside.

Thank you for taking the time to read this email.

Regards,

Eric Campbell
CEO
MainStreet Property Group LLC

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eric@mspgroupllc.com
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12332 NE 115th Place, Kirkland, WA 98033

MAINSTREET PROPERTY GROUP LLC

Incentivizing Condominium Development in Washington State: A Market and Legal Analysis

by
David Leon[1]
Washington Center for Real Estate Research
July 28, 2016

Abstract

The City of Seattle has been experiencing unprecedented population and economic growth over the last five years. As the city's population has increased and the number of high-paying jobs has grown, prices for housing have increased significantly. Condominium development could provide an affordable in-city option for new housing. At present, condominiums are not being built in sufficient numbers to meet demand, and those that are being built are being sold at prices that are beyond the means of the average-income individual. Reasons for this dynamic include financing and capital markets, insurance coverage, and to some degree, legal liability for condominium developers. This paper examines the current state of the housing market in Seattle, focusing on construction of new condominiums, with comparisons to six other Western cities. The paper then examines elements of the Washington Condominium Act that may bear on the heightened liability for condominium builders, and suggests some options for reducing the liability, after comparison to four other states and the Canadian province of British Columbia. Changes to the Washington Condominium Act may be necessary but not sufficient conditions for the building of more affordable condominium units in Seattle. Financial incentives may be required to create the conditions for more affordable condominiums. For the market to be incentivized to build more affordable condominiums without public subsidy, economic opportunity for builders must offset the greater perceived risks and inefficiencies of smaller scale building through lower costs. Insurance costs and the risk of litigation are factors that, if mitigated, can contribute to tipping the scale toward the delivery of more affordable for-sale condominium product.

[1] B.A., University of California at Berkeley, J.D., University of Miami, M.S.R.E. Candidate (2017), University of Washington.

I. INTRODUCTION

The City of Seattle has been experiencing unprecedented population and economic growth over the last five years. As the city's population has increased and the number of high-paying jobs has grown, the prices for housing have increased significantly. Condominium development provides an affordable in-city option for new housing in Seattle. First time buyers, middle-income buyers, and families benefit. If built in sufficient numbers and at an affordable price, condominiums provide opportunities for many types of buyers and could help to address some of Seattle's problems around affordability, as well as transit and urban density.

Condominiums could provide housing opportunities not only for first time buyers and middle-income buyers, but also for "empty nesters", many of whom occupy larger single-family homes. If these homes were then listed because an empty nester moved to a condominium, there would be more single-family housing opportunities for younger families.

Condominiums could provide purchase opportunities for families who want to stay in the urban core. Multi-family housing developers are not currently building rental housing for families since construction of studio and one bedroom units provides a greater financial return. Condominiums can be an alternative for family housing in a higher density format if certain market incentives are in place.

Condominiums could also help contribute to more sustainable development, especially around transit hubs, easing the burden on traffic and parking, and providing opportunities for walkable neighborhoods. Condominiums are also more energy efficient than single-family homes.

Condominiums can be built in a number of forms: large and small unit sizes; large and small total unit count; high-rise, mid-rise and low-rise; and in downtown as well as outlying neighborhoods. In short, they can be flexible to fit almost any neighborhood density or design regimen, adding architectural diversity to the economic and environmental benefits derived from more condominium supply.

At present, however, there is a lack of affordable condominium development in Seattle. In 2015, the Mayor of Seattle commissioned a report on ways to improve housing affordability in the city. One of the findings specifically referenced the state law that imposes a heightened warranty on condominium builders as a hindrance to development:

> Condominium developers are subject to an implied warranty for construction under the State's Condominium Act. Courts in Washington have interpreted the statutory language broadly, resulting in a plethora of law suits against condominium developers, a chilling of condominium development in the state, and – often adverse consequences for the condominium owners, despite significant improvements in condominium construction practices.[2]

The main purpose of this report is to provide an overview of the market context and consider possible legislative changes that could be made to facilitate condominium development. Section II will outline the state of the current condominium market in Seattle. Section III will analyze the market and legal forces influencing condominium development, and cite opportunities for legislative consideration that may encourage the development of more and more affordable condominiums. Section IV will conclude, summarizing the paper.

As shown in the analysis below, there are currently a large number of condominiums being built in Seattle relative to other western cities, although overall supply does not appear to be meeting demand. The trend has also been toward building condominiums for the upper end of the income scale. As Seattle has grown in population and

[2] Seattle Housing Affordability and Livability Agenda, Final Advisory Committee Recommendations to Mayor Edward B. Murray and the Seattle City Council (July 13, 2015), p. 35, recommendation H.3.

wealth over the last five years, the price of new condominiums has outpaced the middle-income individual's ability to afford them.

This issue, however, is multifaceted, with capital market forces, developer goals, the conservative nature of financing, insurance concerns, and litigation avoidance strategy all playing a role. This report focuses on the state of the market and the potential legislative solutions that might better encourage a greater supply of affordable condominiums. Legislative changes, however, may at best be necessary but not sufficient to incentivize development of more condominiums – especially affordable condominiums – in light of the changing income demographics of the city.

II. STATE OF THE CONDOMINIUM MARKET IN SEATTLE

Condominiums are desirable assets in the real estate marketplace, both for buyers and for sellers and builders. They promote dense, urban development, often near transit, and in the past they have generally been affordable for first-time buyers and buyers of average income. Condominiums promote the goals of Washington State's Growth Management Act,[3] and can help accommodate Seattle's continuing population growth.

Population & Income Increase

The City of Seattle has been growing at a rapid pace, both compared to other U.S. cities, and Seattle's own past growth. According to the city's Office of Planning and Community Development, the city's estimated population as of 2015 was approximately 662,400.[4] This is an almost 9% increase in the five years since 2010, when the U.S. Census estimated the city's population at 608,660. By comparison, in the ten years between 2000 and 2010, the city's population increased by only 8%. In other words, the city's population grew at more than twice as fast a rate between 2010 and 2015 as it did between 2000 and 2010. In the 12-month period from July 2012 to July 2013, Seattle was the fastest-growing large city in the United States.[5] From July 2013 to July 2014, Seattle was among the top four fastest-growing cities with populations above 500,000.[6] In addition to an increasing population, Seattle is now one of the top-10 densest cities in the United States.[7] Among the top-10 densest cities, Seattle had the highest increase in density since 2010.

Reasons for the sharp increase in population and density include in-migration of residents in pursuit of in-city information-technology jobs, likely due in large part to growth at Amazon, which has recently located its corporate headquarters in downtown Seattle, where it leases, owns and is building a total of about 10 million square feet of office space. Amazon currently employs over 24,000 people in Washington, and based on estimates of it's office space being constructed, is likely to continue hiring.[8] In addition to Amazon's growth, the trend of San-Francisco area technology firms expanding their offices to locate in Seattle has brought an influx of highly paid residents to the city.[9]

It is not only information technology jobs pushing the demand curve for new housing. Seattle's highly diversified economy includes other major employers in aerospace, retail, telecommunications, healthcare and education, including Boeing, Costco, Starbucks, the University of Washington, and T-Mobile. Unlike in past years, when the local economy was largely dependent on the success of one large company – i.e., Boeing – Seattle's diverse economy today is driving steady growth in housing demand beyond the levels of past markets. In addition, Amazon's decision to locate its headquarters downtown is a shift from years past, when the region's largest employers elected to locate in the suburbs.

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[3] The GMA's stated goals include, among other items, encouraging development in urban areas, reducing sprawl, and encouraging efficient multi-modal transportation. RCW 36.70A et seq.

[4] http://www.seattle.gov/dpd/cityplanning/populationdemographics/aboutseattle/population/

[5] Gene Balk, *Census: Seattle is the Fastest Growing Big City in the U.S.*, Seattle Times (May 22, 2014), accessed via http://blogs.seattletimes.com/fyi-guy/2014/05/22/census-seattle-is-the-fastest-growing-big-city-in-the-u-s/, visited April 8, 2016.

[6] Data available from http://www.census.gov/newsroom/press-releases/2015/cb15-89.html, last visited April 8, 2016. During this time period Seattle experienced population growth of 2.29%. The other cities with equivalent or higher growth were Fort Worth, Texas (2.29%), Denver, Colorado (2.38%), and Austin, Texas (2.89%).

[7] Gene Balk, *Seattle Among Top 10 Most Densely Populated Big Cities in the U.S. for First Time Ever*, Seattle Times (Feb. 7, 2016), accessed via http://www.seattletimes.com/seattle-news/data/seattle-density-doesnt-have-to-be-a-dirty-word/, visited April 21, 2016.

[8] Stephanie Forshee, *Amazon Reveals Washington State Headcount for First Time*, Puget Sound Business Journal (Jul. 23, 2015), accessed via http://www.bizjournals.com/seattle/blog/techflash/2015/07/exclusive-amazon-reveals-washington-state.html?ana=twt, visited April 6, 2016.

[9] Alison Vekshin, *Tech Firms in Pricey San Francisco See Exodus to Seattle*, Seattle Times (Apr. 5, 2016), accessed via http://www.seattletimes.com/nation-world/tech-firms-in-pricey-san-francisco-see-exodus-to-seattle/, visited April 6, 2016; Todd Bishop, *Google to Move to New 4-Building Complex in Amazon's Backyard in Seattle, Developed by Paul Allen's Vulcan, Inc., Geekwire* (Mar. 24, 2016), *accessed via http://www.geekwire.com/2016/paul-allens-vulcan-develop-huge-complex-google-amazons-backyard/, visited April 6, 2016.*

The net effect is that in the last five years, Seattle has become a wealthier city, although the increases in income are not evenly distributed. Since 2010, the city has experienced increases in very affluent and very poor residents, and decreases in the number of middle-income residents. See figure 1. [10]

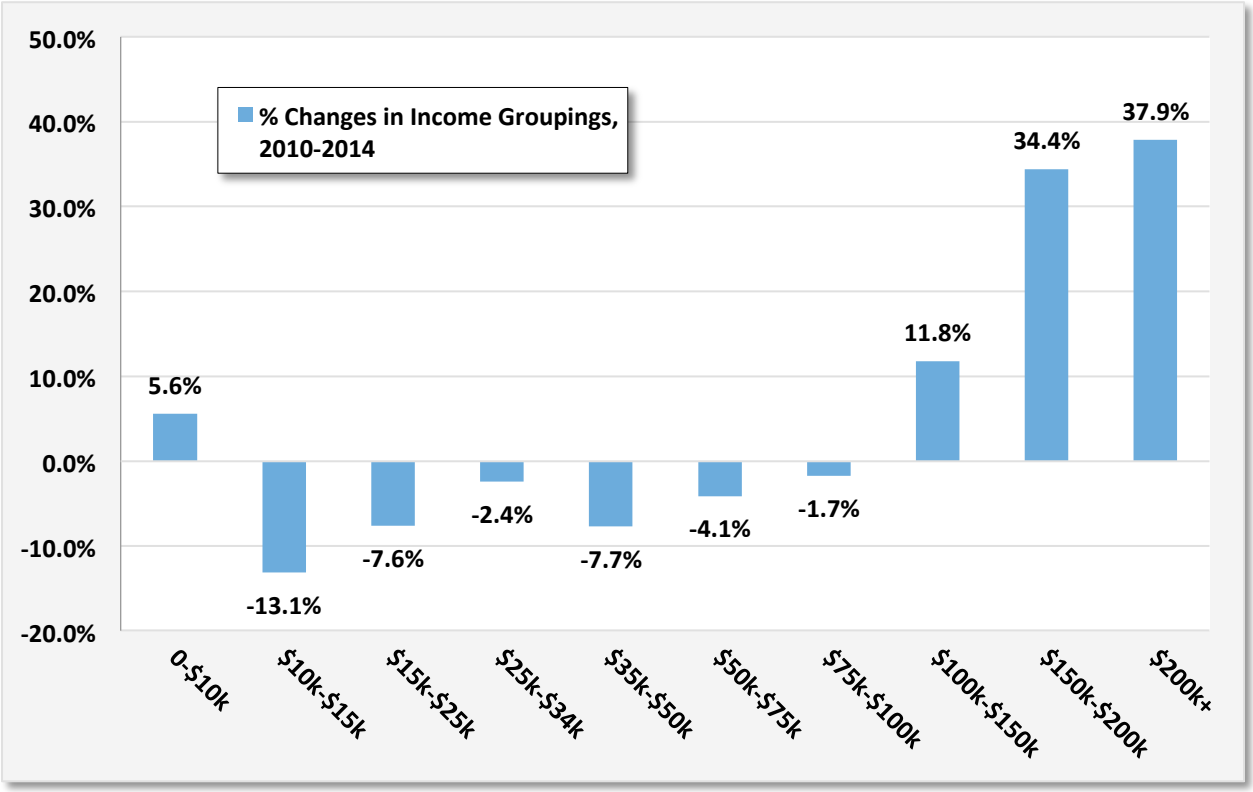

Fig. 1: Changes in Seattle income groupings, 2010-2014. Source: American Community Survey.

Supply

The housing stock in Seattle is mainly older single-family homes, with a secondary layer of homes built in the 1950s and 2000s. In addition, most multi-family buildings are larger than 20 units. There were 311,286 total housing units in Seattle as of 2014.[11] Of these, 44% were single-family detached units. 29% were in buildings of 20 or more units. All other unit types were under 10%. Twenty-nine percent of the housing units in the city were constructed prior to 1939. 14% were built between 2000-2009 and 11% were built between 1950-1959; all other decades were under 10%.

In terms of ownership and financing, the American Community Survey estimates that of all occupied units, 46% are owner-occupied and 54% are renter-occupied. Seventy-five percent of the owner-occupied units have a mortgage.

Between 2010 and 2015, there were approximately 5,524 sales of newly constructed homes in Seattle.[12] Of these sales, 1,395, or 25%, were condominiums. 40% were single-family homes and 35% were townhomes. As of the time of this writing, inventory of homes for sale in the 23-county Northwest Multiple Listing Service region averaged 1.8 months, down from 2.5 in April 2015.[13] A six-month supply is considered by many to be a desirable

[10] This follows a national trend of a declining middle class. See, e.g., Pew Research Center, *America's Shrinking Middle Class: A Close Look at Changes Within Metropolitan Areas*, available at http://www.pewsocialtrends.org/files/2016/05/Middle-Class-Metro-Areas-FINAL.pdf.
[11] www.census.gov.
[12] Data provided by Redfin; unless otherwise specified, all home pricing information is based on MLS data supplied by Redfin.
[13] Id. The NWMLS region includes the following counties: King, Snohomish, Pierce, Kitsap, Mason, Skagit, Grays Harbor, Lewis, Cowlitz, Grant, Thurston, San Juan, Island, Kittitas, Jefferson, Okanogan, Whatcom, Clark, Pacific, Ferry, Clallam, Chelan, and Douglas.

balance between supply and demand. Both supply and price are up overall since 2010, indicating a response to the strong demand for housing in the city, which is consistent with the figures showing population and income growth. See figure 2. However, the number of condominiums sold in 2015 is actually below the number sold in 2010.

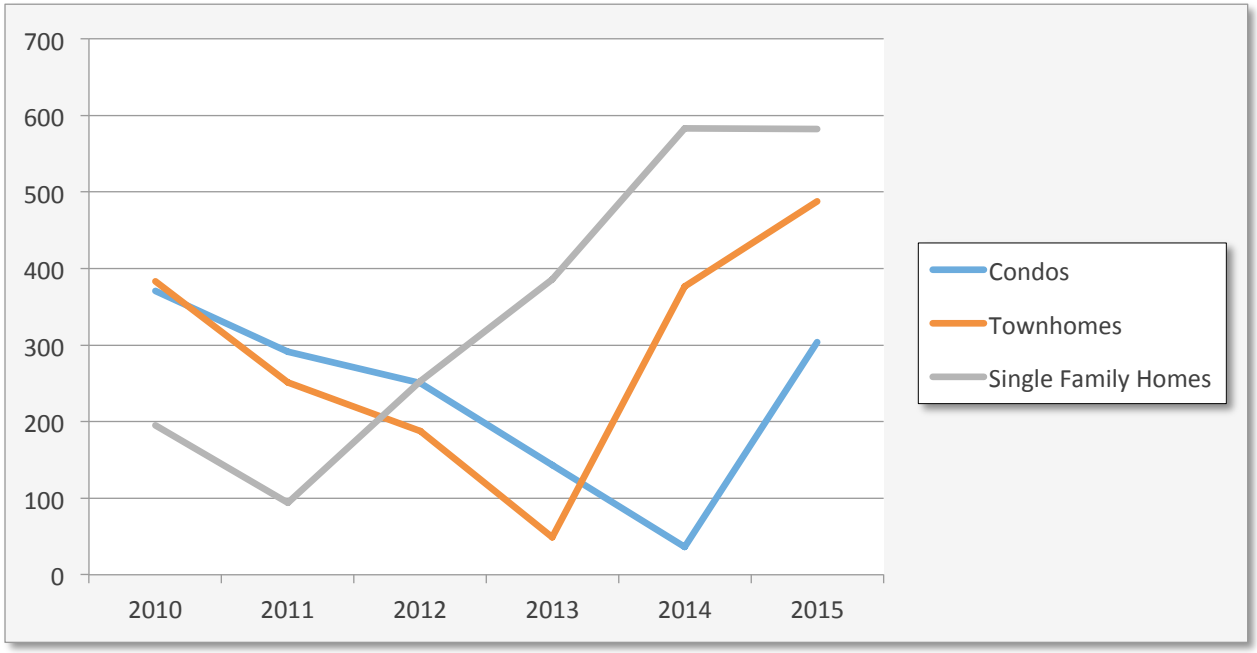

Fig. 2: New home sales in Seattle, 2010-2015 (MLS data courtesy of Redfin).

Affordability

According to data from the Northwest Multiple Listing Service, the median price of a single-family home in March 2016 in Seattle rose by 20% year-over-year, to $640,000.[14] The median price of a new condominium in Seattle in 2015 was $683,590. In 2015, the median household income in Seattle was $67,365.[15] Assuming a buyer with this median income could afford a 20% down payment of $136,718, and could take a 30-year fixed-rate mortgage at 4%, the monthly payments would be $2,611, or about 46% of monthly income.

At this rate, it is unlikely a bank would issue a loan, using the typical threshold where a mortgage payment should equal no more than 30% of income. It would be necessary to increase the down payment to about $340,000 to get to the 30% of income threshold. This suggests that the median priced new condominiums are not affordable to the median income household.

By contrast, the median "family" income in Seattle is $94,559.[16] With the same mortgage assumptions, a family with this median income purchasing a median-priced condominium at $683,590 could put 20%, or $136,718 down, and take a mortgage of $546,872, with monthly payments of $2,611, about 33% of monthly income. This suggests that median-priced condominiums are more affordable for the median-income earning family. The definition of "families", as opposed to "households", means more than one income-earning member.

[14] Blanca Torres, *Squeeze on Homes for Sale Extends to Several Counties*, Seattle Times (Apr. 4, 2016), accessed via http://www.seattletimes.com/business/economy/squeeze-on-homes-for-sale-extends-to-several-counties/, visited April 6, 2016.
[15] 2010-2014 American Community Survey 5-year estimates, available at www.census.gov. The City of Seattle estimates median household income for 2014 at $67,100. http://www.seattle.gov/dPd/cityplanning/populationdemographics/aboutseattle/prosperity/default.htm, last visited May 10, 2016.
[16] Id.

This is a big change from only 5 years ago, when the median-income earning household could afford a condominium. The median price of a condominium in Seattle was $372,000 in 2010. Median household income in 2010 was $60,665. With the same mortgage terms as above in 2010, a household with a median income would spend 28% of their monthly income on mortgage payments to purchase a median-priced home at $372,000, with a $74,400 down payment.[17] The 84% increase in the median price of a condominium has far outstripped the 11% increase in median household income.

Another way to look at the decline of the affordable condominium in Seattle is to consider price tranches. Between 2010 and 2015, the number of condominiums selling for under $500,000 fell from 269 to 40. The number of condominiums selling for between $500,000 and $1,000,000 increased from 61 to 102, and the number of condominiums selling for over $1,000,000 increased from 41 to 62. See figures 3 & 4.

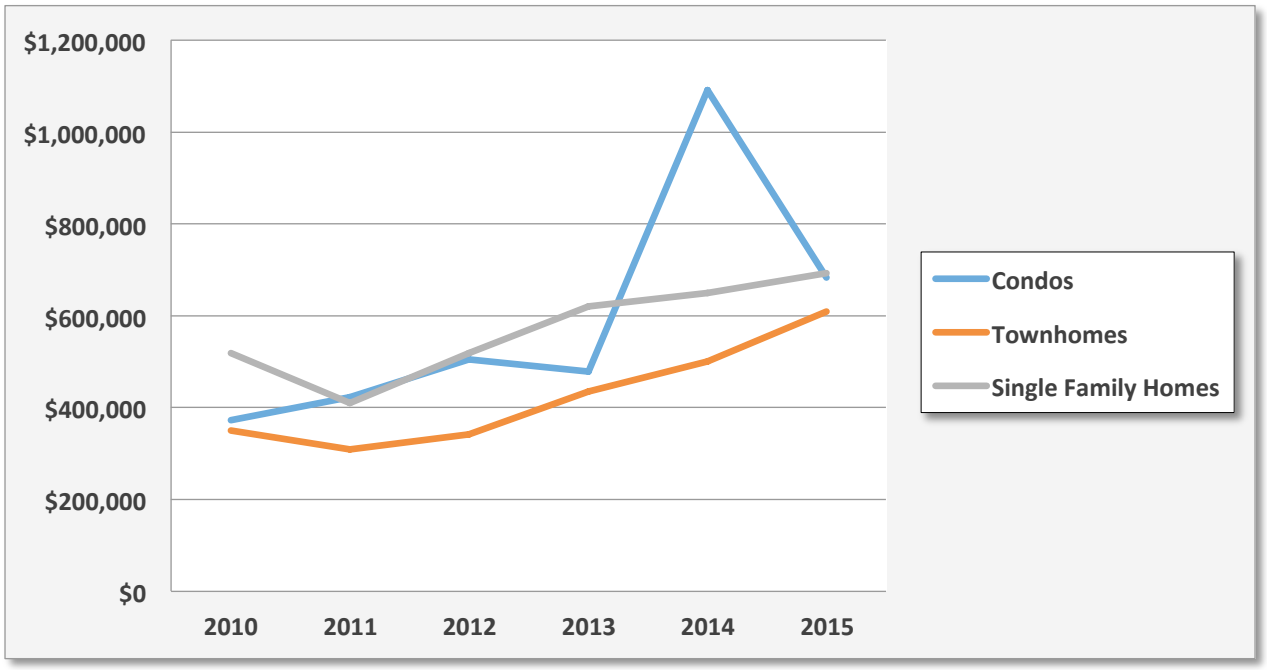

Fig. 3: New home sales median prices in Seattle, 2010-2015 (MLS data courtesy of Redfin).

[17] These estimates do not account for other recent trends that bear on mortgage underwriting, including banks moving toward more stringent lending criteria, or younger borrowers' lower debt payment capacity due to student loan payments.

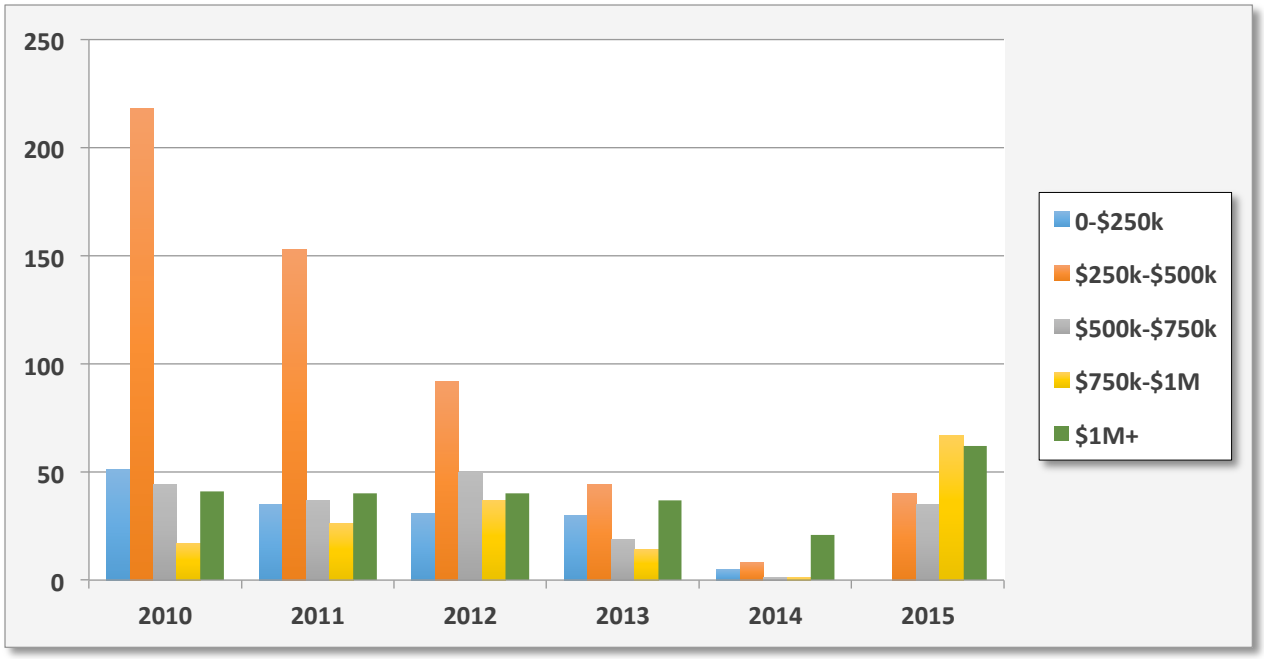

Fig. 4: Sales price tranches for Seattle new condominium sales, 2010-2015.

Comparison to Other Cities

In order to provide more perspective on the state of the condominium market in Seattle, it helps to review the state of the supply and affordability of condominiums and housing generally in other Western cities. For purposes of comparison, we reviewed data for Portland, Oregon; San Francisco; Los Angeles; San Diego; Phoenix; and Las Vegas.

It should be noted that we anticipated a normal variation from city to city in all of these metrics. The unique qualities of each city – factors including their geography, industry mix, resident income, transportation network, and land-use regulation vary, and naturally, so will their demand and price for condominiums.

In general, we found Seattle is on the high end of condominium supply per resident, and despite the large supply of condominiums, Seattle is still high compared to other cities with respect to condominium price compared to single-family home prices. Seattle is middle-of-the-road with respect to price-to-income ratio, and relative supply of condominiums compared to other housing types. Notable as well was that Seattle had the highest median condominium price in 2015, as well as the most new condominiums sold, and the most total new homes sold.[18] See figures 5-9. These figures are further evidence that supply cannot keep up with demand for new condominiums in Seattle.

[18] Condominium sales numbers also included co-ops sales. Figures do not include sales not listed on Multiple Listing Service.

City	New Condominium Sales	Population	Sales per 1000
Seattle	304	662,400	0.46
Las Vegas	95	597,353	0.16
San Francisco	111	829,072	0.13
Portland	56	602,568	0.09
San Diego	61	1,341,510	0.05
Phoenix	38	1,490,758	0.03
LA	25	3,862,210	0.01

Fig. 5: New condominium sales relative to population, 2015

City	Existing Condominium Sales	Population	Sales per 1000
Las Vegas	3,680	597,353	6.16
Seattle	2,677	662,400	4.04
San Diego	5,136	1,341,510	3.83
San Francisco	2,514	829,072	3.03
Portland	1,713	602,568	2.84
Phoenix	2,047	1,490,758	1.37
LA	2,539	3,862,210	0.66

Fig. 6: Existing condominium sales relative to population, 2015

City	Median Price New Condominium	Median Income	Price / Income
San Francisco	$1,130,000	$78,378	14.4
LA	$649,306	$49,682	13.1
Seattle	$683,590	$67,365	10.1
San Diego	$643,591	$65,753	9.8
Las Vegas	$391,500	$50,903	7.7
Phoenix	$328,855	$46,881	7.0
Portland	$311,200	$53,230	5.8

Fig. 7: Median price-to-Income ratios, 2015.[19]

City	New Condominium Sales	Total New Sales	Condominiums / Total Sales
San Francisco	111	34*	3.26
San Diego	61	123	0.50
Seattle	304	1,070	0.28
LA	25	193	0.13
Las Vegas	95	847	0.11
Phoenix	38	397	0.10
Portland	56	910	0.06

Fig. 8: New condominium sales as a share of total new sales, 2015.
** San Francisco new homes sold includes only townhouses, not single-family homes.*

[19] Median Income does not account for differences in state tax codes, e.g., the lack of state income tax in Washington, or the lack of state sales tax in Oregon.

City	New Condominium Median Price	New Single-Family price	Condo / Single-Family Price
Las Vegas	$391,500	$295,000	1.33
Phoenix	$328,855	$287,300	1.14
Seattle	$683,590	$693,600	0.99
Portland	$311,200	$535,000	0.58
San Diego	$643,591	$1,167,500	0.55
LA	$649,306	$1,822,500	0.36

Fig. 9: New condominium prices compared to new single-family prices, 2015.
** San Francisco included no new single-family sales in 2015.*

Although Seattle had a large number of new condominium sales per resident in 2015, many of those sales were likely from one large, high-priced building. The Insignia condominiums, a project with 698 total units in two towers, began closing sales in July 2015. As of March 2016, 302 sales had closed, 290 were in contract, and 106 were available. The average price of a sample of closed sales between October 2015 and February 2016 was $894,300, or $857 per square foot.[20]

Seattle outpaced the other cities studied in total new condominium sales between 2010 and 2015. When the sales volume for each city from 2010-2015 is represented by a linear trend line, Seattle's condo production has actually been decreasing slightly over the last five years. This trend is also generally the case for the other cities, except for Las Vegas, and to a lesser extent, San Diego.[21] See figures 10-11.

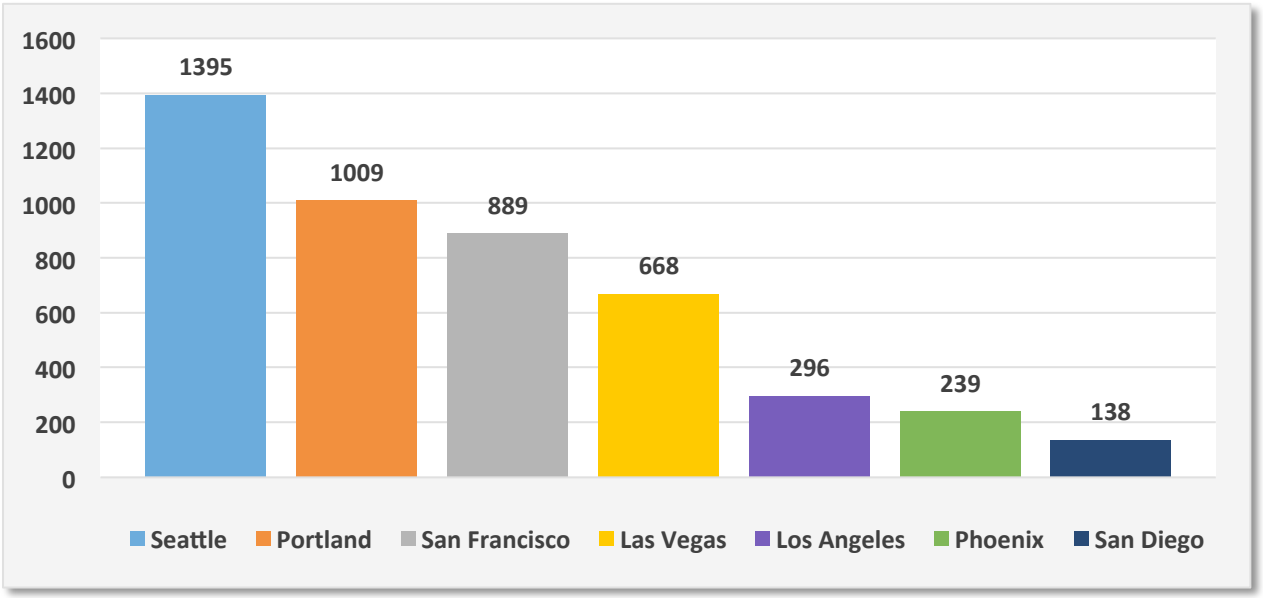

Fig. 10: Total new condominium sales by city, 2010-2015.

[20] The Mark Company Monthly Report, Downtown Seattle (March 2016).
[21] MLS data for San Diego showed no sales of new condominiums in 2011 or 2013, and only one new condominium sale in 2012.

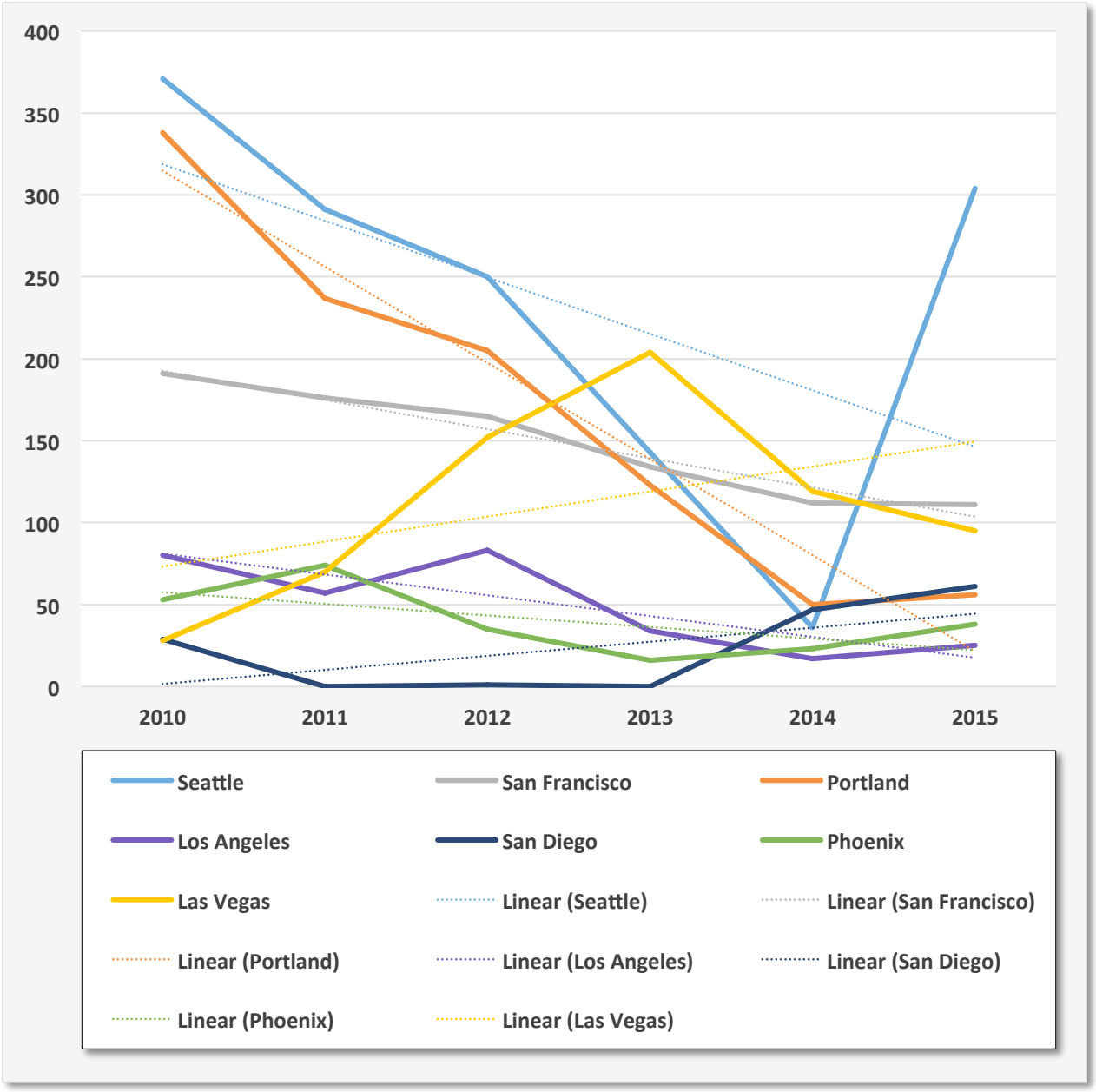

Fig. 11: New condominium sales by city, 2010-2015, with linear trend lines.

III. ANALYSIS

The data indicates that while Seattle is producing a steady stream of new condominiums, the new deliveries are not affordable to the middle market, and overall supply is not meeting demand. As detailed above, the middle market is not growing as fast as the higher end of the income spectrum. People in the middle of the income spectrum are also more likely to face challenges in being approved for mortgages. In addition to these factors, the market currently incentivizes the construction of high-end product to deliver more revenue to cover the risk of building.

There are some additional factors in play that make building condominiums, especially affordable condominiums, more difficult. These include insurance considerations, capital market dynamics, the high bar to entry in the development field, and, finally, legal considerations.

Insurance Considerations

Developers building condominiums currently take an owner-controlled insurance policy – also known as an "OCIP" or "wrap" policy – to cover any potential liability from construction defects. An OCIP policy for condominium construction can cost about 2% of the project's hard costs, and in the Seattle-area market, there may be between two and four carriers that issue such policies.[22]

This is different from other building types, where contractors and subcontractors can take their own insurance policies and build it into their pricing. When contractors include the cost of their policies in their bids, it may add 1%-1.5% to the cost of the job.[23]

In this way, developers are required not only to take the extra step of taking their own insurance policy, but they also are paying a higher premium on the policy – 0.5% to 1% of construction costs – to build condominiums. On a $100 million-dollar project, for example, this would amount to between $500,000 and $1,000,000. The policy would cover costs in the event of litigation, although even with better actuarial experience – i.e., less litigation costs, it is likely that carriers would improve the terms of the policies rather than reduce the costs.[24]

Ultimately, the requirement for developers to take out their own policy is an added step and an added cost. The added cost would seem to move developers toward building higher-priced, higher-volume, lower risk product. However, insurance cost alone is not likely to be the only factor that may limit condominium development.

British Columbia Warranty Insurance Program

The Mayor's HALA committee report suggested that revisions to the current insurance regime may remove barriers to developing affordable condominiums, citing the British Columbia warranty insurance program.[25] The British Columbia Homeowner Protection Act makes third-party home warranty insurance mandatory on new home construction throughout the province.[26] The warranty insurance program is administered by the Homeowner Protection Office, a branch of B.C. Housing. Revenue collected from residential builder license fees provides the funding for the Homeowner Protection Office's programs, including a compliance program.

As of 1999, all residential builders in British Columbia are required to be licensed by the Homeowner Protection Office and arrange for third party home warranty insurance on proposed new homes prior to obtaining a building permit. Home warranty insurance can only be provided by insurance companies that are approved by the provincial Financial Institutions Commission. Minimum coverage and allowable exclusions for third-party home

[22] Interview with Guy Armfield, Brian Hearst & James Waskom, Parker Smith & Feek (May 23, 2016).
[23] Id.
[24] Id.
[25] Seattle Housing Affordability and Livability Agenda, Final Advisory Committee Recommendations to Mayor Edward B. Murray and the Seattle City Council (July 13, 2015), p. 35, recommendation H.3.
[26] SBC 1998, Chapter 31, available at http://www.bclaws.ca/EPLibraries/bclaws_new/document/ID/freeside/00_98031_01#section22.

warranty insurance are set by legislation.[27] The program applies to all single-family homes, as well as to the Canadian equivalent of condominiums, or "strata" buildings.

At a minimum, home warranty insurance in British Columbia includes a two-year warranty on labor and materials, a five-year warranty on the building envelope and a 10-year warranty on the structure of the home. Repairs and replacements to the building also carry a warranty that extends until the later of one year from their completion or the end of the original warranty period. Repairs to the building envelope on multi-unit buildings built before 1999 are covered by the two-year warranty for materials and labor, and the five-year warranty for the building envelope.

The two-year warranty on materials and labor covers any defect in labor, materials, or violations of the building code for 12 months for all new homes and 15 months for the common property of strata buildings. It also covers defects in materials and labor for the electrical, plumbing, heating, ventilation and air conditioning systems, as well as the exterior cladding, and caulking around windows and doors, for 24 months, including for the common property of strata buildings. Violations of the building code (i.e., "defects") must constitute an unreasonable health or safety risk, or cause (or be likely to cause) material damage to the new home.

The five-year building envelope warranty covers defects in the exterior walls, foundation, roof, windows and doors, that cause or are likely to cause material damage to the home. The 10-year warranty covers the load-bearing parts of the home, and any defects that cause structural damage that materially and adversely affects the use of the new home for residential occupancy. In general, defects are defined as damages resulting from the design, materials and labor that are contrary to the building code, if the non-compliance with the building code constitutes an unreasonable health or safety risk, or if it has resulted in, or is likely to result in, material damage to the home. Defects are also defined to include damages that require repair or replacement due to the negligence of the builder or a person or company working for the builder.

Under the warranty program, the cost of coverage is included in the purchase price of the home. A homeowner has a duty to maintain their home in a reasonable manner and consistent with any guidance a builder provides. In fact, the builder provides a maintenance manual, and the warranty insurance coverage is contingent on the homeowner maintaining the home consistent with the manual.

When a homeowner finds a defect, they have the responsibility to mitigate the damage, and report it to their insurance carrier, as well as the builder. The carrier will then inspect and either repair the defect or explain in writing why it will not repair the alleged defect. The carrier can contract with the original builder for this repair work. The amount of warranty coverage is capped; for strata units, the cap is the lesser of the first owner's purchase price or $100,000. In addition, a separate warranty applies to common property in strata buildings, with a coverage cap of the lesser $100,000 times the number of dwelling units in the building or $2.5 million per building.

If a dispute should arise over a potential defect, any party in a residential construction dispute can compel the other parties to participate in a structured mediated session. All participants pay for mediation costs equally, unless all parties agree to other arrangements. If mediation does not result in a settlement, the dispute can proceed to other alternative dispute resolution, including arbitration, or go to litigation.

The production of new units in strata buildings in British Columbia has been above 10,000 per year every year since 2010, which exceeds the numbers of single-family homes built in those years in B.C., and which far exceeds the combined production of several hundred condominium units per year in the U.S. cities we have studied. In fact, the production in British Columbia in an average month over the last five years exceeds the combined average annual production in all the U.S. cities studied. See figure 12. Although the numbers reported by B.C. Housing are for the entire province, with a population of 4.6 million, when combined, the population of the U.S. cities noted above exceeds the population of British Columbia.

[27] https://hpo.bc.ca/homeowners.

REGISTERED NEW HOMES, 2002 TO 2016 YEAR-TO-DATE				
Calendar Year	Registered New Single Detached Homes		Registered New Homes in Multi-unit Buildings	Rentals Exempted
	Single Detached Homes Enrolled with Home Warranty Insurance	Owner Builder Authorizations		
2002	9,179	3,268	12,075	2,178
2003	11,498	3,508	16,338	2,539
2004	11,747	3,666	19,732	2,654
2005	11,619	3,854	23,211	1,945
2006	10,838	4,124	23,263	1,484
2007	9,993	3,959	25,334	1,688
2008	7,856	3,373	15,017	799
2009	7,167	2,749	6,827	1,783
2010	8,439	3,199	13,980	1,679
2011	7,417	2,596	14,512	1,371
2012	6,926	2,446	16,293	1,948
2013	6,552	2,067	16,431	2,951
2014	8,989	2,335	16,013	2,921
2015	9,155	2,549	18,497	4,319
2015 Jan – May	3,442	1,116	7,889	1,911
2016 Jan – May	4,627	985	7,977	1,826

REGISTERED NEW HOMES, 2015 TO 2016 YEAR-TO-DATE AND 5-YEAR AVERAGE, MONTHLY						
Month	Registered New Single Detached Homes			Registered New Homes in Multi-unit Buildings		
	2016	2015	5-year Average	2016	2015	5-year Average
Jan	888	676	655	1,789	1,239	1,197
Feb	1,022	841	709	957	1,538	1,301
Mar	1,280	1,024	897	1,702	2,548	1,718
Apr	1,159	1,025	916	2,279	1,004	1,476
May	1,263	992	1,027	1,250	1,570	1,139
Jun		1,199	969		2,023	1,254
Jul		1,089	988		915	1,253
Aug		995	908		2,306	1,579
Sep		1,110	855		2,384	1,682
Oct		913	823		1,217	1,619
Nov		999	751		712	1,192
Dec		841	709		1,041	939

Fig. 12: British Columbia's new home registrations for single-family and multi-family homes, 2002-2016. Source: https://hpo.bc.ca/statistics.

The higher production of strata units in British Columbia may have many reasons, including cultural, financial, and legal differences. There is an argument, however, that the predictability provided by the warranty insurance program allows builders to produce strata buildings without the risk presented by a less regulated insurance market, as in the U.S.

In addition, the B.C. warranty insurance program's dispute resolution provisions provide for not only predictability, but also for a weeding-out of non-meritorious claims outside of court. See figure 13. For example, in 2015, of the 3,920 claims received, 3,044 were resolved by the builder, and only 27 legal actions were filed. In other words, less than 1% of claims turned into law suits.

WARRANTY INSURANCE CLAIMS 2011-2015					
Type of Claim	**2011**	**2012**	**2013**	**2014**	**2015**
Claims Received	3,298	3,640	3,408	3,638	3,920
Claims Covered	1,132	1,893	1,472	1,496	1,984
Claims Not Covered	809	1,209	1,109	1,011	1,167
Claims Resolved by Builder	1,385	1,322	1,099	1,871	3,044
Claims Paid	272	363	442	296	527
Mediations Initiated by Owners	58	27	35	29	51
Legal Actions Commenced by Owners	6	21	9	20	27
Legal Actions Concluded	17	8	68	39	11

Figure 13: B.C. Warranty insurance claims, 2011-2015. Source: https://hpo.bc.ca/statistics [footnotes omitted].

The Washington Condominium Act, discussed in more detail below, does provide for a warranty insurance program, patterned on the legislation adopted in British Columbia. This program is designed to free developers from the warranty provisions of the Act if they provide warranty insurance policies to condominium purchasers that include legislatively prescribed coverage.[28] It is currently unclear why the Washington market has not adopted this option.

Developers' Capabilities

Developers that are currently building condominiums in Seattle's downtown core are building for the higher-end market, with pricing around $800+ per square foot.[29] Two of the developers currently building condominiums – Daniels Real Estate and Bosa Development – manage construction internally, to keep better track of quality, and have self-financed a significant portion of their construction costs.[30] This approach manages the risk of defects for a lender and improves the availability of financing and insuring new condominium construction. However, these ways of managing the risk of building condominiums in the current market are not feasible for all developers.

Capital Markets

Another critical factor is that the capital markets in Seattle currently favor construction of for-rent apartment buildings. Seattle real estate has attracted large amounts of institutional and international capital seeking stable returns, driving cap rates to low levels, which in turn, increases the price for income-producing properties. Apartments, as opposed to condominiums, present lower construction costs, lower legal risks, and lower marketing expense for developers, and a steady income stream for an investor.

A condominium requires multiple sales over time, with attendant marketing costs, and risk from changes in the housing market, like falling prices or increasing interest rates. The condo developer's profit may only come with the last 5%-10% or so of units sold, requiring a greater up-front capital outlay and later returns.

By contrast, a developer who builds a for-rent apartment building can make one sale of the entire building after – or even sometimes before – full lease up occurs. While there is risk in a lease up it is more manageable and over a shorter period; a moderately sized building might expect to lease at 20 units per month. Thus, market incentives for lenders and developers are tilted toward building apartments, not condominiums.[31]

[28] Mark O'Donnell & David Chawes, *Improving the Construction and Litigation Resolution Process: the 2005 Amendments to the Washington Condominium Act are a Win-Win for Homeowners and Developers,* 29 Seattle U. L. Rev. 515 (Spring 2006); RCW 64.35.
[29] The Mark Company Trend Sheet, Downtown Seattle (April 2016), available at http://www.themarkcompany.com/blog/the-mark-company-trend-sheets-april-2016/, last visited May 13, 2016.
[30] Interview with Weitao Zheng & Allan Cornell, Daniels Real Estate (March 16, 2016).
[31] Interviews with Neil Maris & Roger Long, Wells Fargo (Jan. 11, 2016); Matthew Gardner, Windermere (Jan. 7, 2016).

Legal Considerations

In addition to the above considerations, the development of new condominiums is influenced by legal considerations. This section will review Washington's law to see what provisions might influence the under-development of condominiums, especially affordable condominiums.

Growth Management Act

Washington State's Growth Management Act ("GMA") requires local jurisdictions to designate urban growth areas and prepare comprehensive plans to limit growth to within an urban boundary, [32] in order to conserve open space, and protect "the environment, sustainable economic development, and the health, safety, and high quality of life enjoyed by the residents of this state."[33] The GMA's stated goals include, among other items, encouraging development in urban areas, reducing sprawl, and encouraging efficient multi-modal transportation.[34]

The City of Seattle, as Washington's most populous and dense urban area, presents the best opportunity for meeting the goals of the GMA. With a concentration of large employers located in an expanding central business district, and a large inventory of aging in-city and suburban single-family housing, there is an opportunity for building in-city multi-family development, many of which could be condominiums.

However, restricting growth to specific zones has the effect of constraining supply and increasing price. There is a policy balance to strike between constraining growth and ensuring affordability. Seattle is located on two narrow peninsulas, with water and mountains on the east and west. This creates a natural geographical constraint that limits housing to a north-south strip of urban density along the Puget Sound. In addition, Seattle's local land use restrictions and building code requirements add cost which in turn leads to increased prices.[35]

Condominium Act and Revisions

Washington State initially passed a statute to govern condominiums called the Horizontal Property Regimes Act, which still applies to condominiums built prior to 1990.[36] The current Washington Condominium Act ("WCA") was passed in 1989, and is based on the Uniform Condominium Act ("UCA"),[37] which was issued in 1980 and was designed to standardize condominium construction and governance standards across the states.[38] The WCA adopted most of the provisions in the UCA, and applies to the financing, construction, sale, and management of all condominiums built after July 1, 1990.[39]

According to the Washington State Supreme Court, "[a] principal purpose of the WCA was to provide protection to condominium purchasers, in part through creation of implied warranties of quality construction."[40] The warranties imposed by the WCA are as follows:

> (1) … a unit will be in at least as good condition at the earlier of the time of the conveyance or delivery of possession as it was at the time of contracting, reasonable wear and tear and damage by casualty or condemnation excepted.

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[32] RCW 36.70A et seq.
[33] RCW 36.70A.010.
[34] RCW 36.70A.020.
[35] Seattle places high on the Wharton Land Use Regulatory Index. See http://www.zillow.com/research/land-use-regulation-12159/.
[36] RCW 64.32.
[37] National Conference of Commissioners on Uniform State Laws, Uniform Condominium Act (1980), http://www.uniformlaws.org/Act.aspx?title=Condominium%20Act, visited April 6, 2016.
[38] O'Donnell & Chawes, *Improving the Construction and Litigation Resolution Process.*
[39] RCW 64.34 et. seq.
[40] *Park Avenue Condominium. Owners Ass'n v. Buchan Devs*., L.L.C., 117 Wash. App. 369, 374, 71 P.3d 692, 693-94 (2003).

(2) … a unit and the common elements in the condominium are suitable for the ordinary uses of real estate of its type and … will be:

(a) Free from defective materials;

(b) Constructed in accordance with sound engineering and construction standards;

(c) Constructed in a workmanlike manner; and

(d) Constructed in compliance with all laws then applicable to such improvements.

(3) … an existing use … does not violate applicable law….[41]

This warranty has been held to require compliance with building code standards, and does not require defects to render a unit uninhabitable. The warranty extends to subcontractors of the builder, and extends to re-conveyances during the statutory warranty period.[42] The WCA also allows for monetary damages and attorney fees for the prevailing party.[43]

The statutory warranty provisions, however, along with the provision of attorneys' fees in the WCA, gave rise to what has been described as a "groundswell of litigation."[44] According to one observer:

> By the late 1990s, Washington's condominium industry had run into serious problems, with condominium owners alleging loss of value and damage from water penetration. Resulting litigation led to damage awards or settlements that exceeded the insurers' anticipated exposures. In response, insurers narrowed coverage, substantially increased premiums, or simply fled Washington's condominium market. The resulting inability to obtain insurance threatened the legislature's express desire to expand home ownership opportunities for low-income families and to meet the goals of growth management.[45]

In response, the Washington state legislature created legislation that provided some protection for builders. In 2002, the legislature passed laws requiring residential homeowners to give developers notice of and an opportunity to cure construction defects before the homeowner could file a lawsuit.[46] In 2003, the legislature created affirmative defenses that developers could argue to mitigate or avoid liability.[47]

In 2004, the legislature amended the WCA to add a heightened standard of proof for defect claims, as well as the statutory insurance program patterned on the program adopted in British Columbia discussed in the prior section of this paper.[48] Finally, in 2005, the legislature approved a number of additional revisions including requirements for inspection of building enclosures, filing of design documents with local building departments, an alternative dispute resolution ("ADR") procedure including mediation and arbitration, and a further refinement of fee shifting provisions.[49]

Thus, the Washington Condominium Act has provided a statutory remedy and a legal process for resolving construction defect claims by homeowners associations against builders. According to one construction defect attorney, the WCA led to improvements in the quality of construction, especially with regard to building

[41] RCW 64.34.445.
[42] Id.
[43] Id.
[44] O'Donnell & Chawes, Id.
[45] Id.
[46] RCW 64.50
[47] RCW 4.16.326
[48] Id.; O'Donnell & Chawes.
[49] O'Donnell & Chawes, Id., RCW 64.55 et. seq. Additional revisions to the WCA have been proposed, including Senate Bill 5961 (2015)(regarding notices and inspections), and two bills regarding reserve studies: House Bill 2240 (2013) and Senate Bill 6616 (2016).

envelopes.[50] The WCA, however, continues to cast a shadow over condominium development, at least in the minds of the builder community. There are several provisions in the WCA that may be revised to create more certainty for developers and insurers.

For example, with regard to the ADR provisions, parties are permitted a right of appeal *de novo* to a trial court after an arbitration award.[51] The *de novo* standard allows complete reconsideration of the arbitrator's award and arguably makes arbitration less reliable as a means of reducing the cost and risk of litigation.[52] If the Washington State legislature were to consider revisions to the condominium law to facilitate development of more affordable units, it may wish to address the appeal standard for review of arbitration decisions and revise the standard to be more narrow, such as, for example, the abuse of discretion standard.[53] In addition, the arbitration provisions in the WCA are optional for parties, which diminishes their usefulness. Mandatory, binding arbitration would allow a better chance for parties to resolve disputes prior to litigation.

With regard to attorneys' fees, there continues to be no cap on the amount a developer may have to pay in attorneys' fees for plaintiffs' counsel, although fees are decided by judges within parameters that are well established, although ultimately not very predictable to a builder or insurer in advance of litigation.[54] The WCA, does impose a cap on any fees a homeowners' association may have to pay in an offer of settlement, in the amount of 5% of the assessed value of the building.[55]

Other states are considering or have recently removed the award of attorneys' fees in construction defect claims, in an attempt to avoid litigation and stimulate the building of more condominiums.[56] Nevada's legislation repealing attorneys' fees was passed in 2015, so there has not been much time to see whether the new legislation has had an effect on condominium construction defect lawsuits. Completely eliminating attorneys' fees is an extreme measure, and would likely result in legitimate defect claims not being filed, but it may be worthwhile to discuss capping fees for both parties at, e.g., 5% of the subject property's cost, or alternatively, setting a knowable fee schedule so that developers and their insurers can have more certainty given the potential for defect litigation.

Regarding remedies for defects, it seems there is a strong incentive for homeowners' associations to seek monetary damages rather than specific performance of repairs. There may be, however, an opportunity for homeowners' associations to put any monetary judgments to other uses and not to actually repair the alleged defects. The legislature may wish to consider revising the remedies available under the WCA to be limited to specific performance of repairs. This kind of revision would limit the volume of defect litigation to those parties that are seeking repairs for actual defects, rather than simply money that can be applied to other uses. However, those builders that are required to do such repairs may not be the best qualified to perform the repairs.

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[50] Interview with Jo Flannery, Ryan, Swanson & Cleveland, July 5, 2016.
[51] RCW 64.55.100(4).
[52] The *De Novo* standard allows the court to review all evidence the arbitrator considered and come to different conclusions.
[53] The Washington State Supreme Court has held, "Courts will only review an arbitration decision in certain limited circumstances, such as when an arbitrator has exceeded his or her legal authority. To do otherwise would call into question the finality of arbitration decisions and undermine alternative dispute resolution." *Int'll Union of Operating Engineers Local 286 v. Port of Seattle*, Wa. Sup. Ct. No. 86739-9 (2013), *citation omitted*, *citing Clark County Pub. Util. Dist. No. 1 v. Int'l Bhd. of Elec. Workers, Local 125*, 150 Wn. 2d 237, 245, 76 P.3d 248 (2003). Arbitration is currently used only rarely, as it duplicates or exceeds the cost of litigation, and provides little certainty with regard to rules. Interview with Jo Flannery, *id*.
[54] "Awards of attorneys' fees are generally calculated using the 'lodestar' method. Under the lodestar approach, a court first determines that counsel expended a reasonable number of hours obtaining the successful result. This involves excluding wasteful or duplicative hours, and time spent on unsuccessful theories or claims. The court then determines the reasonableness of counsel's hourly rate. The billed rate or fee usually charged by the attorney is not necessarily 'reasonable.' The actual hourly rate may be adjusted based on the level of skill required by the litigation, time limitations imposed on the litigation, the amount of the potential recovery, the attorney's reputation, and the undesirability of the case. The 'lodestar award' results from multiplying the reasonable hourly rate by the number of hours reasonably expended. After the lodestar has been calculated, the court may adjust it based on the 'contingent nature of success and the quality of the work performed.'" Allison Peryea, *"The Right to Attorneys' Fees: A Lawyer's Best Frenemy?"*, 25 Litigation News 2 (Spring 2013), *citations omitted*.
[55] RCW 64.55.160.
[56] Kris Hudson, *Nevada, Other States target Construction Defect Lawsuits*, Wall Street Journal (Feb. 25, 2015), available at: http://www.wsj.com/articles/nevada-other-states-target-construction-defect-lawsuits-1424912880, visited July 11, 2016; Nev. Rev. Stat. 40.600. Condominium construction defect cases were so prevalent in Nevada that three judges were appointed in 2006 to hear nothing but these type of cases. In the ensuing nine years, over 828 cases were handled by these judges.

There may also be a need for more clear standards regarding what constitutes a construction defect. The WCA imposes a duty for builders to comply with all provisions of applicable building codes, including defects that "may not be so serious as to render the condominium unsuitable for ordinary purposes."[57] This is a very strict standard, and it requires builders to apply different construction practices in different jurisdictions. The legislature may wish to revise this standard to either reflect definitions of specific kinds of defects, as in California, or narrowing the definition of a defect to be one that causes or is likely to cause actual damage, as in Nevada.

One final option to improve the attractiveness of condominiums as a development choice may be in the way condominium associations are governed. Currently, the homeowners' association board members are delegated the responsibility to make decisions on behalf of the members. They owe a duty of care to the members to manage the building in a responsible way.[58] This may create an incentive to litigate minor defect cases rather than settle on an agreement to repair.

If a board member declines to pursue litigation of construction defects, however minor, he may open himself up to claims of liability because he did not discharge his duty and was not as careful or responsible as he should have been. The solution to this problem may be to allow for a vote of the entire association on major decisions, like whether to initiate litigation. This solution, however, assumes the members, as lay persons, are capable of analyzing complicated construction and financial choices, and would be counter to the basic structure of delegated decision-making responsibility in a homeowners association.

Comparison to Other States

A review of the state condominium laws from the five states in which the cities in Section II are drawn indicates a wide range of approaches to regulating condominium construction defect cases. See figure 14.

California's "Right to Repair" Act, for example, is similar in some ways to the WCA, and was also passed in response to a wave of construction defect litigation in the late 1990's.[59] "At the time, many observers believed the mounting volume and intensity of such litigation caused rampant increases in insurance premiums for contractors and builders, was a deterrent to new home construction, and generally served as a drag on the California economy."[60]

The California law, much like the WCA, addressed many of the concerns among builders, developers, and homeowners – including a process for mandatory ADR, definitions of building defects, and the right to repair, but even with these measures, there has still been a large volume of construction defect litigation, and the California law arguably imposed more expensive and time-consuming processes on parties to construction defect disputes.[61] According to one set of authors,

> [T]hose truly interested in maintaining their homes and correcting legitimate construction deficiencies have the chance to do so without incurring the expense of litigation….
>
> In the end, it does not appear that resolving truly contentious disputes between homeowners and homebuilders has become simpler or faster, but the Act presents an easier alternative for homeowners with legitimate grievances to achieve a resolution from those homebuilders who are genuinely motivated to settle claims.[62]

[57] O'Donnell & Chawes, Id., quoting *Park Ave. HOA v. Buchan*.
[58] RCW 64.34.308(1)
[59] Cal. Civ. Code, Title 7, Part 2, Div. 2., Miller, Gruen, Smith, Meyers & Schoech, "*The Ten Year Anniversary of SB 800: 'Mission Accomplished or Missed Opportunity,'*" 30 Cal. Real Prop. J. 4 (2012); *Pinnacle Museum Tower Ass'n. v. Pinnacle Market Development*, 55 Cal.4th 223, 282 P.3d 1217 (2012), (holding mandatory arbitration provisions enforceable).
[60] Id., Miller, et. al., "The Ten Year Anniversary of SB 800".
[61] Id.
[62] Id.

State / Law	Right to Repair prior to litigation	Statute of Repose	Attorney's Fees	ADR	Definition of Defect
Washington, RCW 64.34, RCW 64.55	Yes	4 Years	Yes	Optional, appealable arbitration, mandatory mediation	More than technical, significant to a reasonable person[63]
California, SB 800	Yes	Different for different building elements; up to 10 years	Yes	Yes, and allows declarants to use own process	46 classes of specific defect definitions
Nevada, AB 125, NRC 40.600	Yes	6 years	No	No	Unreasonable risk of damage to person or property, or not completed in workmanlike manner and causes damage to property
Oregon, Or. Rev. Stat. 100	No	2 years	No	No	N/A
Arizona, Az. Rev. Stat. 12-1361 et seq.	Yes	8 years	No	No	Material deficiency caused by code violation, defective materials, or failure to adhere to workmanlike standards

Fig. 14: Comparison of state laws regulating condominium construction defects.

[63] RCW 64.34.445(7) provides: "In a judicial proceeding for breach of any of the obligations arising under this section, the plaintiff must show that the alleged breach has adversely affected or will adversely affect the performance of that portion of the unit or common elements alleged to be in breach. As used in this subsection, an "adverse effect" must be more than technical and must be significant to a reasonable person. To establish an adverse effect, the person alleging the breach is not required to prove that the breach renders the unit or common element uninhabitable or unfit for its intended purpose."

IV. CONCLUSION

Condominium development can provide an affordable in-city option for new housing in Seattle. First time buyers, middle-income buyers, and families benefit. If built in sufficient numbers and at an affordable price, condominiums provide opportunities for many types of buyers and could help to address some of Seattle's problems around affordability, as well as transit and urban density.

Condominium production in Seattle is among the highest in major West Coast cities, although the current price of the condominiums being produced in Seattle makes them unaffordable to most households, and supply does not appear to be meeting demand. Seattle is a city experiencing a tremendous amount of population growth and an increase in wealth. However, the increase in wealth is concentrated at the top of the income spectrum, and the cost of a condominium has far outpaced the increase in household income.

The lack of affordability of condominiums in Seattle is likely due to a combination of real estate and insurance market forces, as well as geography, local land use regulation, and state legislation. It is not possible to say that any one of these factors, taken in isolation, has directly caused the sharp increase in price. The Washington Condominium Act likely has some effect on the high price of condominiums, because it represents potential risk and liability. Comparison to other state laws indicates that although different state laws contain different provisions governing condominium construction defects, there is not a direct correlation of specific types of legal provisions to condominium supply or affordability.

The WCA contains a number of provisions that are intended to protect homebuyers, improve the quality of construction, and reduce the cost of resolving disputes over construction defects. To respond to the growing concerns over housing affordability, it may make sense to remove some of the perception of risk and uncertainty imposed by the WCA by, for example, clarifying the nature of a construction defect, incentivizing repairs rather than money damages as a remedy; making arbitration mandatory and binding; narrowing the standard of appeal from arbitration decisions; and limiting attorneys' fees or adjusting attorneys' fees to a knowable schedule. This would reduce the legal risk, or at least the perception of the legal risk in building condominiums. It might also make sense to revisit the warranty provisions in the WCA and develop an insurance program similar to British Columbia's, through state action, rather than the private market.

Ultimately, the WCA is only one factor influencing the development of condominiums in Washington State. It may be that the WCA – like California's Right to Repair Act – can reduce developers' and insurers' risk only in situations where parties are motivated to resolve disputes through ADR, with the goal of doing repairs, rather than to litigate. Any revisions to the Washington Condominium Act would likely be a necessary, but perhaps not sufficient condition required to improve condominium supply and affordability. It may be that government financial intervention is necessary to meaningfully incentivize the construction of more condominiums in Washington State.

It is clear that there is sufficient economic incentive for developers to build condominiums in Seattle's downtown core. The central location allows larger scale buildings and there is significant demand for the higher price points. Because the potential economic returns of this type of large-scale development offsets the higher costs and any actual or perceived risks, the market has seen a preponderance of this higher end product.

For the market to be equally incentivized to build smaller scale and more affordable condominiums without public subsidy, the opportunity must offset the greater perceived risks and inefficiencies of smaller scale building through lower costs. Lowering the regulatory costs and construction costs are subjects for another study. However, it is clear that insurance costs and the risk of litigation are factors that, if mitigated, can contribute to tipping the scale toward the delivery of more affordable for-sale condominium product, as there is clearly a very strong demand.

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Attachment I

The Effects of Rent Control Expansion on Tenants, Landlords, and Inequality: Evidence from San Francisco[†]

By Rebecca Diamond, Tim McQuade, and Franklin Qian*

Using a 1994 law change, we exploit quasi-experimental variation in the assignment of rent control in San Francisco to study its impacts on tenants and landlords. Leveraging new data tracking individuals' migration, we find rent control limits renters' mobility by 20 percent and lowers displacement from San Francisco. Landlords treated by rent control reduce rental housing supplies by 15 percent by selling to owner-occupants and redeveloping buildings. Thus, while rent control prevents displacement of incumbent renters in the short run, the lost rental housing supply likely drove up market rents in the long run, ultimately undermining the goals of the law. (*JEL* R23, R31, R38)

Steadily rising housing rents in many of the United State's large, productive cities has brought the issue of affordable housing to the forefront of the policy debate and reignited the discussion over expanding or enacting rent control provisions. While the details of rent control regulations vary some across places, they generally regulate rent increases and place restrictions on evictions. State lawmakers in California, Colorado, Illinois, and Oregon have considered repealing laws that limit cities' abilities to pass or expand rent control. Rent control is already extremely popular around the San Francisco Bay Area. Nine Bay Area cities already impose rent control regulations, two of which recently passed rent control laws through majority votes on the November 2016 ballot.

A substantial body of economic research has warned about potential negative efficiency consequences of limiting rent increases below market rates, including overconsumption of housing by tenants of rent-controlled apartments (Olsen 1972, Gyourko and Linneman 1989), misallocation of heterogeneous housing to heterogeneous tenants (Suen 1989, Glaeser and Luttmer 2003, Sims 2011, Bulow and Klemperer 2012), negative spillovers onto neighboring housing (Sims 2007; Autor, Palmer, and Pathak 2014) and neglect of required maintenance (Downs 1988). Yet, due to incomplete markets, in the absence of rent control, many tenants are unable to insure themselves against rent increases. Of course, individuals who have little connection to any specific area may be able to easily insure themselves against

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local rental price appreciation by simply moving to a cheaper location. However, if long-term tenants have developed neighborhood-specific capital, such as a network of friends and family, proximity to one's job, or proximity to the schools of one's children, then these tenants face large risks from rent appreciation. A variety of affordable housing advocates have argued that many tenants greatly value such insurance and that rent control can effectively provide it.

Despite the policy interest, due to a lack of detailed data and natural experiments, we have little well-identified empirical evidence evaluating how introducing local rent controls affects tenants, landlords, and the broader housing market.[1] In this paper, we bring to bear new microdata and exploit quasi-experimental variation in the assignment of rent control to fill this gap. We exploit an unexpected 1994 law change that suddenly rent-controlled a subset of San Francisco buildings and their tenants, based on the year each building was built. However, the law left very similar buildings and tenants without rent control. We find tenants covered by rent control do place a substantial value on the benefit, as revealed by their choice to remain in their apartments longer than those without rent control. Indeed, we find the vast majority of those incentivized to remain in their rent-controlled apartment would have been displaced from San Francisco had they not been covered.

However, landlords of properties affected by the law change respond over the long term by substituting to other types of real estate, in particular by converting to condos and redeveloping buildings so as to exempt them from rent control. In the long run, landlords' substitution toward owner-occupied and newly constructed rental housing not only lowered the supply of rental housing in the city, but also shifted the city's housing supply toward less affordable types of housing that likely cater to the tastes of higher income individuals. Ultimately, these endogenous shifts in the housing supply likely drove up citywide rents, damaging housing affordability for future renters, and counteracting the stated claims of the law.

In 1979, San Francisco imposed rent control on all standing buildings with five or more apartments. While all large buildings built as of 1979 would now be rent-controlled, new construction was exempt from the law, since legislators did not want to discourage new development. In addition, smaller multi-family buildings were exempt from rent control since they were viewed as more "mom and pop" ventures, and did not have market power over rents. However, this small multi-family exemption was lifted through a 1994 San Francisco ballot initiative. Proponents of this law change argued small multi-family housing was now primarily owned by large businesses and should face the same rent control restrictions of large multi-family housing. Since the initial 1979 rent control law only impacted properties built from 1979 and earlier, the removal of the small multi-family exemption also only affected properties built 1979 and earlier. This led to quasi-experimental rent control expansion in 1994 based on whether the small multi-family housing was built prior to or post 1980.

To examine rent control's effects on tenant migration and neighborhood choices, we make use of new panel data which provide address-level migration decisions

[1] Notable exceptions to this are Sims (2007) and Autor, Palmer, and Pathak (2014) which use the repeal of rent control in Cambridge, Massachusetts to study its spillover effects onto nearby property values and building maintenance. Neither one of these papers, however, directly studies how rent control impacts tenants.

and housing characteristics for the majority of adults living in San Francisco in the early 1990s. This allows us to define our treatment group as renters who lived in small multi-family apartment buildings built prior to 1980 and our control group as renters living in small multi-family housing built between 1980 and 1990. Using our data, we can follow each of these groups over time up until the present, regardless of where they migrate.

We find that between five and ten years after the law change, the beneficiaries of rent control are, on average, 3.5 percentage points more likely to still remain at their 1994 address relative to the control group. Since only 18 percent of the control group still remained at their 1994 address for this long, this estimate represents a 19.4 percent increase in not moving $(3.5/18)$ relative to the control group. We further find that the beneficiaries are 4.5 percentage points more likely to remain in San Francisco relative to the control group, indicating that a large share of the renters who remained at their 1994 address due to rent control would have left San Francisco had they not been covered by rent control. This would likely be viewed as a desirable outcome by rent control advocates.

We next analyze treatment effect heterogeneity along a number of dimensions. We first find that our estimated effects are significantly stronger among older households and among households that have already spent a number of years at their address prior to treatment. This is consistent with the idea that both of these populations are less likely to experience personal shocks requiring them to change residence and thus, are better able to take advantage of the potential savings offered by rent control.

We then examine whether the effects we estimate vary across racial groups. We do not directly observe race in our data, so we use an imputation procedure based on renters' names and addresses.[2] We find rent control has an especially large impact on preventing the displacement of racial minorities from San Francisco, suggesting that rent control helps to foster the racial diversity of San Francisco, at least among the initial cohort of renters covered by the law.

Finally, we analyze whether rent control enables tenants to live in neighborhoods with better amenities. One might expect neighborhoods with the largest increases in market prices and amenities would be ones where tenants would remain in their rent-controlled apartments the longest, since their outside options in the neighborhood would be especially expensive. However, for these same reasons, landlords in these high-rent, high-amenity neighborhoods would have large incentives to remove tenants.[3] They then could either reset rents to market rates with a new tenant or redevelop the building as condos or new construction, both of which are exempt from rent control. These landlord incentives would push rent control tenants out of the nicest neighborhoods. In fact, we find the landlords' incentives appear to dominate. The average tenant treated by rent control lives in a census tract with worse observable amenities, as measured by the census tract's median household income, share of the population with a college degree, median house value, and share unemployed.

[2] We impute race by combining imputed race based on first and last name (Ye et al. 2017) and the racial mix of one's census block of residence in 1990. See Section II for more details.

[3] In practice, landlords use a number of legal means to remove their tenants, including owner move-in eviction, Ellis Act eviction, or monetary compensation. Landlords may also engage in various pressure tactics, such as tardy maintenance, to pressure tenants to leave.

Thus, while rent control does prevent displacement from San Francisco, it does not provide access to the best neighborhoods in the city.

The evidence above suggests that landlords do not passively accept the burdens of the law. To further study the landlord response to the rent control expansion and to understand the impact of rent control on rental supply, we merge in historical parcel history data from the San Francisco Assessor's Office, which allows us to observe parcel splits and condo conversions. We find that rent-controlled buildings were 8 percentage points more likely to convert to a condo or a Tenancy in Common (TIC) than buildings in the control group. Consistent with these findings, we find that rent control led to a 15 percentage point decline in the number of renters living in treated buildings and a 25 percentage point reduction in the number of renters living in rent-controlled units, relative to 1994 levels. This large reduction in rental housing supply was driven by both converting existing structures to owner-occupied condominium housing and by replacing existing structures with new construction.

This 15 percentage point reduction in the rental supply of small multi-family housing likely led to rent increases in the long run, consistent with standard economic theory. In this sense, rent control operated as a transfer between the future renters of San Francisco (who would pay these higher rents due to lower supply) to the renters living in San Francisco in 1994 (who benefited directly from lower rents). Furthermore, since many of the existing rental properties were converted to higher-end, owner-occupied condominium housing and new construction rentals, the passage of rent control ultimately led to a housing stock which caters to higher income individuals. We directly test whether rent control led to in-migration of higher income residents by imputing household income as the per capita income of the census block groups in which the building occupants resided in five year prior. We find that this high-end housing, developed in response to rent control, attracted residents with at least 18 percent higher income, relative to control group buildings in the same zip code.

Taking all of these points together, it appears rent control has actually contributed to the gentrification of San Francisco, the exact opposite of the policy's intended goal. Indeed, by simultaneously bringing in higher income residents and preventing displacement of minorities, rent control has contributed to widening income inequality of the city. For a full quantitative analysis of the welfare gains and losses due to rent control, see our companion paper (Diamond, McQuade, and Qian 2018), which estimates a dynamic discrete choice model of tenant migration and performs general equilibrium counterfactual analysis of the impacts of rent control.

Our paper is part of the literature on rent control. The two papers most closely related to ours are Sims (2007) and Autor, Palmer, and Pathak (2014), both of which study the effects of *ending* rent control in the Boston metropolitan area. Sims (2007) uses American Housing Survey (AHS) data to show that towns in the Boston metropolitan area in which rent control was abolished saw increases in rental supply and increased housing maintenance. Sims (2007) also shows some evidence of spillover effects on non-controlled properties. Autor, Palmer, and Pathak (2014) use property-level data on assessed values and transaction prices in Cambridge, Massachusetts to investigate these spillover effects more directly. They show that decontrol led to price appreciation at decontrolled and never-controlled units.

Our paper is different on a number of important dimensions. First, our paper uses a different natural experiment which has the nice feature of generating quasi-random assignment of rent control within narrowly defined neighborhoods. More substantively, by bringing to bear a unique, rich, and previously unused dataset, our paper is the first in this literature to be able to study how rent control impacts the behavior of the actual tenant beneficiaries. These estimates reveal a number of important insights regarding the value tenants place on rent control protections and rent control's ability to limit displacement, but also potential limitations in the ability of tenants to realize rent savings due to landlord responses.

Finally, since our unique data provide property-level information on renovations, condo conversions, and redevelopment, our paper shows that rent control can lead to an upgraded housing stock catering to higher income individuals. Indeed, the previous literature has shown that ending rent control leads to higher maintenance and higher nearby property values. To reconcile these seemingly conflicting points, it is crucial to understand that decontrol studies the effects of removing rent control on buildings which *still remain* covered. In fact, one of our key points is to show that a large share of landlords substitute away from supply of rent-controlled housing, making those properties which remain subject to rent control a selected set. In this way, studying the introduction of rent control, which our paper does, is not the same as studying the abolishment of rent control.

There also exists an older literature on rent control combining applied theory with cross-sectional empirical methods. These papers test whether the data are consistent with the theory being studied, but usually cannot quantify causal effects of rent control (Early 2000, Glaeser and Luttmer 2003, Gyourko and Linneman 1989, Gyourko and Linneman 1990, Moon and Stotsky 1993, Olsen 1972).

The remainder of the paper proceeds as follows. Section I discusses the history of rent control in San Francisco. Section II discusses the data used for the analysis. Section III presents our empirical results. Section IV concludes.

I. A History of Rent Control in San Francisco

Regulations are widespread in housing markets, and rent controls are arguably among the most important historically (Stigler and Friedman 1946, Gyourko and Glaeser 2008). The modern era of US rent controls began as a part of World War II era price controls and as a reaction to housing shortages following demographic changes immediately after the war (Fetter 2016). These "hard price controls" that directly regulate the exact price of housing have been replaced by newer policies that regulate rent increases (Arnott 1995). This "newer style" policy is what exists in San Francisco.

Rent control in San Francisco began in 1979, when acting Mayor Dianne Feinstein signed San Francisco's first rent control law. Pressure to pass rent control measures was mounting due to high inflation rates nationwide, strong housing demand in San Francisco, and recently passed Proposition 13.[4] This law capped annual nominal rent increases to 7 percent and covered all rental units built before June 13,

[4] Proposition 13, passed in 1978, limited annual property tax increases for owners. Tenants felt they were entitled to similar benefits in the form of capped annual rent increases.

1979 with one key exemption: owner-occupied buildings containing 4 units or less.[5] These "mom and pop" landlords were cast as being less profit-driven than large-scale, corporate landlords, and more similar to the tenants being protected. These small multi-family structures made up about 44 percent of the rental housing stock in 1990, making this a large exemption to the rent control law.

While this exemption was intended to target "mom and pop" landlords, in practice small multi-families were increasingly purchased by larger businesses who would then sell a small share of the building to a live-in owner so as to satisfy the rent control law exemption. This became fuel for a new ballot initiative in 1994 to remove the small multi-family rent control exemption. This ballot initiative barely passed in November 1994. Suddenly, all multi-family structures with four units or less built in 1979 or earlier were now subject to rent control. These small multi-family structures built prior to 1980 remain rent-controlled today, while all of those built from 1980 or later are still not subject to rent control. San Francisco rent control laws have remained stable since then, possibly due to the statewide Costa-Hawkins Act. This law precludes any California city from rent controlling any housing stock built 1994 or later and regulates the scope of rent control allowed. For example, it requires rent-controlled apartment rents to be unregulated between tenants.

II. Data

We bring together data from multiple sources to enable us to observe property characteristics, determine treatment and control groups, track the migration decisions of tenants, and observe the property decisions of landlords. Our first dataset is from Infutor, which provides the entire address history of individuals who resided in San Francisco at some point between the years of 1980 and 2016.[6] The data include not only individuals' San Francisco addresses, but any other address within the United States at which that individual lived during the period of 1980–2016. The dataset provides the exact street address, the month and year in which the individual lived at that particular location, the name of the individual, and some demographic information including age and gender.

We link these data to property records provided by DataQuick. These data provide us with a variety of property characteristics, such as the use-code (single-family, multi-family, commercial, etc.), the year the building was built, and the number of units in the structure. For each property, the data also detail its transaction history since 1988, including transaction prices, as well as the buyer and seller names. By comparing last names in Infutor to the listed owners of the property in DataQuick, we are able to distinguish owners from renters.

Next, we match each address to its official parcel number from the San Francisco Assessor's office. Using the parcel ID number from the Secured Roll data, we merge in any building permits that have been associated with that property since 1980. These data come from the San Francisco Planning office. This allows us to track

[5] The annual allowable rent increase was cut to 4 percent in 1984 and later to 60 percent of the CPI in 1992, where it remains today.

[6] Infutor is a data aggregator of address data using many sources including sources such as phone books, voter files, property deeds, magazine subscriptions, credit header files, and others.

large investments in renovations over time based on the quantity and type of permit issued to each building.

Finally, the parcel number also allows us to link to the parcel history file from the Assessor's office. This allows us to observe changes in the parcel structure over time. In particular, this allows us to determine whether parcels were split off over time, a common occurrence when a multi-family apartment building (one parcel) splits into separate parcels for each apartment during a condo conversion.

Summary statistics are provided in Table 1. We see the average renter in our sample in 1994 is about 37 years old and has lived at their current address for 6 years. We also see that these small multi-family properties are made up of 82 percent (0.74/0.9) renters and 18 percent owner occupants prior to 1994.

A. *Data Representativeness*

To examine the representativeness of the Infutor data, we link all individuals reported as living in San Francisco in 1990 to their census tract, to create census tract population counts as measured in Infutor. We make similar census tract population counts for the year 2000 and compare these San Francisco census tract population counts to those reported in the 1990 and 2000 Census for adults 18 years old and above. Regressions of the Infutor populations on census population are shown in Figure 1.[7] Panel A shows that for each additional person recorded in the 1990 Census, Infutor contains an additional 0.44 people, suggesting we have a 44 percent sample of the population. While we do not observe the universe of San Francisco residents in 1990, the data appear quite representative, as the census tract population in the 1990 Census can explain 69 percent of the census tract variation in population measured from Infutor. Our data are even better in the year 2000. Panel B shows that we appear to have 1.1 people in Infutor for each person observed in the 2000 US Census. We likely overcount the number of people in each tract in Infutor since we are not conditioning on year of death in the Infutor data, leading to overcounting of alive people. However, the Infutor data still tracks population well, as the census tract population in the 2000 Census can explain 90 percent of the census tract variation in population measured from Infutor.

Infutor also provides information on age. As additional checks, we compare the population counts within decadal age groups living in a particular census tract as reported by Infutor to that reported by the Census. We again report the results for both 1990 and 2000. Unlike the prior analysis, we must drop Infutor observations missing birth date information for this, making our sample smaller. As shown in panel A of Table 2, the slopes of the regression lines for the 18–29, 30–39, 40–49, 50–59, and 60–69 age groups are 0.31, 0.44, 0.42, 0.24, and 0.16, respectively. This indicates the Infutor coverage is strongest for 30–49-year-olds in 1990. The R^2 values are also the highest in this age range at 65 to 76 percent. The coverage of the data improves dramatically by 2000, as shown in panel A of Table 2. The regression line slopes for the respective age groups are now 0.33, 0.74, 0.72, 0.70, 0.45. The R^2 values range from 0.61–0.85. It is clear the data disproportionately undersamples

[7] We only can do data validation relative to the US Censuses for census tracts in San Francisco because we only have address histories for people who lived in San Francisco at some point in their life.

Table 1—Sample Characteristics of Multi-Family Properties (2–4 Units) and Their Tenants

	1990–1993			1994–2016		
	Treat	Control	Difference	Treat	Control	Difference
Panel A. Tenants living in multi-family residence (2–4 units)						
A1. Demographics						
Age in 1993	37.708	37.120	0.587	37.708	37.120	0.587
	(10.438)	(10.639)	(0.247)	10.438	(10.639)	(0.247)
A2. Residency						
In San Francisco	0.954	0.954	0.000	0.569	0.538	0.032
	(0.210)	(0.210)	(0.002)	(0.495)	(0.499)	(0.002)
Same address	0.870	0.867	0.003	0.261	0.240	0.021
	(0.336)	(0.340)	(0.004)	(0.439)	(0.427)	(0.002)
Years at address	6.015	5.825	0.190	6.590	6.267	0.324
	(3.958)	(3.927)	(0.047)	(5.898)	(5.530)	(0.029)
Number of persons	44,502	1,861	46,363	44,502	1,861	46,363
Panel B. Multi-family properties (2–4 units)						
B1. Residency						
Conversion	0.000	0.000	0.000	0.096	0.044	0.051
	(0.009)	(0.000)	(0.000)	(0.294)	(0.206)	(0.002)
B2. Population, 1990–1994						
Population/avg. population	0.898	0.905	−0.008	2.282	2.252	0.030
	(0.436)	(0.426)	(0.007)	(4.029)	(2.998)	(0.028)
Renters/avg. population	0.741	0.737	0.004	1.680	1.700	−0.020
	(0.484)	(0.482)	(0.008)	(3.555)	(2.517)	(0.025)
Renters in rent-controlled buildings/avg. population	0.741	0.737	0.004	1.404	1.570	−0.165
	(0.484)	(0.482)	(0.008)	(1.927)	(2.053)	(0.014)
Renters in redeveloped buildings/avg. population	0	0	0	0.129	0.060	0.069
	(0)	(0)	(0)	(0.740)	(0.541)	(0.005)
Owners/avg. population	0.157	0.168	−0.012	0.602	0.552	0.050
	(0.329)	(0.335)	(0.006)	(1.581)	(1.348)	(0.011)
B3. Permits						
Cumulative Add/alter/repair per unit	0.072	0.088	−0.016	0.290	0.254	0.035
	(0.231)	(0.287)	(0.004)	(0.511)	(0.536)	(0.004)
Number of parcels	25,925	892	26,817	25,925	892	26,817

Notes: Panel A reports the summary statistics of the demographic characteristics and residency outcomes during 1990–2016 of our tenant sample. The sample consists of all tenants between 20 and 65 years old living in San Francisco as of December 31, 1993 and in multi-family residences with 2–4 units that were built during 1900–1990. Panel B reports the summary statistics of the outcomes variables related to residency, population changes, and permit issuance during 1990–2016 of our property sample. The sample consists of all parcels that are multi-family residence with 2–4 units in San Francisco that were built during 1900–1990. The *Treat* and *Control* columns report the mean and standard deviation (in parentheses) of each outcome variable at the tenant level in panel A and at the property level in panel B. The *Difference* column reports the coefficient and standard error (in parentheses) of a regression of each outcome variable on the treatment dummy at the tenant level in panel A and at the property level in panel B.

the youngest group, but this is unsurprising as these data come from sources such as credit header files, voter files, and property deeds. Eighteen-year-olds are less likely to show up in these sources right away. Overall the data coverage looks quite good.

As described above, we merge the Infutor data with public records information provided by DataQuick about the particular property located at a given address, such as use-code and age of the property. We assess the quality of the matching procedure by comparing the distribution of the year buildings were built across census tracts among addresses listed as occupied in Infutor versus the 1990 and 2000 Censuses.

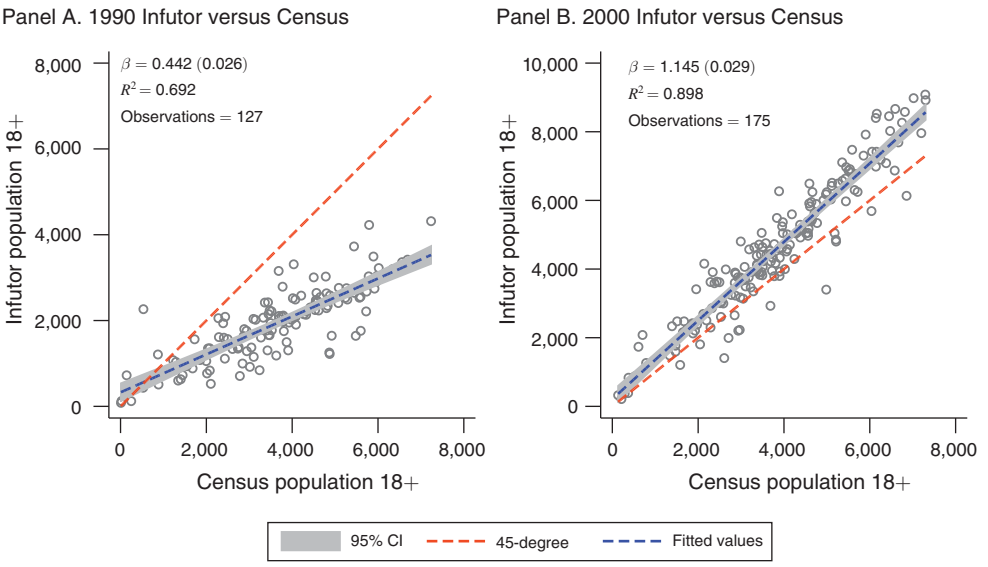

FIGURE 1. VALIDATION OF INFUTOR POPULATION VERSUS US CENSUS POPULATION

Notes: Plot shows the population of 18 and over in each census tract in 1990 and 2000 from Infutor data against that from 1990 and 2000 Censuses, respectively. The fitted line is by OLS.

TABLE 2—REPRESENTATIVENESS OF INFUTOR DATA: POPULATION BY AGE GROUPS AND AGE OF OCCUPIED HOUSING STOCKS

	1990				2000		
Age group	Slope	SE	R^2	Age group	Slope	SE	R^2
Panel A. Population by age group							
18–29	0.314	0.026	0.534	18–29	0.325	0.016	0.696
30–39	0.444	0.022	0.758	30–39	0.744	0.024	0.850
40–49	0.416	0.027	0.649	40–49	0.715	0.032	0.741
50–59	0.237	0.023	0.458	50–59	0.695	0.033	0.723
60–69	0.159	0.015	0.469	60–69	0.447	0.027	0.611
Panel B. Age of occupied housing							
Year built	Slope	SE	R^2	Year built	Slope	SE	R^2
1970–1990	0.639	0.046	0.667	1980–2000	0.813	0.024	0.876
1950–1969	0.928	0.046	0.807	1960–1979	1.083	0.036	0.853
1940–1949	1.111	0.035	0.911	1950–1959	0.955	0.049	0.711
1939 or earlier	1.024	0.040	0.872	1940–1949	1.323	0.042	0.863
				1939 or earlier	1.144	0.036	0.863

Notes: Panel A reports the coefficients, standard errors, and R^2 values of regressing the population counts within various age groups in each census tract from Infutor data against those from the Census in the year 1990 and 2000 respectively. Panel B reports the coefficients, standard errors, and R^2 values of regressing the fraction of buildings built in various time periods in each census tract from Infutor data against those from the Census in the year 1990 and 2000 respectively. In panel B, the regressions are weighted by the number of occupied housing units in each census tract from the Census.

If a building is constructed after 1993 according to its current day use-code, but we observe a person living there in 1993, we include it in the treatment group for rent control. Panel B of Table 2 shows the age distribution of the occupied stock by census tract. In both of the years 1990 and 2000, our R^2 values range from 67 percent

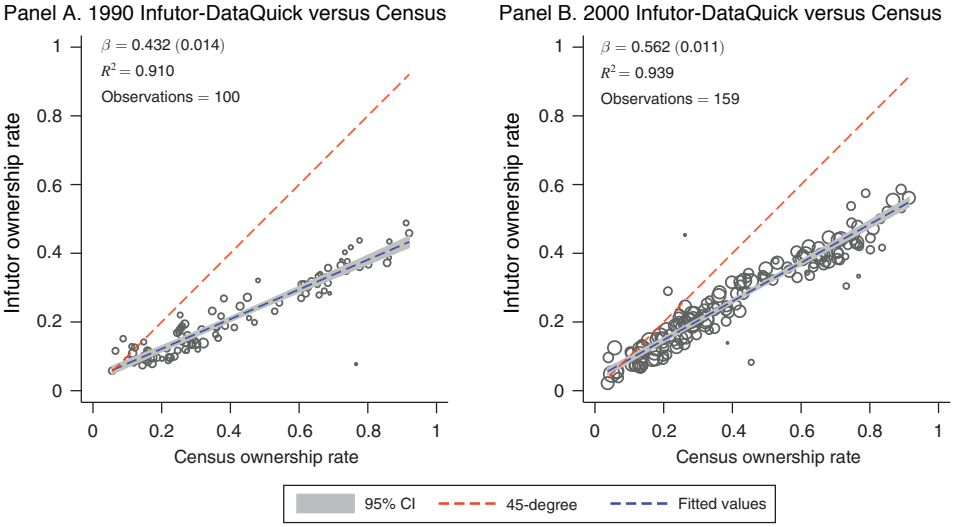

FIGURE 2. HOME OWNERSHIP RATES IN INFUTOR-DATAQUICK VERSUS US CENSUS

Notes: Plot shows census tract average owner occupant rates in 1990 and 2000 from Infutor-DataQuick data verus that from 1990 and 2000 Censuses. The size of marker is proportional to the number of occupied housing units in each census tract. The fitted line is by weighted least squares.

to 91 percent and we often cannot reject a slope of 1.[8] This highlights the extremely high quality of the linked Infutor-DataQuick data, as the addresses are clean enough to merge in the outside data source DataQuick and still manage to recover the same distribution of building ages as reported in both the 1990 and 2000 Censuses.

To measure whether Infutor residents were owners or renters of their properties, we compare the last names of the property owners list in DataQuick to the last names of the residents listed in Infutor. Since property can be owned in trusts, under a business name, or by a partner or spouse with a different last name, we expect to underclassify residents as owners. Figure 2 plots the Infutor measure of ownership rates by census tract in 1990 and 2000, respectively, against measures constructed using the 1990 and 2000 Censuses. In 1990 (2000), a 1 percentage point increase in the owner-occupied rate leads to a 0.43 (0.56) percentage point increase in the ownership rate measured in Infutor. Despite the undercounting, our cross-sectional variation across census tract matches the 1990 and 2000 censuses extremely well, with R^2 values over 90 percent in both decades. This further highlights the quality of the Infutor data.

B. *Imputing Tenant Race*

We use a two-step procedure to impute the race/ethnicity of individuals in our main sample of analysis: all tenants between 20 and 65 years old living in San Francisco as of December 31, 1993. In the first step, we use NamePrism, a

[8] Since year built comes from the Census long form, these data are based only on a 20 percent sample of the true distribution of building ages in each tract, creating measurement error that is likely worse in the census than in the merged Infutor-DataQuick data.

non-commercial ethnicity/nationality classification tool intended to support academic research (Ye et al. 2017), to compute baseline probabilities of race/ethnicity for each tenant based on her first name and last name. In the second step, we use Bayes' rule to update the name-based probabilities for race and ethnicity using the local racial distribution at each tenant's place of residence in 1990, following a similar methodology used by the Consumer Financial Protection Bureau (CFPB 2014). More details about each step are provided below.

In step 1, for each tenant, we use both her first and last name to query the NamePrism online tool and obtain baseline probabilities for the six ethnic categories defined by the US Census Bureau: Hispanic; non-Hispanic white; non-Hispanic black or African American; non-Hispanic Asian/Pacific Islander; non-Hispanic American Indian and Alaska Native; and non-Hispanic Multi-racial.[9] NamePrism employs a training dataset of 57 million contact lists from a major internet company, US Census data on the distribution of last names by race, and trains its algorithm using the homophily principle exhibited in communication as the basis for its ethnicity classifier.[10] In this step, each tenant is assigned a probability, ranging from 0 percent to 100 percent, of belonging to each of the six ethnic groups, and the six probabilities sum to 1.

In step 2, we update each tenant's baseline racial probabilities with the racial and ethnic characteristics of the census block associated with her place of residence in 1990 using Bayes' rule to obtain posterior probabilities for the six ethnic groups.[11] In particular, for a tenant with name s who resides in geographic area g, we calculate the probability of race or ethnicity r for each of the six categories for a given name s, denoted as $\Pr(r|s)$. From the Summary File 1 (SF1) from Census 1990, we obtain the proportion of the population belonging to race or ethnicity r that lives in geographic area g, denoted as $\Pr(g|r)$. Bayes' rule then gives the probability that a tenant with name s residing in geographic area g belongs to race or ethnicity r:

$$\Pr(r|g,s) = \frac{\Pr(r|s)\Pr(g|r)}{\sum_{r' \in R} \Pr(r'|s)\Pr(g|r')},$$

where R denotes the set of six ethnic categories. An assumption necessary for the validity of the Bayesian updating procedure is that the probability of living in a given geographic area, given one's race, is independent of one's name. For example, it assumes that blacks with the name John Smith are just as likely to live in a certain neighborhood as blacks in general.

For each tenant, we then assign a final racial probability if the maximum of the six posterior probabilities is equal to or above 0.8, and a final racial/ethnic category corresponding to the maximum posterior; otherwise a tenant's race/ethnicity is unclassified. Table 3 shows the breakdown of our racial and ethnic classification for our main sample of analysis.

[9] This classification considers Hispanic as mutually exclusive from the race categories, with individuals identified as Hispanic belonging only to that category, regardless of racial background.

[10] People tend to communicate more frequently with others of similar age, language, and location.

[11] In practice, census block level information on the racial and ethnic composition is available for 94.7 percent of our sample. For the rest of sample, we use racial and ethnic composition at the census block group (4 percent), census tract (0.2 percent), and 5-digit zip code levels (1 percent), whichever one is first available in the order listed. We set the posterior probabilities equal to the baseline probabilities from NamePrism for the rest: 0.1 percent of our sample.

Table 3—2010 Census Block Racial Distribution by Tenants' Race among 1994 Rent Control Cohort

	Average share in 2010 census block					SF overall	
	White (1)	Black (2)	Hispanic (3)	Asian (4)	Sample share (5)	1990 census (6)	2010 census (7)
Predicted race							
White	63.4	4.2	12.1	16.4	75.01	57.36	52.26
Black	24.8	24.0	24.4	22.8	1.40	7.72	4.69
Hispanic	33.7	6.3	31.4	24.9	8.20	14.18	18.28
Asian	38.1	4.1	13.2	40.8	15.39	20.16	24.51

Notes: Sample consists of all tenants with a classified race/ethnicity between 20 and 65 years old living in San Francisco as of December 31, 1993 and in multi-family residences with 2–4 units that were built during 1900–1990. We geocode the 2010 addresses of tenants in our sample to the census block level. Columns 1–4 report the average shares of white, black, Hispanic, and Asian population in the census blocks containing the 2010 addresses of tenants in each classified racial/ethnic category. Column 5 reports the share of our sample by predicted race. Columns 6 and 7 report the share of tenants in San Francisco between 20 and 65 years old who were living in small multi-family residences by racial/ethnic categories according to the 1990 and 2010 US censuses.

Our methodology is similar to what's used by the CFPB to construct proxy consumer race in order to conduct fair lending analysis. CFPB (2014) and Elliott et al. (2009) demonstrate that combining geography- and name-based information into a single proxy probability for race/ethnicity significantly outperforms traditional classification methods based on names or geography alone. The key difference between our method and CFPB's method is that we use NamePrism to compute "prior" probabilities, whereas CFPB relies on the racial distribution for common last names in the United States published by the Census Bureau (Comenetz 2016). Since NamePrism uses both first and last names from a much larger name database, it is able to classify race/ethnicity for a much wider range of names at higher accuracy. Moreover, we use census block level racial composition for Bayesian updating of racial probabilities whenever possible, whereas CFPB uses racial distribution at the census block group level, which is a larger geographic unit, and thus less refined.

Validation of Race Imputation.—We report some summary statistics regarding our race imputation methodology and perform a few validation checks. Using our imputation procedure and the linked Infutor-DataQuick data, we first report in column 5 of Table 3 the racial distribution of all tenants aged 20–65 living in multi-family residences with 2–4 units as of December 31, 1993. Column 6 of Table 3 reports the 1990 Census measure of this distribution. As in the census, we find that Asians are the most numerous minority, followed by Hispanics and then blacks. This table also shows that our procedure somewhat overrepresents whites in San Francisco and underrepresents the number of minorities. This is because we only assign a race to an individual if the probability of that race is above 80 percent. In practice, this means 8,009 tenants are not assigned a race, equal to 17.27 percent of our tenant sample. Many of these unassigned individuals are likely minorities, as a large fraction of the unassigned are those with minority-sounding names but who live in relatively racially integrated neighborhoods.[12]

[12] If we do not impose this cutoff and instead simply calculate raw means of each racial group's probabilities, our racial distribution looks much closer to the distribution reported by the Census. We feel that imposing the cutoff is appropriate, however, since it ameliorates concerns regarding measurement error in our regression analysis by

To further validate our methodology, we examine the average racial makeup of the 2010 census block in which our assigned individuals live. Note that this is an out-of-sample check since we use an individual's 1990 address, not their 2010 address, in our imputation procedure. The results are reported in columns 1 through 4 of Table 3. Consistent with what one would expect from some degree of continued racial sorting, individuals we classify as white live in neighborhoods with the greatest fraction of whites (as of 2010), those we classify as black live in neighborhoods with the greatest fraction of blacks (as of 2010), and similarly for Hispanics and Asians. The same sorting result appears when we regress racial shares of an individual's 2010 census block on the individual's assigned race. The results are reported in online Appendix Table A2, with black being the omitted category. For example, being white is the strongest positive predictor of the 2010 white share, being Hispanic is the strongest positive predictor of the 2010 Hispanic share, and similarly for Asians and blacks.

III. Empirical Results

Studying the effects of rent control is challenged by the usual endogeneity issues. The tenants who choose to live in rent-controlled housing, for example, are likely a selected sample. To overcome these issues, we exploit the successful 1994 ballot initiative which removed the original 1979 exemption for small multi-family housing of four units or less, as discussed in Section I.

In 1994, as a result of the ballot initiative, tenants who happened to live in small multi-family housing built prior to 1980 were, all of a sudden, protected by statute against rent increases. Tenants who lived in small multi-family housing built 1980 and later continued to not receive rent control protections. We therefore use as our treatment group those renters who, as of December 31, 1993, lived in multi-family buildings of less than or equal to four units, built between years 1900 and 1979. We use as our control group those renters who, as of December 31, 1993, lived in multi-family buildings of less than or equal to four units, built between the years of 1980 and 1990. We exclude those renters who lived in small multi-family buildings constructed post-1990 since individuals who choose to live in new construction may constitute a selected sample and exhibit differential trends. We also exclude tenants who moved into their property prior to 1980, as none of the control group buildings would have been constructed at the time.

When examining the impact of rent control on the parcels themselves, we use small multi-family buildings built between the years of 1900 and 1979 as our treatment group and buildings built between the years of 1980 and 1990 as our control group. We again exclude buildings constructed in the early 1990s to remove any differential effects of new construction. Figure 3 shows the geographic distribution of treated buildings and control buildings in San Francisco. Since our control group was built over a narrow time span, the sample size of the treatment group is much larger than the control group. However, the control group buildings cover many

restricting to those individuals whose racial classification is more precise. We investigate using the entire sample as a robustness check in the online Appendix.

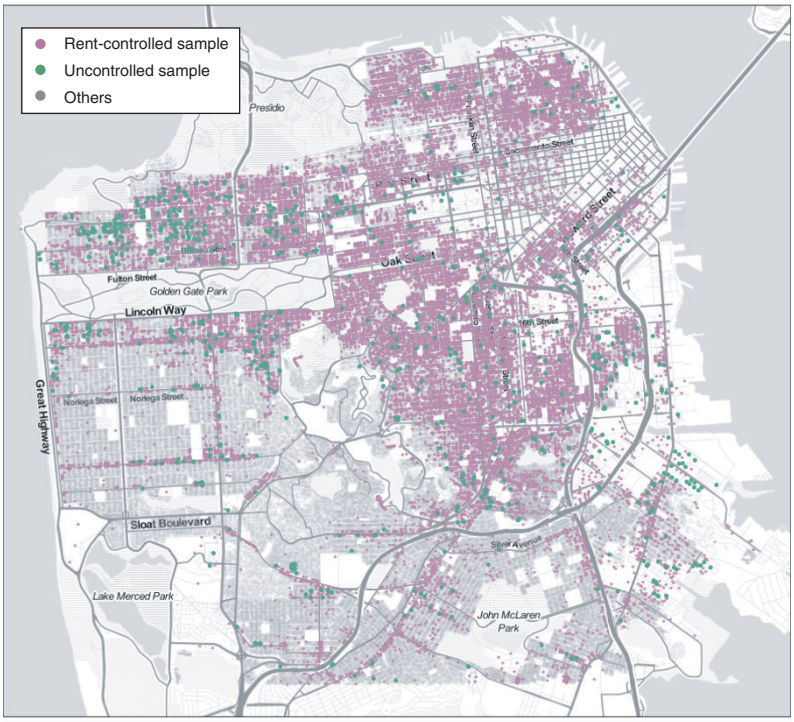

Figure 3. Geographic Distribution of Treated and Control Buildings in San Francisco

Notes: The purple dots represent parcels in the treatment group, which are parcels corresponding to multi-family residences with 2–4 units in San Francisco that were built between 1900–1979. The green dots represent parcels in the control group, which are parcels corresponding to multi-family residences with 2–4 units in San Francisco that were built between 1980–1990. The gray dots represent other types of housing stocks such as single-family residences and multi-family residences with five or more units.

neighborhoods across San Francisco, giving the treatment and control samples good overlap.

We next estimate balance tests between our treatment and control samples to evaluate whether rent control status was as good as randomly assigned. Table 1 compares the characteristics of tenants in treatment and control buildings, from 1990–1993, prior to treatment. The comparisons in raw means do not control for the zip code of the building, which we will always condition on in our analysis. Panel A shows that tenants in the treated buildings are 0.6 years older than tenants in control buildings. This is unsurprising as the older buildings have been around much longer, allowing for longer tenancies and thus older residents. Indeed, we also see that the average tenant in the treatment building has lived there for 6 years prior to treatment, while control group tenants have lived there for 5.8 years. To account for this differences, we will always condition on the length of tenancy, measured at the time of treatment, when comparing treatment and control groups in the following analysis.

We begin our analysis by studying the impact of rent control provisions on its tenant beneficiaries. Policy advocates argue that tenants covered by rent control will be dramatically helped by lower housing costs, thereby enabling them to stay in communities that they have lived in for a number years and grown attached to. We

evaluate these claims first by quantifying rent control's impact on the initial cohort of tenants living in the properties newly covered by the law. Later, in Section IIIB we examine how landlords' responses to the law change impacted the long-run housing supply of rental properties. In light of these findings, we then return to and evaluate the claim that rent control helps tenants by lowering housing costs and preventing displacement.

A. *Tenant Effects*

We first examine whether rent control "locks tenants into their apartments," extending the duration of time they live at the address where they were first covered by rent control. On the one hand, locking tenants into their apartments could be viewed as a cost of rent control. Tenants might not be able to move to different types of housing as their needs change, such as when they get married or have a child. On the other hand, if tenants' lack of migration not only keeps them in the same apartment but enables them to stay in San Francisco overall, then this could be viewed as a success in that rent control prevents displacement.

To evaluate these effects we use a difference-in-differences design described above, with the following exact specification:

$$Y_{iszt} = \delta_{zt} + \alpha_i + \beta_t T_i + \gamma_{st} + \epsilon_{it}. \tag{1}$$

Here, Y_{iszt} are outcome variables equal to 1 if, in year t, the tenant i is still living at either the same address as they were at the end of 1993, or, alternatively, if the tenant is still living in San Francisco. The variables α_i denote individual tenant fixed effects. The variable T_i denotes treatment, equal to 1 if, on December 31, 1993, the tenant is living in a multi-family building with less than or equal to four units built between the years 1900 and 1979.

We include fixed effects γ_{st} denoting the interaction of dummies for the year s the tenant moved into their 1993 apartment with calendar year t time dummies. These additional controls are needed since older buildings are mechanically more likely to have long-term, low-turnover tenants; not all of the control group buildings were built when some tenants in older buildings moved in. Finally, note we have included a full set of zip-code-by-year fixed effects, δ_{zt}. In this way, we control for any differences in the geographic distribution of treated buildings versus control buildings, ensuring that our identification is based off of individuals who live in the same neighborhood, as measured by zip code. Our coefficient of interest, quantifying the effect of rent control on future residency, is denoted by β_t.

Our estimated effects are shown in Figure 4, along with 90 percent confidence intervals. As further evidence of random assignment, we see no pre-trends leading up to time of treatment. Exactly at time of treatment we see a large spike in the probability that the treatment group remains at their 1993 address, versus the control group. We can see that tenants who receive rent control protections are persistently more likely to remain at their 1993 address relative to the control group. This effect decays over time, which likely reflects that as more years go by, all tenants are increasingly likely to move away from where they lived in 1993. Further, we find that treated tenants are also more likely to be living in San Francisco. This result

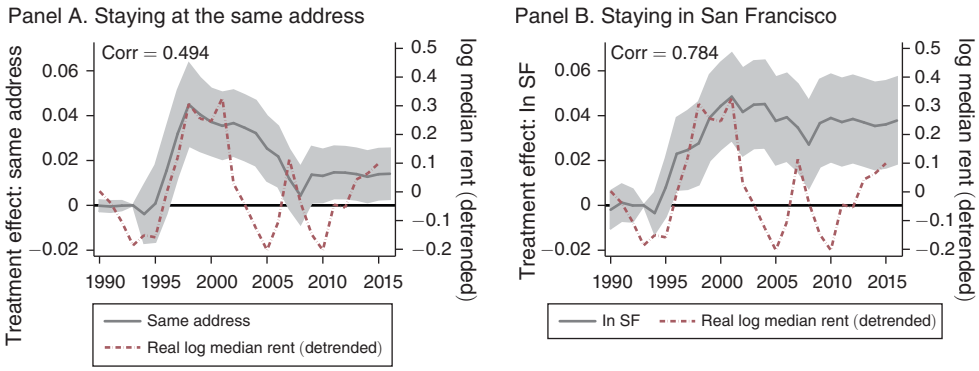

FIGURE 4. TREATMENT EFFECT FOR TENANTS IN MULTI-FAMILY RESIDENCE (2–4 UNITS)

Notes: Sample consists of all tenants between 20 and 65 years old living in San Francisco as of December 31, 1993 and in multi-family residences with 2–4 units that were built during 1900–1990. The solid line plots the treatment effects for staying at the same address in panel A and staying in San Francisco in panel B along with 90 percent CI in shaded area. The dotted line plots the yearly deviation from the log trend in median rental rates. Standard errors are clustered at the person level.

indicates that the assignment of rent control not only impacts the type of property a tenant chooses to live in, but also their choice of location and neighborhood type.

These figures also illustrate how the time pattern of our effects correlates with rental rates in San Francisco.[13] We would expect our results to be particularly strong in those years with quickly rising rents and thus large potential savings. Along with our yearly estimated effect of rent control, we plot the yearly deviation from the log trend in rental rates against our estimated effect of rent control in that given year. We indeed see that our effects grew quite strongly in the mid- to late-1990s in conjunction with quickly rising rents, relative to trend. Our effects then stabilize and slightly decline in the early 2000s in the wake of the dot-com bubble crash, which led to falling rental rates relative to trend. Overall, we measure a correlation of 49.4 percent between our estimated same address effects and median rents, and a correlation of 78.4 percent between our estimated SF effects and median rents.

In Table 4, we collapse our estimated effects into a short-term 1994–1999 effect, a medium-term 2000–2004 effect, and a long-term post-2005 effect. We find that in the short run, tenants in rent-controlled housing are 2.18 percentage points more likely to remain at the same address. This estimate reflects a 4.03 percent increase relative to the 1994–1999 control group mean of 54.10 percent. In the medium term, rent-controlled tenants are 3.54 percentage points more likely to remain at the same address, reflecting a 19.38 percent increase over the 2000–2004 control group mean of 18.27 percent. Finally, in the long term, rent-controlled tenants are 1.47 percentage points more likely to remain at the same address. This is a 12.95 percent increase over the control group mean of 11.35 percent. Whether these effects should widen

[13] Annual advertised rents from the San Francisco Chronicle and Craigslist have been collected by Eric Fischer (https://github.com/ericfischer/housing-inventory/). Since we do not have the microdata, this gives us an aggregate San Francisco-wide annual time series of rents. Given that these data are based on actual listings, this is likely the most accurate measure of true *market* rate rents, among all possible data sources.

Table 4—Treatment Effect for Tenants of Multi-Family Residence (2–4 Units)

	In SF	Same address
	(1)	(2)
Treat × period		
1994–1999	0.0200	0.0218
	(0.0081)	(0.0083)
2000–2004	0.0451	0.0354
	(0.0115)	(0.0088)
Post 2005	0.0366	0.0147
	(0.0109)	(0.0063)
Control mean, 1994–1999	0.7641	0.5410
Control mean, 2000–2004	0.5138	0.1827
Control mean, post-2005	0.4346	0.1135
Adjusted R^2	0.586	0.608
Observations	1,251,801	1,251,801

Notes: Sample consists of all tenants between 20 and 65 years old living in San Francisco as of December 31, 1993 and in multi-family residences with 2–4 units that were built during 1900–1990. Table reports the mean of dependent variables for the control group during 1990–1994, 2000–2004, and post-2005. Standard errors are clustered at the person level.

or narrow over time is ambiguous. On one hand, the wedge between market rate rents and rent control rents diverge, the longer one remains at one's rent-controlled address. On the other hand, the mismatch between one's 1993 address and the ideal location and type of housing is likely to grow over time, pushing tenants to give up their rent control. Since our long-term results are smaller than our medium-term findings, it appears the mismatch effect begins to grow faster than the below market rent effect over the medium to long term.

Tenants who benefit from rent control are 2.00 percentage points more likely to remain in San Francisco in the short-term, 4.51 percentage points more likely in the medium-term, and 3.66 percentage points more likely in the long term. Relative to the control group means, these estimates reflect increases of 2.62 percent, 8.78 percent, and 8.42 percent, respectively. Since these numbers are of the same magnitude as the treatment effects of staying at one's exact 1993 apartment, we find that absent rent control a large share of those incentivized to stay in their apartments would have otherwise moved out of San Francisco. Since most of the tenants "locked" into their apartments by rent control would have otherwise left the city rather than select a different apartment in the same neighborhood, the allocative inefficiency effects of rent control might be smaller than its impacts on preventing displacement.

Robustness.—A key identifying assumption for our analysis is that once neighborhood characteristics have been controlled for, as well as the number of years lived in the apartment as of December 31, 1993, those living in older versus newer buildings would not exhibit differential trends in migration. As a robustness test, in panel A of Table 5, we have restricted our treatment group to individuals who lived in structures built between 1960 and 1979, thereby comparing tenants in buildings built slightly before 1979 to tenants in buildings built slightly after 1979. We find statistically indistinguishable results from our main analysis, with point estimates actually 5 percent to 63 percent larger across the six point estimates.

Table 5—Robustness Checks: Treatment Effect for Tenants of Small Multi-Family Residences

	Panel A. Treatment group: buildings built between 1960 and 1979		Panel B. Census tract fixed effects	
	In SF (1)	Same address (2)	In SF (3)	Same address (4)
Treat × period				
1994–1999	0.0326	0.0289	0.0175	0.0157
	(0.0105)	(0.011)	(0.0084)	(0.0087)
2000–2004	0.0642	0.0370	0.0426	0.0284
	(0.0151)	(0.0118)	(0.012)	(0.0092)
Post-2005	0.0531	0.0164	0.0364	0.0113
	(0.0145)	(0.0084)	(0.0114)	(0.0066)
Control mean, 1994–1999	0.7641	0.541	0.7641	0.541
Control mean, 2000–2004	0.5138	0.1827	0.5138	0.1827
Control mean, post-2005	0.4346	0.1135	0.4346	0.1135
Adjusted R^2	0.584	0.609	0.588	0.609
Observations	135,594	135,594	1,243,242	1,243,242
	Panel C. Control group lives in buildings with 5–10 units		Panel D. Control group lives in buildings with 2–10 units	
Treat × period				
1994–1999	0.0319	0.0162	0.0256	0.0201
	(0.0096)	(0.0094)	(0.0063)	(0.0064)
2000–2004	0.0424	0.0291	0.0452	0.0340
	(0.0132)	(0.0099)	(0.0089)	(0.0067)
Post-2005	0.0400	0.0167	0.0387	0.01575
	(0.0124)	(0.0071)	(0.0084)	(0.0048)
Control mean, 1994–1999	0.7356	0.541	0.7507	0.541
Control mean, 2000–2004	0.4935	0.178	0.5043	0.1805
Control mean, post-2005	0.4092	0.1064	0.4227	0.1101
Adjusted R^2	0.587	0.608	0.587	0.608
Observations	1,246,023	1,246,023	1,296,270	1,296,270

Notes: In panel A, we change our tenant sample to all tenants between 20 and 65 years old living in San Francisco as of December 31, 1993 and in multi-family residences with 2–4 units that were built during 1960–1990. Hence, we have restricted our treatment group to individuals who lived in buildings built between 1960 and 1979. In panel B, the sample of tenants is the same as in our baseline regressions. Instead of using zip-code-by-year fixed effects in our baseline regressions, we use census tract by year fixed effects. In panel C, we have changed our control group to individuals who lived in multi-family residences with 5–10 units that were built during 1980–1990. The treatment group is the same as in our baseline regressions. In panel D, we have changed our control group to individuals who lived in multi-family residences with 2–10 units that were built during 1980–1990. The treatment group is the same as in our baseline regressions. Table reports the mean of dependent variables for the control group during 1990–1994, 2000–2004, and post-2005. Standard errors are clustered at the person level.

As further robustness, we redefine the neighborhood more finely, using census tracts instead of zip codes. Panel B of Table 5 repeats the analysis using census tract by year fixed effects. The results are also statistically indistinguishable from our main results, although the point estimates are between 1 percent and 28 percent smaller across the six point estimates. Dropping the zip-code-by-year fixed effects also produces similar results.

As a final robustness check, we use an alternative control group of renters living in larger multi-family apartment buildings not subject to rent control. Specifically, we create a control group of renters living in buildings with between 5 and 10 apartment units built between 1980 and 1990. We exclude large multi-family buildings built prior to 1980 from the control group because they have been covered by rent

control since 1979. Using residents of these slightly larger buildings built in the 1980s should also act as a valid control group if the sorting of tenants to buildings within neighborhoods did not depend on the exact number of units in the buildings. Panel C of Table 5 reports the treatment effect using this alternative control group. The effects are statistically indistinguishable from our main effects. Panel D of Table 5 combines our control groups, creating a larger control group of renters living in buildings with two to ten apartments building in the 1980s. Unsurprisingly, these effects are also statistically indistinguishable from our main estimates, but the standard errors are smaller due to the increased sample size of our control group.

Treatment Effect Heterogeneity.—These estimated overall effects mask economically interesting heterogeneity. We begin by repeating our analysis separately within each racial group. Racial minorities may face discrimination in the housing market, indicating that rent control may be especially impactful on limiting their displacement. Figure 5 shows the treatment effects of remaining in one's 1993 address for whites, and then the differential effects for each racial group. Since our sample sizes within any given racial group are smaller, we will focus on the overall "post" impact of rent control, not separating out the short-, medium-, and long-term effects. Whites are 2.1 percentage points more likely to remain at their treated address due to rent control. For both blacks and Hispanics, we find larger treatment effects of 10.7 and 7.1 percentage point increases for these groups, respectively.[14] This suggests these minority groups disproportionately valued rent control. In contrast, the effect for Asians is statistically indistinguishable from the whites effect, with a point estimate of 0.9 percentage points.

We see further evidence that racial minorities disproportionately benefited from rent control when looking at the impact of the law on remaining in San Francisco. Rent control leads treated whites to be 2.8 percentage points more likely to remain in San Francisco, while blacks, Hispanics, and Asians are 10.7, 10.1, and 6.4 percentage points more likely to remain in San Francisco, respectively.[15] This suggests that rent control had a substantial impact on limiting displacement of minorities from the city, an additional sign that rent control strongly benefits the initial cohort of renters who are covered by the law.

We next examine treatment effect heterogeneity across neighborhoods, duration of tenancy, and age.[16] The goal of this exercise is two-fold. First we want to examine whether tenants who have lived in their neighborhoods for a long time disproportionately value rent control, as would be expected if these long-term tenants had built up a stock of neighborhood-specific capital. Second, we want to examine whether the value of rent control varies across tenant age. It is well known that younger individuals move more often. If young people need to move often for personal reasons, it

[14] Since our sample of blacks is quite small, the differential effects for blacks are not statistically indistinguishable from whites.

[15] As a robustness check, we repeat this analysis on the entire sample, including the renters whose probabilities for their most likely imputed race were below 80 percent. These results are in online Appendix Figure A1. The result are statistically indistinguishable from our main results, but the differences in the point estimates across races are smaller. This is consistent with the fact we have much more measurement error in the imputed races for these additional renters.

[16] We do not cut on race here as well, as the samples would become too thin.

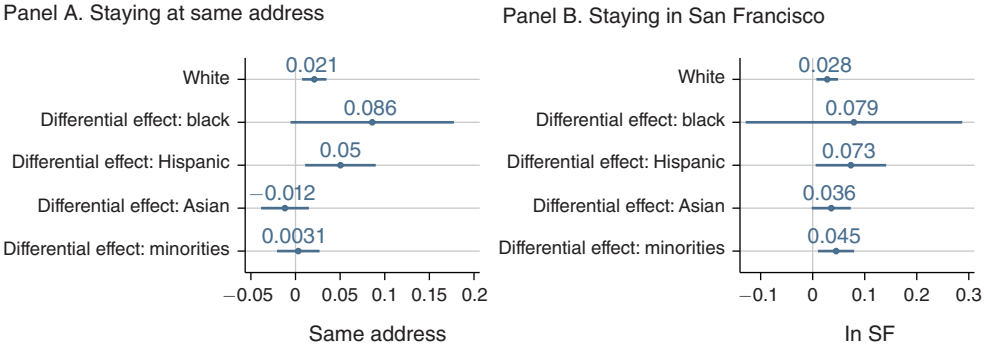

Figure 5. Heterogeneity by Tenant's Race in Treatment Effect for Tenants

Notes: Sample consists of all tenants with a classified race/ethnicity between 20 and 65 years old living in San Francisco as of December 31, 1993 and in multi-family residences with 2–4 units that were built during 1900–1990. For white tenants, we report the average treatment effect in the post-1994 period along with 90 percent CI. For the other ethnic categories, we report the differential treatment effect in the post-1994 period between white and each ethnic category along with 90 percent CI. Minorities consist of all ethnic groups other than white. Standard errors are clustered at the person level.

will be hard for them to benefit from rent control since they cannot stay in one place long enough to access the insurance value of rent control.

To examine these effects, we cut the data by age, sorting individuals into two groups, a young group who were aged 20–39 in 1993 and an old group who were aged 40–65 in 1993. We also sort the data based on the number of years the individual has been living at their 1993 address. We create a "short-tenure" group of individuals who had been living at their address for less than four years and a "long-tenure" group of individuals who had been living at their address for between 4 and 14 years. Finally, we cut the sample of zip codes based on whether their housing price appreciation from 1990 to 2000 was above or below the median, as measured by the housing transactions observed in DataQuick. Ideally, we would measure market rental price appreciation across neighborhoods, but no data source for this exists. While rents and house prices need not be perfectly correlated, house prices and market rents tend to move together. We form eight subsamples by taking the $2 \times 2 \times 2$ cross across each of these three dimensions and re-estimate our effects for each subsample.

The results are reported in Table 6 and plotted in online Appendix Figures A2 and A3. We summarize the key implications. First, we find that the effects are weaker for younger individuals. We believe this is intuitive. Younger households are more likely to face larger idiosyncratic shocks to their neighborhood and housing preferences (such as changes in family structure and employment opportunities), which makes staying in their current location particularly costly, relative to the types of shocks older households receive. Thus, younger households may feel more inclined to give up the benefits afforded by rent control to secure housing more appropriate for their circumstances.

Moreover, among older individuals, there is a large gap between the estimated effects based on tenure duration. Older, long-tenure households have a strong, positive response to rent control. That is, they are more likely to remain at their 1993

Table 6—Heterogeneity by Age, Tenure, and Neighborhood House Price Appreciation in Treatment Effect of Staying at Same Address

	Older tenants		Younger tenants	
	(1)	(2)	(3)	(4)
Panel A. Above-median house price appreciation zip codes				
Treat × post	0.062	−0.107	0.018	−0.003
	(0.019)	(0.042)	(0.012)	(0.032)
Tenant tenure duration	Long	Short	Long	Short
Panel B. Below-median house price appreciation zip codes				
Treat × post	0.041	0.010	0.007	0.039
	(0.015)	(0.033)	(0.009)	(0.018)
Tenant tenure duration	Long	Short	Long	Short

Notes: Sample consists of all tenants between 20 and 65 years old living in San Francisco as of December 31, 1993 and in multi-family residences with 2–4 units that were built during 1900–1990. We first divide individuals into two groups by whether their 1993 zip code experienced above- or below-median house price appreciation during 1990–2000. We further sort the sample by age group. The young group refers to residents who were aged 20–39 in 1993 and the old group are residents who were aged 40–65 in 1993. Finally, we cut the data by number of years the individual has been living at their 1993 address. We define a *long-tenure* group of individuals who had been living at their 1993 address for greater than or equal to four years and a *short-tenure* group of individuals who had been living at their address for less than four years. The coefficients represent average treatment effects in the post-1994 period. Standard errors are clustered at the person level. See online Appendix Figures A2 and A3 that plot the full dynamics of these treatment effects.

address relative to the control group. In contrast, older, short-tenure individuals are estimated to have a weaker response to rent control. They are less likely to remain at their 1993 address relative to the control group.

To further explore the mechanism behind this result, we now investigate these effects based on the 1990–2000 price appreciation of their 1993 zip codes. Among older, long-tenure individuals, we find that the effects are always positive and strongest in those areas which experienced the most price appreciation between 1990 and 2000, as one might expect. For older, short-tenure households, however, the results are quite different. For this subgroup, the effects are actually *negative* in the areas which experienced the *highest* price appreciation. They are positive in the areas which experienced below-median price appreciation.[17]

This result suggests that landlords actively try to remove tenants in those areas where rent control affords the most benefits, i.e., high price appreciation areas. There are a few ways a landlord could accomplish this. First, landlords could try to legally evict their tenants by, for example, moving into the properties themselves, known as owner move-in eviction. Alternatively, landlords could evict tenants according to the provisions of the Ellis Act, which allows evictions when an owner wants to remove units from the rental market: for instance, in order to convert the units into condos or a tenancy in common.[18] Finally, landlords are legally allowed to negotiate with tenants over a monetary transfer convincing them to leave. In this way, tenants may "bring their rent control with them" in the form of a lump sum tenant buyout. Of

[17] A similar pattern holds for younger individuals as well, although the results are weaker.

[18] Asquith (2018) studies the use of Ellis Act evictions in the 2000s by landlords of rent-controlled properties in San Francisco.

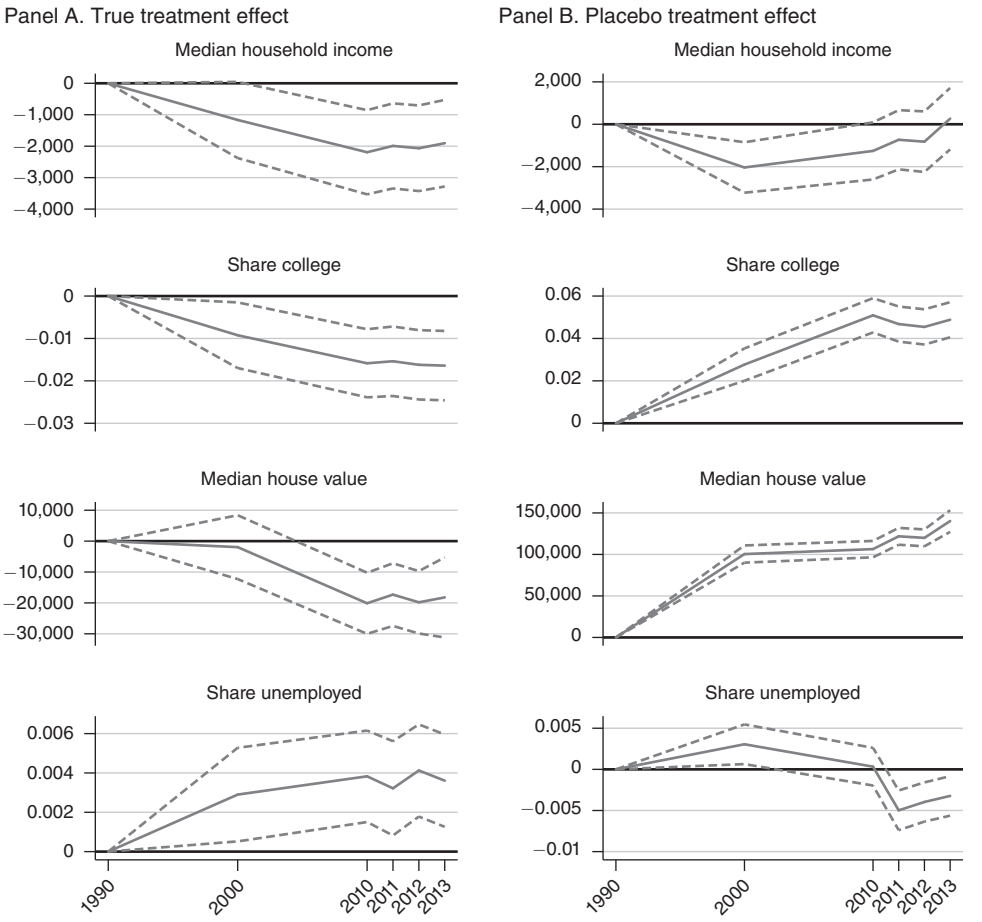

FIGURE 6. TREATMENT EFFECT ON NEIGHBORHOOD QUALITY FOR TENANTS OF MULTI-FAMILY RESIDENCE (2–4 UNITS)

Notes: Sample consists of all tenants between 20 and 65 years old living in San Francisco as of December 31, 1993 and in multi-family residences with 2–4 units that were built during 1900–1990. Median household income, share of residents with college education and above, median house value, and share of unemployed are measured in the census tract that an individual is living in a given year. The data sources are decennial censuses in 1990 and 2000, as well as 5-year pooled ACS for 2010 to 2013. Panel A plots the true treatment effects for various proxies of neighborhood quality. Panel B plots the placebo treatment effects where we assume those treated by rent control remain at their 1993 addresses, but allow the control group to migrate as seen in the data. The treatment effects along with 90 percent CI are plotted. Standard errors are clustered at the person level.

course, if landlords predominantly use evictions, tenants are not compensated for their loss of rent protection, weakening the insurance value of rent control.

Effects on Neighborhood Quality.—The results from the previous subsection help to rationalize some additional, final findings. In panel A of Figure 6, we examine the impact that rent control has on the types of neighborhoods in which tenants live. We find that those who received rent control ultimately live in census tracts with lower house prices, lower median incomes, lower college shares, and higher unemployment rates than the control group. As panel B shows, this is not a function of the areas in which treated individuals lived in 1993. In this figure, we fix

the location of those treated by rent control at their 1993 locations, but allow the control group to migrate as seen in the data. If rent-controlled renters were equally likely to remain in their 1993 apartments across all locations in San Francisco, we would see the sign of the treatment effects on each neighborhood characteristic to be the same as in the previous regression. Instead, we find strong evidence that the out-migration of rent-controlled tenants came from very selected neighborhoods. Had treated individuals remained in their 1993 addresses, they would have lived in census tracts which had significantly higher college shares, higher house prices, lower unemployment rates, and similar levels of household median income relative to the control group.

This evidence is consistent with the idea that landlords undertake efforts to remove their tenants or convince them to leave in improving, gentrifying areas. In addition, the rent control tenants are more likely to remain at their address within the less gentrifying areas, as we saw in the previous analysis in Table 6. These combined effects lead tenants treated by rent control to live in lower quality areas. Further, it highlights that rent control does not appear to be an effective means of providing tenants access to neighborhoods with better amenities. The better locales are where landlords have the most to gain from removing rent-controlled tenants and these landlords apparently work hard to make this happen. Having said that, our prior results did show that rent control helped tenants remain in San Francisco overall. Thus, while they are unable to live in the nicest parts of the city, it is possible that by being able to remain in San Francisco, they are able enjoy lower commute times or work at better jobs than they otherwise would have had they been displaced. These types of amenities cannot be observed in our data.

B. *Parcel and Landlord Effects*

The results above strongly suggest that while tenants value and take advantage of the protections offered by rent control, landlords actively take steps to reduce the burdens of the law, especially in those areas in which it would be most profitable to do. Motivated by these findings, in this section, we continue our analysis by studying and quantifying the landlord response more directly. To do so, we examine the impact of rent control on the properties themselves. In particular, we study how rent control affects the type of residents who live in the buildings, as well as how it impacts the investments that landlords choose to make in the properties. This analysis will enable us to understand the effects of rent control on long-term rental housing supply. Such changes in housing supply will ultimately impact equilibrium market rents and thus housing affordability for future renters.

Summary statistics for our key outcomes are in panel B of Table 1. This table shows that treatment and control properties are balanced in the pre-period in terms of total residents and number of renter residents. We see 1.2 percentage points more owners in the control group and 1.6 percentage points more construction/renovation permits. These small differences reflect that fact that the control buildings are slightly newer.

We run a specification similar to (1):

$$Y_{kzt} = \delta_{zt} + \lambda_k + \beta_t T_k + \epsilon_{kt}, \tag{2}$$

where k now denotes the individual parcel and λ_k represent parcel fixed effects. The variable T_k denotes treatment, equal to one if, on December 31, 1993, the parcel is a multi-family building with less than or equal to four units built between the years 1900 and 1979. The δ_{zt} variables once again reflect zip-code-by-year fixed effects. Our outcome variables Y_{kzt} now include the number of renters and owners living in the building, the number of renovation permits associated with the building, and whether the building is ever converted to a condo or TIC. The permits we look at specifically are addition/alteration permits, taken out when major work is done to a property.

We begin by plotting in panel A of Figure 7 the effects of rent control on the number of individuals living at a given parcel, calculated as a percentage of the average number of individuals living at that parcel between the years 1990–1994. We estimate a decline of approximately 6.4 percent over the long run, although this effect is not statistically significant.

We next decompose this effect into the impact on the number of renters and the number of owners living at the treated buildings. As shown in panel B, we find that there is a significant decline in the number of renters living at a parcel, equal to 14.5 percent in the late 2000s, relative to the 1990–1994 level. Panel C shows that the decline in renters was counterbalanced by an increase of 8.1 percent in the number of owners in the late 2000s. This is our first evidence suggestive of the idea that landlords redeveloped or converted their properties so as to exempt them from the new rent control regulations.

We now look more closely at the decline in renters. In panel A of Figure 8, we see that there is an eventual decline of 24.6 percent in the number of renters living in rent-controlled apartments, relative to the 1990–1994 average.[19] This decline is significantly larger than the overall decline in renters. This is because a number of buildings which were subject to rent control status in 1994 were redeveloped in such way so as to no longer be subject to it. These redevelopment activities include tearing down the existing structure and putting up new single family, condominium, or multi-family housing or simply converting the existing structure to condos. These redeveloped buildings replaced 7.2 percent of the initial rental housing stock treated by rent control, as shown in panel B of Figure 8.

To further investigate this mechanism, we check directly whether a multi-family property which fell under the rent control regulations in 1994 is more likely to have converted to condominium housing or a tenancy in common, relative to a multi-family property which did become subject to rent control. In panel C of Figure 8, we show that treated buildings are 8 percentage points likely to convert to condo or TIC in response to the rent control law. This represents a significant loss in the supply of rent-controlled housing.

As a final test of whether landlords actively respond to the imposition of rent control, we examine whether the landlords of rent-controlled properties disproportionately take out addition/alteration (i.e., renovation) permits. We find this to strongly be the case, with treated buildings receiving 4.6 percent more addition/alteration permits per unit as shown in panel D of Figure 8. Of course, conversions

[19] Note here that we mean relative to the number of individuals who lived at parcels which received rent control status due to the 1994 law change.

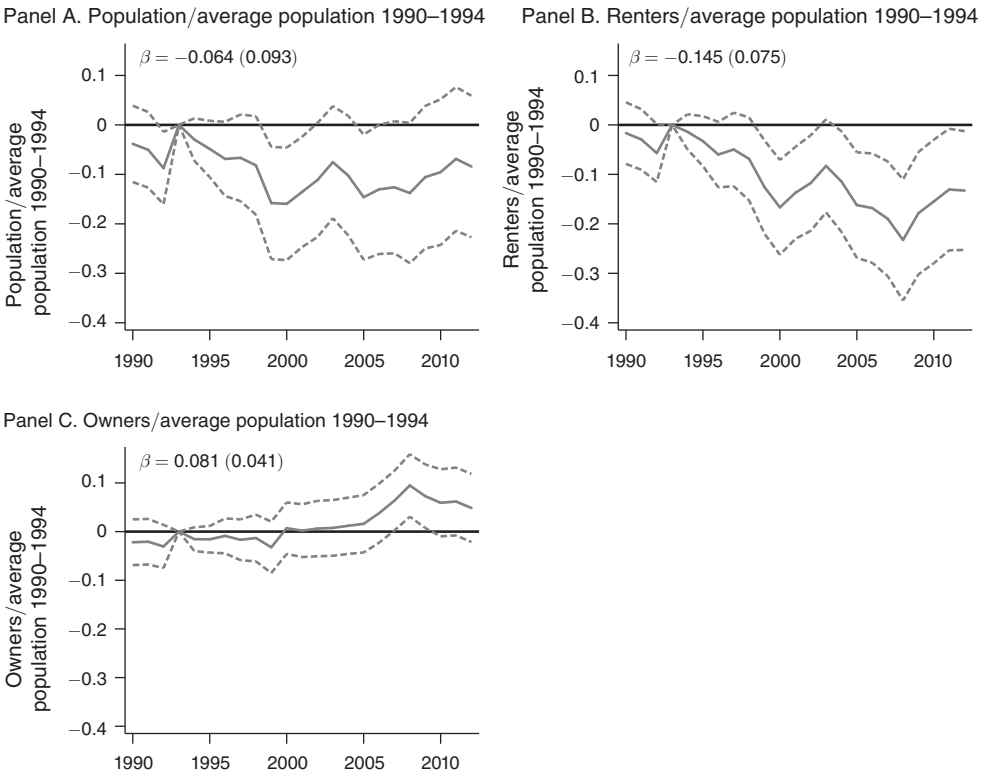

FIGURE 7. TREATMENT EFFECT FOR MULTI-FAMILY RESIDENCE (2–4 UNITS)

Notes: Sample consists of all multi-family residences with 2–4 units in San Francisco that were built during 1900–1990. The treatment effects along with 90 percent CI are plotted. Standard errors are clustered at the parcel level. The average treatment effects in the post-2006 period and their standard errors are reported in the upper-left corner.

of multi-family housing to condos undoubtedly require significant alteration to the structural properties of the building and thus would require such a permit to be taken out. These results are thus consistent with our results regarding condo conversion.

Treatment Effect Heterogeneity.—We now explore the heterogeneity in these effects between high and low house price appreciation zip codes. This analysis is motivated by our previous tenant regressions in which we found that landlords of rent-controlled buildings appear to have actively removed tenants in high appreciation zip codes. Here, we investigate whether landlords of rent-controlled apartments also disproportionately converted to condo or redeveloped buildings in high appreciation areas. Table 7 reports the average treatment effects within high and low appreciation zip codes. We find a 21 percent decline in the renter population and a 12 percent increase in the owner population within the high appreciation zip codes, versus a 11 percent renter decline and 6 percent owner increase in low appreciation areas. Further, we find condo conversions increase by 10 percent in high appreciation zip codes versus 5.8 percent in low appreciation areas. The conversion to owner-occupied housing may be especially lucrative in these high appreciation zip

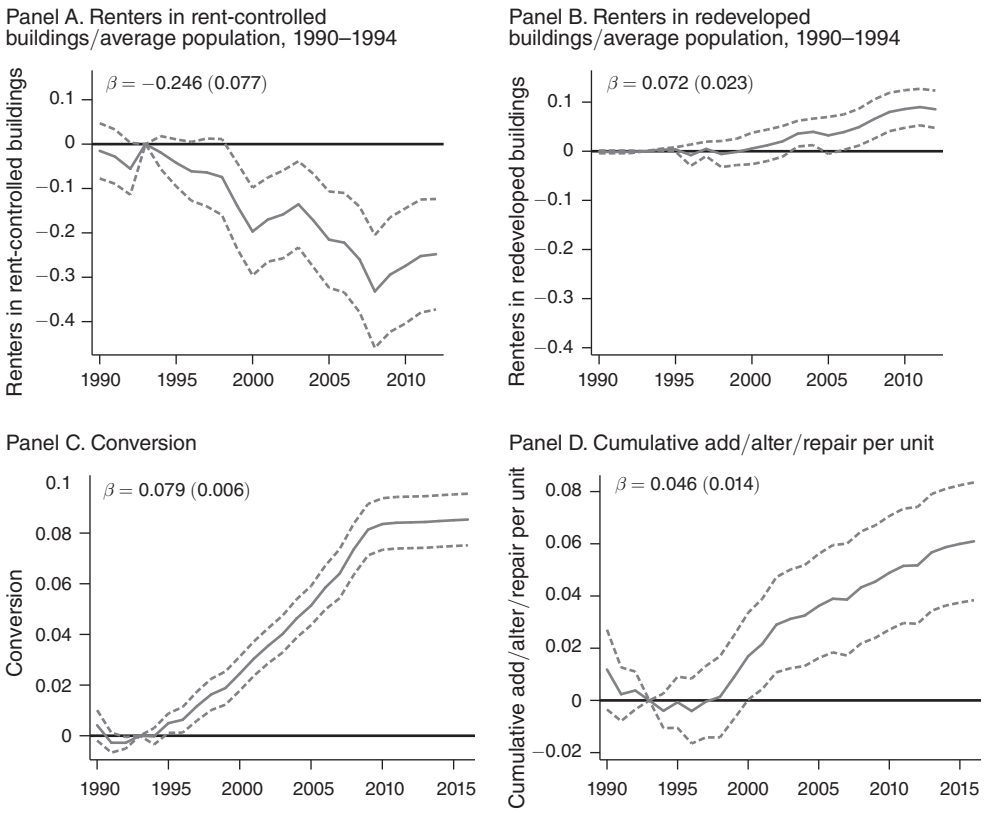

FIGURE 8. TREATMENT EFFECT FOR MULTI-FAMILY RESIDENCE (2–4 UNITS)

Notes: Sample consists of all multi-family residences with 2–4 units in San Francisco that were built during 1900–1990. The treatment effects along with 90 percent CI are plotted. Standard errors are clustered at the parcel level. The average treatment effects in the post-2006 period and their standard errors are reported in the upper-left corner.

codes as they likely have higher income residents. In contrast, we find a larger effect (9.3 percent versus 3.2 percent) of properties being knocked down and rebuilt in low appreciation areas than high priced areas. This effect is possibly driven by land use regulations making it very hard to build new construction in high-end areas of San Francisco.[20] Overall, these effects reaffirm that the landlords remove rental housing stock in those areas where it is most profitable to do so.

Gentrification Effects.—The previous section shows that rent control incentivized landlords to substitute away from an older rental housing stock toward new construction rentals and owner-occupied condos. Combining our estimates of rent control's effect on the number of owner occupants (8.1 percent) and renters living in rent control exempt housing (7.2 percent) suggests that 15.3 percent of the treated properties engaged in renovations to evade rent control. Since these types of

[20] Most new construction in San Francisco has occurred in neighborhoods that historically were dominated by industry and warehouses.

Table 7—Treatment Effect Heterogeneity for Multi-Family Parcels by House Price Appreciation

	High appreciation (1)	Low appreciation (2)
Population/average population 1990–1994	−0.092	−0.050
	(0.176)	(0.108)
Renters/average population 1990–1994	−0.207	−0.112
	(0.144)	(0.085)
Renters in rent-controlled buildings/average population 1990–1994	−0.284	−0.225
	(0.148)	(0.088)
Renters in redeveloped buildings/average population 1990–1994	0.032	0.093
	(0.058)	(0.016)
Owners/average population 1990–1994	0.116	0.063
	(0.066)	(0.052)
Conversion	0.100	0.058
	(0.011)	(0.006)
Cumulative Add/alter/repair per unit	0.016	0.061
	(0.03)	(0.015)

Notes: Sample consists of all multi-family residences with 2–4 units in San Francisco that were built during 1900–1990. We divide tenants into two groups by whether their 1993 zip code experienced above- or below-median house price appreciation during 1990–2000. Columns 1 and 2 report the average treatment effects for various parcel level outcomes in the post-2006 period for residences in the high and low appreciation areas, respectively. Standard errors in parentheses are clustered at the parcel level.

renovations create housing that likely caters to high income tastes, rent control may have fueled the gentrification of San Francisco. To assess this, we compare the 2015 residents living in properties treated by rent control to those living in the control buildings in 2015. While we do not have data directly on the income levels of the 2015 residents of these properties, we can use the historical neighborhood choices of these tenants as a proxy for their income. Intuitively, if residents of treated buildings used to live in high-end neighborhoods, while residents of control buildings used to live in low-end neighborhoods, we can infer that the residents of treated buildings are likely to be higher income. Specifically, we take all residents in the treatment and control buildings as of 2015. We then look at their addresses as of 2010, five years prior. We geocode these 2010 addresses to census block groups and measure the block group per capita income of their 2010 address, from the ACS.

We find that properties treated by rent control have tenants who came from neighborhoods with $1,292 higher per capita incomes (standard error of 522), representing a 2.8 percent increase, relative to residents of control group buildings located in the same zip code.[21] This 2.8 percent increase represents the average income increase across *all* properties treated by rent control. Since only 15.3 percent of these properties upgraded their housing stock, we would expect these high income residents to only be drawn into this 15.3 percent. Indeed, the other 85 percent of the treated housing stock that did not renovate may have lower income residents due to the direct effect of rent control on tenant mobility. To construct a lower bound estimate of the effect of rent control on gentrification, we will assume that residents of

[21] The full regression details are reported in online Appendix Table A3.

the non-renovated housing stock have incomes similar to that of the control group. Under this assumption, our estimate of a 2.8 percent increase in residents' incomes suggests that the renovated buildings attracted residents with *at least* 18 percent $(2.8/0.153)$ higher incomes than residents of control group buildings in the same zip code. In this way, rent control appears to have brought higher income residents into San Francisco, fueling gentrification.

C. *Impacts on Inequality*

Taking our results all together, it appears rent control has substantively different impacts on income inequality in the short versus long run. In the short run, rent control prevents displacement of the initial 1994 tenants from San Francisco, especially among racial minorities. To the extent that these 1994 tenants are of lower income than those moving into San Francisco over the following years, rent control increases income inequality. However, this short-term effect decays over time. Eight years after the law change, 4.5 percent of the tenants treated by rent control were able to remain in San Francisco because of rent control. However, five years later, this effect had decayed to 3.7 percent, and will likely continue to decline in the future.

In the long run, on the other hand, landlords are able to respond to the rent control policy change by substituting toward types of housing exempt from rent control price caps, upgrading the housing stock, and lowering the supply of rent-controlled housing. Indeed, the prior section showed that as of 2015, the average property treated by rent control has *higher income* residents than similar market rate properties. The long-term landlord response thus offsets rent control's initial effect of keeping lower income tenants in the city by replacing them with residents of above-average income. In this way, rent control works to increase income inequality in both the short run and in the long run, but through different means. Rent control's short-term effects increases the left tail of the income distribution, while the long-term effects increase the right tail.

In addition to widening income inequality, rent control has unequal effects on tenants living in San Francisco at the time of the law change and future tenants of the city. Incumbent tenants already living in San Francisco who get access to rent control as part of the law change are clearly made better off as indicated by their preference to remain in their rent-controlled apartment. However, this comes at the expense of future renters in San Francisco, who must bear higher rents due to the endogenous reductions in rental supply. In this way, the law served as a transfer from future renters in the city to renters in 1994, creating economic well-being inequality between incumbent and future renters of San Francisco. Our companion paper (Diamond, McQuade, and Qian 2018) performs a fully quantitative analysis of these welfare gains and losses through the lens of a dynamic discrete choice model of tenant migration and performs general equilibrium counterfactual analyses.

Since incumbent renters are made better off, it is not surprising that popular votes to expand rent control often pass in cities with high renter populations. The beneficiaries are the ones who are able to vote, while future renters who pay the costs of rent control do not get a say in these elections. Local popular votes thus appear to be an inefficient way to set rent control policies.

IV. Conclusion

In this paper, we have studied the impact of rent control on its tenant beneficiaries as well as the landlord response. To answer this question, we exploit a unique rent control expansion in San Francisco in 1994 that suddenly provided rent control protections for small multi-family housing built prior to 1980. By combining new panel microdata on individual migration decisions with detailed assessor data on individual parcels in San Francisco, we get quasi-experimental variation in the assignment of rent control at both the individual tenant level and at the parcel level.

We find that, on average, in the medium to long term the beneficiaries of rent control are between 10 and 20 percent more likely to remain at their 1994 address relative to the control group and, moreover, are more likely to remain in San Francisco. Further, we find the effects of rent control on tenants are stronger for racial minorities, suggesting rent control helped prevent minority displacement from San Francisco. All our estimated effects are significantly stronger among older households and among households that have already spent a number of years at their current address. On the other hand, individuals in areas with quickly rising house prices and with few years at their 1994 address are less likely to remain at their current address, consistent with the idea that landlords try to remove tenants when the reward is high, through either eviction or negotiated payments.

We find that landlords actively respond to the imposition of rent control by converting their properties to condos and TICs or by redeveloping the building in such as a way as to exempt it from the regulations. In sum, we find that impacted landlords reduced the supply of available rental housing by 15 percent. Further, we find that there was a 25 percent decline in the number of renters living in units protected by rent control, as many buildings were converted to new construction or condos that are exempt from rent control.

This reduction in rental supply likely increased rents in the long run, leading to a transfer between future San Francisco renters and renters living in San Francisco in 1994. In addition, the conversion of existing rental properties to higher-end, owner-occupied condominium housing ultimately led to a housing stock increasingly directed toward higher income individuals. In this way, rent control contributed to the gentrification of San Francisco, contrary to the stated policy goal. Rent control appears to have increased income inequality in the city by both limiting displacement of minorities and attracting higher income residents.

These results highlight that forcing landlords to provide insurance against rent increases can ultimately be counterproductive. If society desires to provide social insurance against rent increases, it may be less distortionary to offer this subsidy in the form of government subsidies or tax credits. This would remove landlords' incentives to decrease the housing supply and could provide households with the insurance they desire. A point of future research would be to design an optimal social insurance program to insure renters against large rent increases.

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BROOKINGS

Report

What does economic evidence tell us about the effects of rent control?

Rebecca Diamond Thursday, October 18, 2018

Steadily rising housing rents in many of the US's large, productive cities have reignited the discussion whether to expand or enact rent control provisions. Under pressure to fight rising rents, state lawmakers in Illinois, Oregon, and California are considering repealing laws that limit cities' abilities to pass or expand rent control. While rules and regulations of rent control vary from place to place, most rent control consists of caps on price increases within the duration of a tenancy, and sometimes beyond the duration of a tenancy, as well as restrictions on eviction.

New research examining how rent control affects tenants and housing markets offers insight into how rent control affects markets. While rent control appears to help current tenants in the short run, in the long run it decreases affordability, fuels gentrification, and creates negative spillovers on the surrounding neighborhood.

A substantial body of economic research has used theoretical arguments to highlight the potential negative efficiency consequences to keeping rents below market rates, going back to Friedman and Stigler (1946). They argued that a cap on rents would lead landlords to sell their rental properties to owner occupants so that landlords could still earn the market price for their real estate. Rent control can also lead to "mis-match" between tenants and rental units. Once a tenant has secured a rent-controlled apartment, he may not choose to move in the future and give up his rent control, even if his housing needs change (Suen 1980, Glaeser and Luttmer 2003, Sims 2011, Bulow and Klemperer 2012). This mis-allocation can lead to empty-nest households living in family-sized apartments and young families crammed into small studios, clearly an inefficient allocation. Similarly, if rental rates are below market rates, renters may choose to consume excessive quantities

of housing (Olsen 1972, Gyourko and Linneman 1989). Rent control can also lead to decay of the rental housing stock; landlords may not invest in maintenance because they can't recoup these investment by raising rents. (Downs 1988, Sims 2007).

Of course, rent control also offered potential benefits for tenants. For example, rent control provides insurance against rent increases, potentially limiting displacement. Affordable housing advocates argue that these insurance benefits are valuable to tenants. For instance, if long-term tenants have developed neighborhood-specific capital, such as a network of friends and family, proximity to a job, or children enrolled in local schools, then tenants face large risks from rent appreciation. In contrast, individuals who have little connection to any specific area can easily insure themselves against local rental price appreciation by moving to a cheaper location. Those invested in the local community are not able to use this type of "self-insurance" as easily, since they must give up some or all of their neighborhood specific capital. Rent control can provide these tenants with this type of insurance.

Until recently, there was little data or natural experiments with which to assess the importance of these competing arguments, and to assess how rent controls affects tenants, landlords, or the broader housing market. But newly-available housing-market data spanning periods of dramatic change in rent control laws in Cambridge, MA and in San Francisco, CA have allowed economists to examine these questions empirically. While these studies do find support for the idea that existing tenants benefit from the insurance provided by rent control, they also find the overall cost of providing that insurance is very large.

From December 1970 through 1994, all rental units in Cambridge built prior to 1969 were regulated by a rent control ordinance that placed strict caps on rent increases and tightly restricted the removal of units from the rental stock. The legislative intent of the rent control ordinance was to provide affordable rental housing, and at the eve of rent control's elimination in 1994, controlled units typically rented at 40-plus percent below the price of nearby non-controlled properties. In November 1994, the Massachusetts electorate passed a referendum to eliminate rent control by a narrow 51–49 percent margin, with nearly 60

percent of Cambridge residents voting to retain the rent control ordinance. This law change directly impacted properties previously subject to rent control, enabling landlords to begin to charge market rents.

Autor, Palmer, and Pathak (2014) (APP), studies the impact of this unexpected change and find that newly decontrolled properties' market values increased by 45 percent. In addition to these direct effects of rent decontrol, APP find removing rent control has substantial indirect effects on neighboring properties, boosting their values too. Post-decontrol price appreciation was significantly greater at properties that had a larger fraction of formerly controlled neighbors: residential properties at the 75th percentile of rent control exposure gained approximately 13 percent more in property value following decontrol than did properties at the 25th percentile of exposure. This differential appreciation of properties in rent control–intensive locations was equally pronounced among decontrolled and never-controlled units, suggesting that the effect of rent control had been to reduce the whole neighborhood's desirability.

The economic magnitude of the effect of rent control removal on the value of Cambridge's housing stock is large, boosting property values by $2.0 billion between 1994 and 2004. Of this total effect, only $300 million is accounted for by the direct effect of decontrol on formerly controlled units, while $1.7 billion is due to the indirect effect. These estimates imply that more than half of the capitalized cost of rent control was borne by owners of never-controlled properties. Rent controlled properties create substantial negative externalities on the nearby housing market, lowering the amenity value of these neighborhoods and making them less desirable places to live. In short, the policy imposed $2.0 billion in costs to local property owners, but only $300 million of that cost was transferred to renters in rent-controlled apartments.

Diamond, McQuade, and Qian (2018) (DMQ) examine the consequences of an expansion of rent control on renters, landlords, and the housing market that resulted from a unique 1994 local San Francisco ballot initiative. In 1979, San Francisco imposed rent control on all standing buildings with five or more apartments. Rent control in San Francisco consists of regulated rent increases, linked to the CPI, within a tenancy, but no price regulation between tenants. New construction was exempt from rent control, since legislators did not

want to discourage new development. Smaller multi-family buildings were exempt from this 1979 law change since they were viewed as more “mom and pop” ventures, and did not have market power over rents.

This exemption was lifted by a 1994 San Francisco ballot initiative. Proponents of the initiative argued that small multi-family housing was now primarily owned by large businesses and should face the same rent control of large multi-family housing. Since the initial 1979 rent control law only impacted properties built from 1979 and earlier, the removal of the small multi-family exemption also only affected properties built 1979 and earlier. This led to a differential expansion in rent control in 1994 based on whether the small multi-family housing was built prior to or post 1980—a policy experiment where otherwise similar housing was treated differently by the law.

To examine rent control’s effects on tenant migration and neighborhood choices, DMQ examine panel data that provides address-level migration decisions and housing characteristics for the majority of adults living in San Francisco in the early 1990s. This allows them to define a treatment group of renters who lived in small multi-family apartment buildings built prior to 1980 and a control group of renters living in small multi-family housing built between 1980 and 1990. Their data allows them to follow each of these groups over time up until the present, regardless of where they migrate.

Between five and ten years after the law change, the beneficiaries of rent control are 19 percent less likely to have moved to a new address, relative to the control group’s migration rate. Further, impact on the likelihood of remaining in San Francisco as whole was the same, indicating a large share of the renters that rent control caused to remain at their 1994 address would have left San Francisco had they not been covered by rent control.

These effects are significantly stronger among older households and among households that have already spent a number of years at their address prior to treatment. This is consistent with the fact that both of these populations are likely to be less mobile. Renters who don’t need to move very often are more likely to find it worthwhile to remain in their

rent controlled apartment for a long time, enabling them to accrue larger rent savings. Finally, DMQ find these effects are especially large for racial minorities, likely indicating that minorities faced greater displacement pressures in San Francisco than whites.

While expansion of rent control did prevent some displacement among tenants living in San Francisco in 1994, the landlords of these properties responded to mitigate their rental losses in a number of ways. In practice, landlords have a few possible ways of removing tenants. First, landlords could move into the property themselves, known as move-in eviction. Second, the Ellis Act allows landlords to evict tenants if they intend to remove the property from the rental market, for instance, in order to convert the units to condos. Finally, landlords are legally allowed to offer their tenants monetary compensation for leaving. In practice, these transfer payments from landlords are common and can be quite large.

DMQ find that rent-controlled buildings were 8 percentage points more likely to convert to a condo than buildings in the control group. Consistent with these findings, they find that rent control led to a 15 percentage point decline in the number of renters living in treated buildings and a 25 percentage point reduction in the number of renters living in rent-controlled units, relative to 1994 levels. This large reduction in rental housing supply was driven by converting existing structures to owner-occupied condominium housing and by replacing existing structures with new construction.

This 15 percentage point reduction in the rental supply of small multi-family housing likely led to rent increases in the long-run, consistent with standard economic theory. In this sense, rent control operated as a transfer between the future renters of San Francisco (who would pay these higher rents due to lower supply) to the renters living in San Francisco in 1994 (who benefited directly from lower rents). Furthermore, since many of the existing rental properties were converted to higher-end, owner-occupied condominium housing and new construction rentals, the passage of rent control ultimately led to a housing stock that caters to higher income individuals. DMQ find that this high-end housing, developed in response to rent control, attracted residents with at least 18 percent higher income. Taking all of these points together, it appears rent control has actually contributed to the gentrification of San Francisco, the exact opposite of the

policy's intended goal. Indeed, by simultaneously bringing in higher income residents and preventing displacement of minorities, rent control has contributed to widening income inequality of the city.

It may seem surprising that the expansion of rent control in San Francisco led to an upgraded housing stock, catering to high-income tastes, while the removal of rent control in Cambridge also lead to upgrading and value appreciation. To reconcile these effects, it is useful to think about which types of landlords would respond to a rent control expansion versus a rent control removal. In the case of rent control expansion, some landlords will choose to recoup some of their losses by converting to condo or redeveloping their building to exempt it from rent control. However, other landlords may choose to accept the rent control regulation, and no longer perform maintenance on the building and allow it to decay. In the rent control expansion case, one would see an increase in condo conversions and upgrades, driven by the landlords that chose to respond in this way. However, when rent control is removed, the landlords who own the rent controlled buildings are the ones who didn't choose to convert to condo or redevelop in response to the initial passage of rent control. Indeed, one would expect this subset of landlords to choose to upgrade and invest in their properties once the rent control regulation is removed.

Rent control appears to help affordability in the short run for current tenants, but in the long-run decreases affordability, fuels gentrification, and creates negative externalities on the surrounding neighborhood. These results highlight that forcing landlords to provide insurance to tenants against rent increases can ultimately be counterproductive. If society desires to provide social insurance against rent increases, it may be less distortionary to offer this subsidy in the form of a government subsidy or tax credit. This would remove landlords' incentives to decrease the housing supply and could provide households with the insurance they desire. A point of future research would be to design an optimal social insurance program to insure renters against large rent increases.

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From: Andrew Calkins <AndrewC@kcha.org>
Sent: Thursday, July 21, 2022 5:30 PM
To: James Lopez <JLopez@kirklandwa.gov>
Subject: Tenant Protections & Subsidized Housing References

Hi Jim –

I hope this message finds you well. We have not had the opportunity to connect previously but I wanted to reach out and offer to connect on the "subsidized housing" references in the tenant protections ordinances that Kirkland is considering and that I understand you are leading. There has been some confusion about what type of housing this applies to and I want to share some of the context and background should any questions arise.

KCHA generally supports strong tenant protections that promote housing stability, but it is important to recognize the interplay with subsidized housing regulations. The shorter notice for subsidized housing in the draft ordinance applies to only a unique subset of affordable housing units. The draft ARCH ordinance refers to "subsidized housing where the amount of rent is based on the income of the tenant." As such, this housing would need to meet the "subsidized housing" definition in the ordinance *and* have a rent structure that bases the rent amount on the unique income of the tenant. This generally limits the exclusion to a small universe of federally-funded housing programs where a tenant's rent is set based on approximately 30% of the tenant's income. The Federal Low-Income Public Housing and Project-Based Programs fall into this category.

These HUD programs allow for rents to change as incomes do, meaning that if a resident's income decreases, rents will be adjusted downward. Likewise, increases in incomes mean that rents may rise to ensure residents pay approximately 30% of their income on rent and utilities. The 30-day notice language for subsidized housing is not meant to apply to other types of affordable housing where rents are not specific to household incomes and where there is not a federal rental subsidy attached. These other types of housing models may have income limits to qualify, but rents do not scale up and down to account for household income changes.

There are three reasons why it is important for the 30-day rent increase notice requirement for subsidized housing to remain in the ordinance:

1) *KCHA's Low-Income Public Housing Programs are one of the few programs that actually lower rents when incomes change***.** These income-based federal programs are meant to ensure a tenant always pays approximately 30% of their income on rent and utilities. Rents regularly average $400 per month. Since rent increases only respond to a resident's changing incomes, they will not have the effect of displacing tenants.

2) *Adding a lengthy notice requirement for this type of housing is not operationally feasible***.** Tenant incomes are regularly recertified, and we sometimes begin this recertification processes up to 120 days before the effective date of any change. Adding an additional 120 day notice requirement could result in a recertification process lasting 6 to 9 months. Layering on this

additional notice to existing HUD guidelines that require regularly income and rent adjustments is problematic for reasons further described below.

3) *The incomes of low-income households frequently change (as do rents).* As such, a 6 to 9 month certification process provides too much time for household circumstances to change. Longer notice periods do not fit within the program model and could result in less rental revenue to operate the property with no corresponding increase from HUD. It would raise compliance questions that ultimately limit the effectiveness of these programs.

The State of Washington and the Cities of Kenmore, Seattle, Auburn, Tacoma, and now Redmond, have all recognized the unique nature of this valuable federal housing resource and included similar language around 30 day notices in their statutes. This ensures these federal rental assistance programs may continue to operate efficiently while at the same time providing clarity for tenants.

Whichever direction Kirkland decides to go on the notice requirement, I hope that the language will continue to recognize this distinction. If you have any questions, I would be happy to connect over the phone next week.

Thank you for your consideration.

Best,

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King County Housing Authority
We transform lives through housing

Introduced: 7/19/22
Adopted: 7/19/22

CODE

CITY OF REDMOND
ORDINANCE NO. 3091AM

AN ORDINANCE OF THE CITY OF REDMOND, WASHINGTON, CREATING A NEW CHAPTER 9.54 OF THE REDMOND MUNICIPAL CODE TO ADOPT TENANT PROTECTIONS INCREASING NOTICE FOR RENT INCREASES, CAPPING LATE FEES, CAPPING MOVE-IN FEES AND DEPOSITS, AUTHORIZING TENANT PAYMENT PLANS, AND ALLOWING LANDLORDS TO REQUEST BUT NOT REQUIRE SOCIAL SECURITY NUMBERS; PROVIDING FOR SEVERABILITY; AND ESTABLISHING AN EFFECTIVE DATE

WHEREAS, over the past several years rents in East King County have increased, and vacancies for affordable rental housing are at low levels, making it difficult for tenants, especially those with low incomes, to locate affordable rental housing; and

WHEREAS, the King County Regional Affordable Housing Task Force issued its *Final Report and Recommendations for King County*, December 2018 (rev. March 2019) ("*Affordable Housing Task Force Final Report*"), which identifies that renting rather than owning a home increases the chances of being severely cost burdened,[1] and recognizes an existing affordable housing crisis in King County;[2] and

[1] King County Regional Affordable Housing Task Force, *Final Report and Recommendations for King County*, December 2018 (rev. March 2019) at 15.
[2] *Id.* at 7.

WHEREAS, renters occupy approximately 50 percent of the housing units located in Redmond and almost 14 percent of those renters are cost burdened or severely cost burdened; and

WHEREAS, the *Affordable Housing Task Force Final Report* includes a regional plan with goals, strategies and a five-year action plan to address the affordable housing crisis, and Goal 4 of the action plan is to "[p]reserve access to affordable homes for renters by supporting tenant protections to increase housing stability and reduce risk of homelessness";[3] and

WHEREAS, A Regional Coalition for Housing (ARCH) was created by interlocal agreement to help coordinate the efforts of Eastside cities to provide affordable housing; and

WHEREAS, the ARCH Interlocal Agreement (ILA) establishes a common purpose among ARCH members of acting cooperatively to formulate affordable housing goals and policies; and

WHEREAS, recent Census data estimated that 25,870 renter households in ARCH member jurisdictions are cost-burdened, paying more than 30 percent of income toward housing costs, and 12,550 renter households are severely cost-burdened, paying more than 50 percent of income toward housing costs; and

WHEREAS, local rental assistance programs are finite and have exhausted or nearly exhausted available resources for renters, and such programs are often limited to tenants who have received eviction notices; and

[3] *Id.* at 8.

WHEREAS, residents of affordable rental housing created by ARCH member jurisdictions' policies and programs are subject to annual rent increases, based on changes in the area median income (AMI) as published by the Department of Housing and Urban Development (HUD); and

WHEREAS, residents of naturally occurring affordable housing that exists in Redmond are not protected by ARCH restrictive covenants governing annual rent increases and cost burden analysis; and

WHEREAS, the residents of ARCH monitored housing and naturally occurring affordable housing in Redmond will be subject to significant expected rent increases in 2022, which are anticipated to exacerbate cost burdens, and create economic displacement and other negative impacts; and

WHEREAS, the ARCH ILA establishes an Executive Board with responsibility for providing recommendations to ARCH member jurisdictions regarding local and regional affordable housing policies; and

WHEREAS, at its April 14, 2022, meeting, the ARCH Executive Board adopted Resolution 2022-01 providing for recommendations to ARCH members to adopt the following tenant protections: 1) increased notice of rent increases; 2) cap on late fees; and 3) cap on move in fees and deposits, and an allowance to pay in installments; and

WHEREAS, the City Council desires to create a new Chapter 9.54 of the Redmond Municipal Code to adopt the recommended tenant protections, and finds that such adoption is in the best interests of the residents of Redmond and will promote the public health, safety and welfare of the City; and

WHEREAS, this Ordinance is adopted pursuant to the City's police powers and regulatory authority derived from Wash. Const. art. XI, Section 11.

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF REDMOND, WASHINGTON DOES ORDAIN AS FOLLOWS:

Section 1. Findings. The City Council adopts the recitals set forth above as findings in support of this ordinance, which are incorporated by reference as if set forth in full.

Section 2. New Chapter 9.54 of Redmond Municipal Code. The City Council hereby creates Chapter 9.54 of the Redmond Municipal Code as set forth below.

Chapter 9.54
TENANT PROTECTIONS

Sections:

9.54.070 Provisions in violation of restrictions null and void; exemption.
9.54.080 Rental agreement that waives tenant's remedies prohibited - Exception.
9.54.090 Violation of chapter by landlord - liability.

9.54.010 Definitions.

The definitions of this section apply throughout this chapter unless the context clearly requires otherwise. The definitions of RCW 59.18.030 under the Residential Landlord-Tenant Act (RLTA) also apply to this chapter unless otherwise defined in this section.

A. "Dwelling" or "dwelling unit" has the same meaning as RCW 59.18.030(10), as may be amended. At the time of passage of the ordinance codified in this chapter, the RLTA defined "dwelling unit" to mean a structure or that part of a structure which is used as a home, residence, or sleeping place by one person or by two or more persons maintaining a common household, including but not limited to single-family residences and units of multiplexes, apartment buildings, and mobile homes.

B. "Landlord" has the same meaning as RCW 59.18.030(16), as may be amended, and excluding the living arrangements identified in RCW 59.18.040. At the time of passage of the ordinance codified in this chapter, the RLTA defined landlord as the owner, lessor, or sublessor of the dwelling unit or the property of which it is a part, and included any person designated as representative of the landlord, including, but

not limited to, an agent, a resident manager, or a designated property manager.

C. "Rental agreement" or "lease" has the same meaning as RCW 59.18.030(30), as may be amended. At the time of the passage of the ordinance codified in this chapter, the RLTA defined "rental agreement" as all agreements which establish or modify the terms, conditions, rules, regulations, or any other provisions concerning the use and occupancy of a dwelling unit.

D. "Subsidized housing" has the same meaning as RCW 59.18.030(33), as may be amended. At the time of the passage of the ordinance codified in this chapter, the RLTA defined "subsidized housing" as rental housing for very low-income or low-income households that is a dwelling unit operated directly by a public housing authority or its affiliate, or that is insured, financed, or assisted in whole or in part through one of the following sources: (a) A federal program or state housing program administered by the department of commerce or the Washington state housing finance commission; (b) A federal housing program administered by a city or county government; (c) An affordable housing levy authorized under RCW 84.52.105; or (d) The surcharges authorized in RCW 36.22.178 and 36.22.179 and any of the surcharges authorized in chapter 43.185C RCW.

E. "Tenant" has the same meaning as RCW 59.18.030(34), as may be amended, and excluding the living arrangements identified in RCW 59.18.040, and RCW 59.20.030(24), as may be amended. At the time of passage of the ordinance codified in this chapter, the RLTA defined "tenant" as any person who is entitled to occupy a dwelling unit primarily for living or dwelling purposes under a rental agreement, and RCW 59.20.030 defined "tenant" as any person, except a transient, who rents a mobile home lot.

9.54.020 Applicability.

Sections 9.54.030 through 9.54.090 apply to tenancies governed by Chapter 59.18 RCW (RLTA) and Chapter 59.20 RCW (Manufactured/Mobile Home Landlord-Tenant Act) and are in addition to the provisions provided in said chapters.

9.54.030 Notice of rent increase.

A. Any *rental agreement* or renewal of a *rental agreement* shall state the dollar amount of the rent or rent increase and include, or shall be deemed to include, a provision requiring not less than:

1. one hundred twenty (120) days' written notice for rent increases greater than three percent (3%); or

2. one hundred eighty (180) days' written notice for rent increases greater than ten percent (10%).

B. If the *rental agreement* governs *subsidized housing* where the amount of rent is based on the income of the *tenant* or circumstances specific to the subsidized household, the *landlord* shall provide a minimum of thirty (30) days' prior written notice of an increase in the amount of rent to each affected *tenant*.

9.54.040 Move in fees and security deposits - limits - exceptions - payments by tenants.

A. All move in fees and security deposits charged by a *landlord* before a *tenant* takes possession of a *dwelling unit* shall not exceed one month's rent, except in *subsidized housing* where the amount of rent is set based on the income of the tenant. The exception for *subsidized housing* shall not include tenancies regulated under Section 8 of the Housing Act of 1937, 42 U.S.C. Sec. 1437f, commonly known as the housing choice voucher program.

B. *Tenants* entering *rental agreements* with terms lasting six or more months may choose to pay their move-in fees and security deposits in six equal monthly installments over the first six months occupying the *dwelling unit*.

C. *Tenants* entering *rental agreements* with terms lasting fewer than six months or month-to-month *rental agreements*, may choose to pay move in fees and security deposits in two equal monthly installments over the first two months occupying the *dwelling unit*.

9.54.050 Late fees - limits.

Late fees and penalties due to nonpayment of rent charged to a *tenant* shall not exceed one and one-half percent (1.5%) of the *tenant's* monthly rent.

9.54.060 Late fees - specification of dates - notice - accommodation request not excuse for refusal to enter rental agreement.

Rental agreements shall include a provision stating that when late fees may be assessed after rent becomes due, the tenant may propose that the due date be altered to a different date of the month. Additionally, the provision shall specify that, according to RCW 59.18.170(3), a landlord shall agree to such a proposal if it is submitted in writing and the tenant can demonstrate that his or her primary source of income is a regular, monthly source of governmental assistance that is not received until after the date rent is due in the rental agreement. A landlord shall not refuse to enter into a rental agreement with a prospective tenant because the prospective tenant requests such accommodations.

9.54.065 Social security number by landlord not required but may be requested - tenant not agreeing to provide social security number not allowed for landlord's refusal - allowed information for screening - allowed landlord actions.

A landlord shall not require a social security number for the purposes of screening a prospective tenant, as allowed under RCW 59.18.257. A landlord may request a social security number and screen prospective tenants. A landlord shall not refuse to enter into a rental agreement with a prospective

tenant because the prospective tenant does not agree to provide a social security number. A landlord may utilize information including, but not limited to, previous names, addresses, personal references, and work history to screen prospective tenants. A landlord shall maintain the right to take adverse action because of inaccurate, unfavorable, or unavailable screening results.

9.54.070 Provisions in violation of restrictions null and void - Exemption.

A. Any provisions in violation of 9.54.030 through 9.54.065 in a *rental agreement* are null and void and of no lawful force and effect.

B. Nothing in this chapter shall be interpreted or applied so as to create any conflict with federal law. In the event of any conflict, federal requirements shall supersede the requirements of this chapter.

9.54.080 Rental agreement that waives tenant's remedies prohibited - Exception.

A. No *rental agreement*, whether oral or written, may provide that the *tenant* waives or foregoes rights or remedies under this chapter, except as provided by subsection B of this section.

B. A *landlord* and *tenant* may agree, in writing, to waive specific requirements of this chapter if all of the following conditions have been met:

1. The agreement to waive specific provisions is in writing and identifies the specific provisions to be waived; and

2. The agreement may not appear in a standard form written *lease* or *rental agreement*; and

3. There is no substantial inequality in the bargaining position of the two parties; and

4. The attorney for the *tenant* has approved in writing the agreement as complying with subsections B.1, B.2, and B.3 of this section.

9.54.090 Violation of chapter by landlord - liability.

A *landlord* found in violation of any of the provisions in this chapter, unless otherwise provided in this chapter, shall be liable to such a *tenant* in a private right of action for the greater of double the *tenant's* economic and noneconomic damages or three times the monthly rent of the *dwelling unit* at issue, and reasonable litigation costs and attorneys' fees.

Section 3. Severability. If any section, sentence, clause, or phrase of this ordinance should be held to be invalid or unconstitutional by a court of competent jurisdiction, such invalidity or unconstitutionality shall not affect the validity of any other section, sentence, clause, or phrase of this ordinance.

Section 4. Effective Date. This ordinance shall become effective five days after its publication, or publication of a

summary thereof, in the city's official newspaper, or as otherwise provided by law.

ADOPTED by the Redmond City Council this 19th day of July, 2022.

CITY OF REDMOND

ANGELA BIRNEY, MAYOR

ATTEST:

CHERYL XANTHOS, MMC, CITY CLERK (SEAL)

APPROVED AS TO FORM:

DocuSigned by:
James E. Haney
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JAMES HANEY, CITY ATTORNEY

FILED WITH THE CITY CLERK: July 5, 2022
PASSED BY THE CITY COUNCIL: July 19, 2022
SIGNED BY THE MAYOR: July 22, 2022
PUBLISHED: July 25, 2022
EFFECTIVE DATE: July 30, 2022
ORDINANCE NO. 3091AM

YES: ANDERSON, FIELDS, FORSYTHE, KHAN, KRITZER, STUART
NO: CARSON