

A New Real-Estate War in Silicon Valley

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Proposed rent controls have bitterly divided tenant-advocacy groups and landlords in the red-hot property market of Silicon Valley. Photo: David Pu'u/Getty Images

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Soaring apartment costs in Silicon Valley are fueling popular support for an idea bitterly opposed by many landlords in America's technology capital: rent controls.

Voters in five small and midsize cities in the Bay Area are set to decide Nov. 8 on whether to enact various forms of rent regulation that would keep rent increases for existing tenants pegged near the rate of inflation.

Tenant organizations, unions and church groups are knocking on thousands of doors in an effort to drum up support for measures designed to protect apartment dwellers from runaway rents.



New construction in Palo Alto, Calif. Critics say Silicon Valley has added too many jobs without enough new housing units. Photo: Brian Molyneaux for The Wall Street Journal

On the other side, landlords and real-state agents are pouring money into mailers and television ads in a vigorous effort to battle the initiatives.

“We’re taking it very seriously,” said Thomas Bannon, chief executive of the California Apartment Association, a landlords group. “We are engaged in some pretty aggressive campaigning to get the word out as to why rent control is not the answer.”

In all, the proposals’ opponents have raised more than \$1.8 million against the measures in the five cities, according to campaign finance records, largely from groups like the National Association of Realtors and an array of landlords including apartment giant [Equity Residential](#). That far outstrips the roughly \$200,000 reported raised by various groups supporting rent control.

Community organizers and unions won efforts this year to put measures on the ballot box in five municipalities scattered across Silicon Valley and near Oakland in the East Bay: Google Inc.’s home of Mountain View, Burlingame, San Mateo, Alameda and Richmond.

While the largest cities in the area, San Francisco and Oakland, have had such controls for decades, the fact that midsize suburbs now are pondering these market controls shows how the region is struggling to manage its rapid growth in prosperity.

Amid a six-year boom in employment by giants like [Apple Inc.](#) and [Facebook Inc.](#), cities like San Jose and East Palo Alto are feuding publicly with neighboring cities they say are adding too many jobs without enough housing. Others, like Palo Alto, are looking to halt or significantly slow growth of office space altogether.

At the root of the issue is that there isn't nearly enough housing for all the new jobs. Between 2008 and 2015, the four counties that make up the heart of the region added 400,000 jobs, while permits were issued for just 86,000 new housing units.

Rents for an average apartment in the San Jose region have jumped 37% in the past five years to more than \$2,700 a month, according to research firm Axiometrics. While the increases have slowed amid some supply growth, few predict rents will undergo a significant drop without an economic downturn.

Many service workers and teachers have had to move far away from their workplaces, a problem that landlords, tenants and policy makers all agree has no an easy answer.

Property Report

The measures call for rent increases on some or most rental apartments to be capped, generally to a few percentage points a year, for existing tenants. When tenants leave, rents could reset to market rates.

Proponents acknowledge the measures won't fix the situation, but argue they would help existing residents.

"There's a lot of support—people feel the pain very deeply," said Jennifer Martinez, executive director of Faith in Action Bay Area, a group pushing the rent-control ballot measure in San Mateo.

In response, the real-estate industry has mobilized landlords and agents to get involved, and they have begun to blanket neighborhoods with fliers and advertisements.

The industry's message: Rent controls won't bring down rents; they are inefficient and won't increase new supply, which is the only way to address demand.

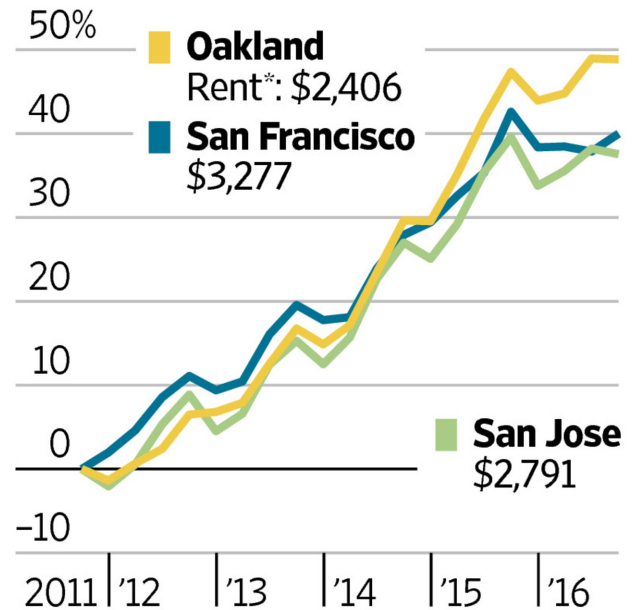
Mr. Bannon, of the California Apartment Association, acknowledged the group had an "uphill climb." He said polling indicated that people were inclined to support rent control until they understood more about the association's position, one reason it is investing so heavily in ads.

Rent regulations have been embraced at various times in U.S. cities, including during major housing crunches after both World Wars, and many large cities like New York and Washington still have far-reaching rent regulations today.

Economists widely criticize such laws because of inefficiencies they produce: Tenants generally get to keep their rents steady regardless of income, allowing some wealthy residents to get choice apartments for low rent as long as

Rent Check

The Bay Area has led the nation in rent increases in recent years.



*Average area rent, all apartments in 3Q
Source: Axiometrics

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they remain in them for years.

“It’s not necessarily helping those that need it most,” said Christopher Palmer, an economist at University of California Berkeley’s Haas School of Business, who has studied rent control. Property improvements and overall property values also tend to be held back by such regulations, he said.

Still, housing-policy makers in cities with low housing vacancy generally support the regulations as an imperfect fix because they give existing residents and neighborhoods a sense of stability and remove the fear of needing to move every time a lease comes up for renewal.

“For the people that end up in these apartments, their situation is going to be better going forward,” Mr. Palmer said.