

A
Study
of
Rent Increases
in
East Palo Alto
1978 - 1983

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CITY OF EAST PALO ALTO

Introduction

The Rent Legislation Task Force report presented to the East Palo Alto City Council on October 25th 1983 did not include findings on rent increases because the Task Force was not able to develop sufficient data within the time constraints given. However, at the request of the Council this information has now been put together from data which was not previously available in useful form.

A sample of classified ads for East Palo Alto rental housing appearing in the Peninsula Times Tribune from 1978 through 1983 was obtained. This data was sorted by housing type, size, location, and other relevant factors. The sorted data is presented in the four figures included in this report. Notes on methodology follow the figures.

The Data

Figure 1 compares rents asked for West side, unfurnished studio apartments to the consumer price index (CPI). Each large dot represents the average asking price during each respective quarter. The vertical line through each dot shows the range of rents listed in the newspaper for the same period. The data is not precise enough to warrant calculation of an exact estimate of the average annual rate of increase, so increase levels "in the neighborhood" of an estimate (16% and 17% are marked) have been noted as a reference. The CPI is indicated by the rising solid line.

East side apartments were excluded because there was too little data available. The data reviewed suggests that rents on the East side tend to run about \$50 lower for studios than rents on the West side.

Figure 2 uses the same format as the previous figure to present rent data on West side, unfurnished one bedroom apartments. Here again East side data is excluded. Units are about \$80 less.

Figure 3 shows asking rents for two bedroom houses. Because there are relatively few data points, all points are included; no averages or ranges are shown as they were in Figure 1 or Figure 2.

Figure 4 shows asking price for three bedroom houses using the same format as Figure 3.

Findings

Rates of increase for rental costs have fluctuated between zero and fifty percent depending on housing type, size, and year. Increases in some years appear to have been quite sharp such as those between 1978 and 1979, or between 1982 and 1983 for apartments, or during 1980 for houses. However, some years show little or no increase-- for apartments, late 1979 and 1981; for houses, 1981 and 1982.

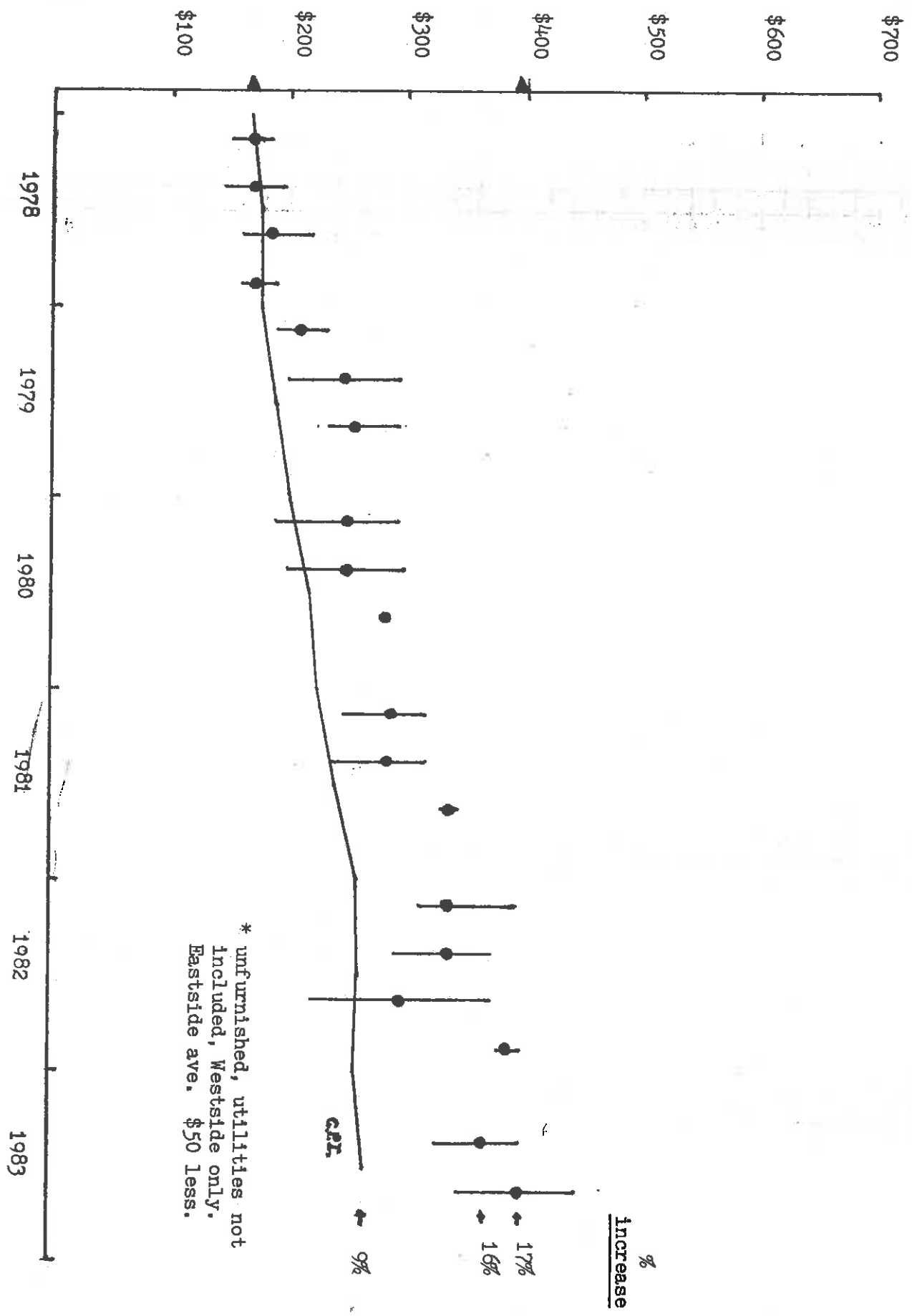
In general rents for all types and sizes of units studied have increases faster than the CPI on the average. The annualized rate of increase for apartments between 1978 and 1983 is between 14% and 17%, while the comparable CPI figure is only 9%. Thus, rents for apartments have risen 60% to 80% faster than the CPI.

The trend is the same for rents on houses, but sparse data makes estimation of an actual percentage more difficult. The rate was probably 13% to 14% for two bedroom houses and 10% to 11% for three bedroom houses.

It is interesting to note that apartments outpaced the CPI more significantly than did rents for houses. This would suggest either a greater demand for smaller units by those residents of the region in general, or a greater demand for units on the West side than for units on the East side by residents of the region since most of the houses rented are on the East side.

Figure 1

RENT vs. CONSUMER PRICE INDEX: STUDIO APARTMENTS *
East Palo Alto 1978 - 1983

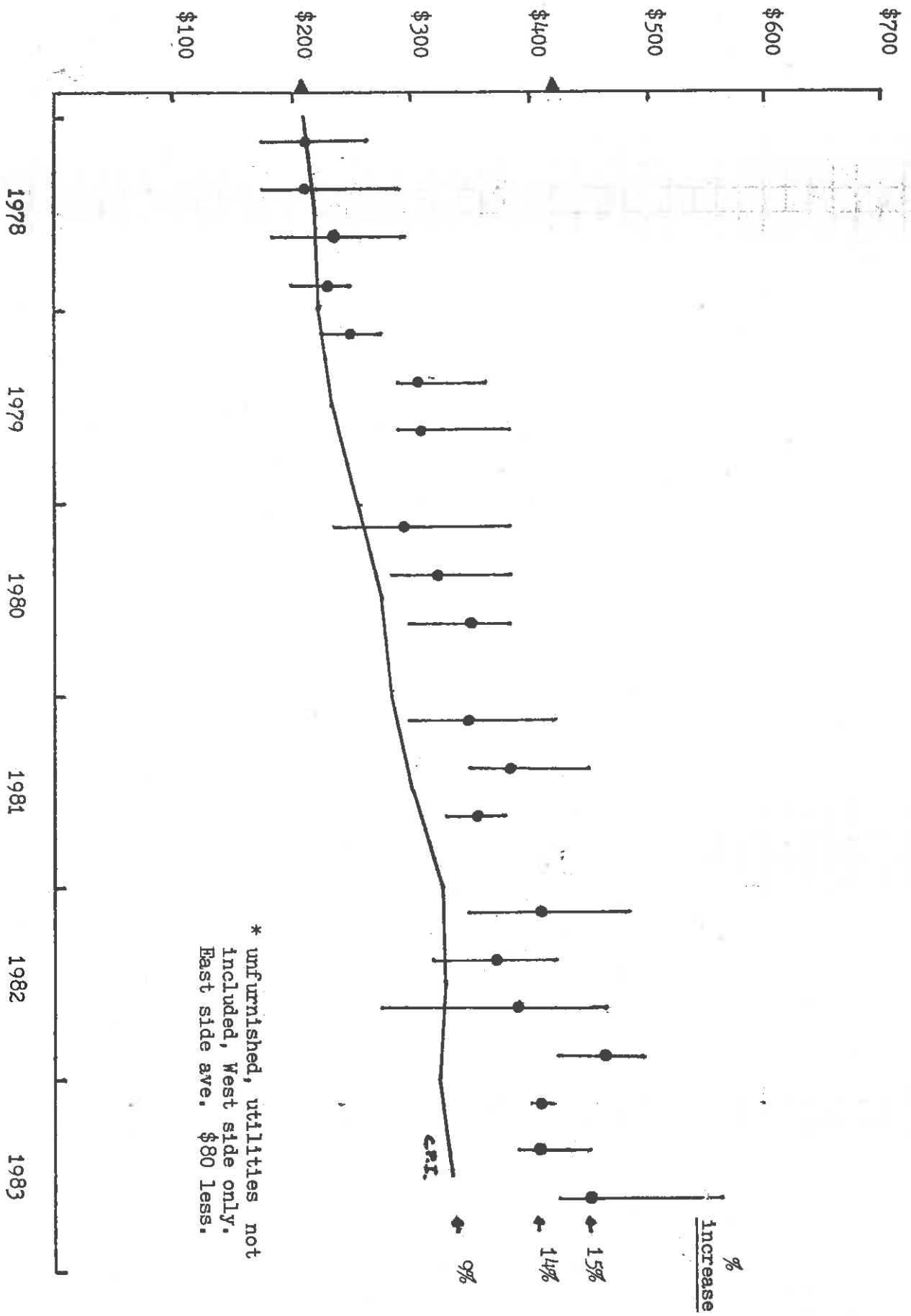


* unfurnished, utilities not included, Westside only. Eastside ave. \$50 less.

Figure 2

RENT vs. CONSUMER PRICE INDEX: ONE BEDROOM APARTMENTS

East Palo Alto 1978 - 1983



* unfurnished, utilities not included, West side only. East side ave. \$80 less.

Figure 3

RENT vs. CONSUMER PRICE INDEX: TWO BEDROOM HOUSES

East Palo Alto 1978 - 1983

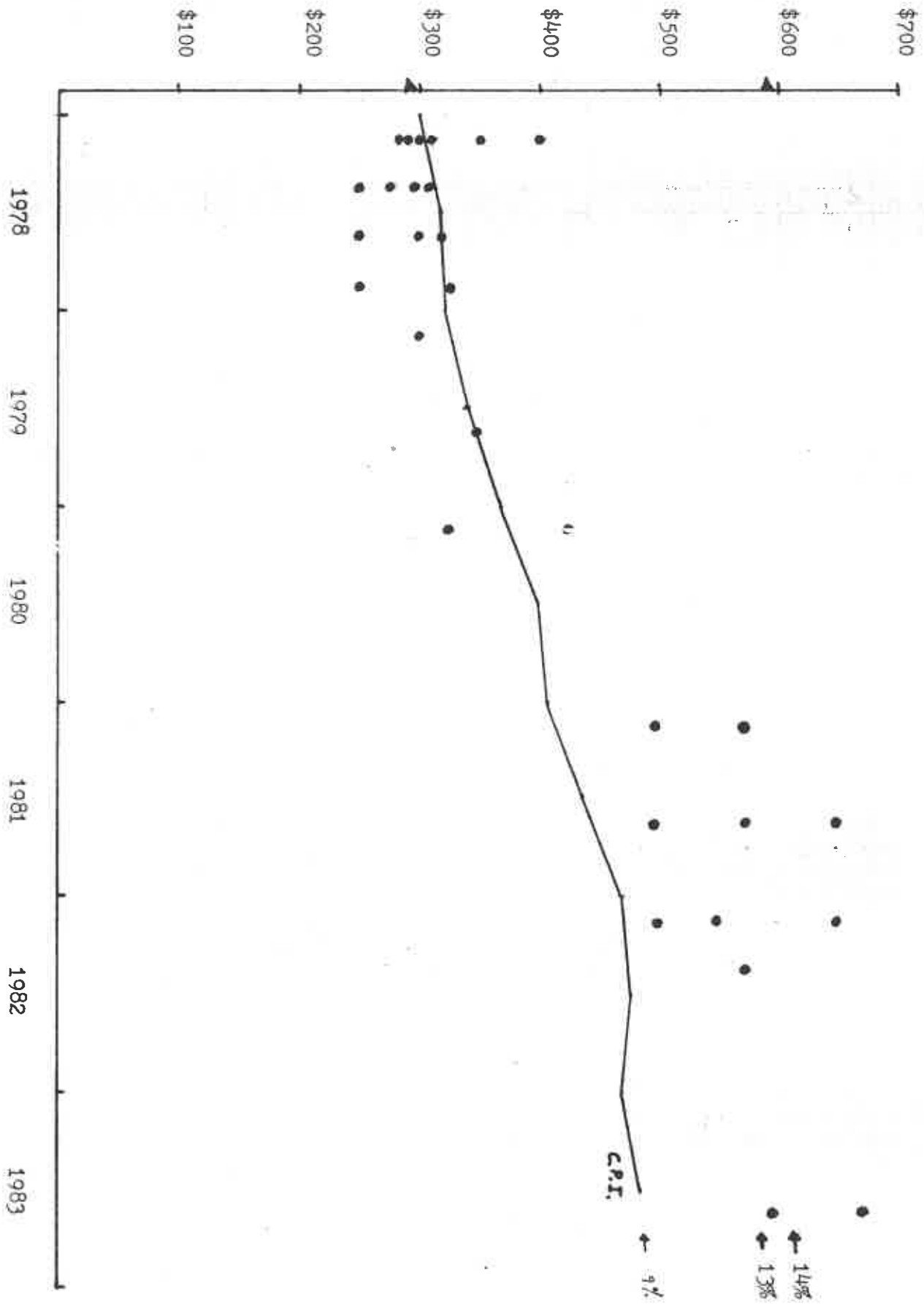
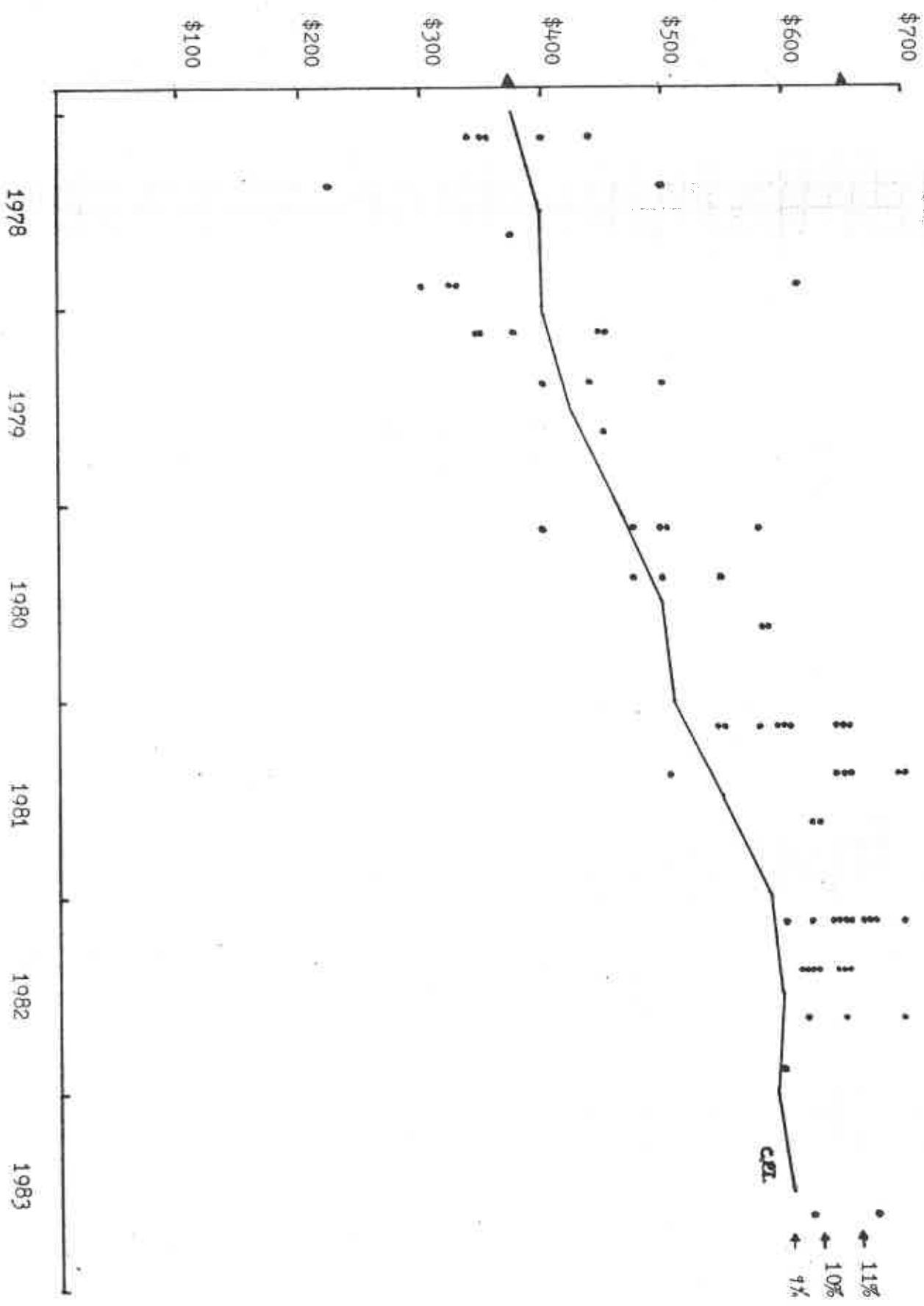


Figure 4

RENT vs. CONSUMER PRICE INDEX: THREE BEDROOM HOUSES

East Palo Alto 1978 - 1983



Notes of Methodology

The classified ads of the Peninsula Times Tribune were sampled during certain months of each year for 1974 through 1983. During most years one month was sampled in each quarter for the first three quarters of the year. During the sample month, ads for two or three dates at least two weeks apart were reviewed-- typically the first, middle, and last of the month. If no East Palo Alto listings were found, immediately subsequent dates were reviewed.

Newspaper personnel indicate that most ads run at least four days. Therefore a two day per month sampling should include ads listed on half of the days in each sampled month. Three months each year were usually sampled ($\frac{1}{4}$ of all months), so approximately one-eighth of all listing are probably included in the data. The 865 sample points collected in review of six years times eight is equivalent to a rental turn-over rate of about 24% per year. This compares favorably with independent estimates of turn-over rate.

Available data was sorted as follows. Data for 1974 through 1977 was set aside because it was too sparse. There remained 120 ads for houses and 493 for apartments. After more ads were eliminated because of size or other factors (71 apartments on the East side were left out) there remained 102 houses and 277 apartments.

Certain biases are probably introduced by the method. For instance, rent levels implied by the data may be artificially high since units priced too high relative to demand will be listed longer in the ads. However, in the case of apartments, given the relatively small number of investors, and given the likelihood of their tendency to price their units competitively based on good exchange of information, the range of asking prices in a given quarter probably has more to do with quality of the units rather "highness" or "lowness" of the prices.

While this method may be vulnerable to errors of this type, it is doubtful whether other methods, including interview of tenants and/or landlords, would introduce less error.

In order to make a general conclusion about rent increases in East Palo Alto between 1978 and 1983, it is necessary to consider the impact of those increases on renters. That is, does renters' income keep up with rent increases. A rate of increase in rents faster than the CPI does not necessarily indicate hardship -- this is the case only if tenants have to pay more of their income for rent.

In order to measure this impact, it is necessary to consider the question of "affordability". There are two predominant standards for measuring affordability of rent: the Federal Government's guideline of 30% of gross income, and the standard of 25% of gross income, which is used by lenders, and some landlords to determine a tenants eligibility for a unit.

Methodology

The average tenants' income for each year was calculated, assuming a 9.1% increase in income per year. This figure was derived from the Census (1980) which showed an average increase in income of 9.1% between 1967 and 1980. In addition, the base income used was taken from the 1980 Census, which showed an average tenants income of \$13229 per year.

Once the yearly tenants income was calculated, the "affordable monthly rent" was calculated, based upon 30% of gross income, and 25% of gross income. Thus, the figures are as follows:

| | | | |
|-------|--------|---------------|--------------|
| 1978: | 11115; | 30% = 278/mo; | 25% = 232/mo |
| 1979: | 12126; | 30% = 303/mo; | 25% = 253/mo |
| 1980: | 13229; | 30% = 331/mo; | 25% = 276/mo |
| 1981: | 14433; | 30% = 361/mo; | 25% = 301/mo |
| 1982: | 15746; | 30% = 394/mo; | 25% = 328/mo |
| 1983: | 17179; | 30% = 429/mo; | 25% = 358/mo |

This income was then plotted against the rents for the apartments included in the data base. This was done for studios, one and two bedroom apartments. Houses were excluded because it was assumed that any trend reflected in the less-expensive units would also be shown for the larger, more expensive units.

Results

Even assuming the most conservative standard of affordability (30% of gross income), apartments in East Palo Alto are becoming less and less affordable to tenants. The data shows that while most renters could afford either a studio, one or two bedroom apartment, in 1978, in 1983, this is not the case. Most renters cannot afford a one or two bedroom apartment paying 30% of their gross income. One can project that, assuming the income curve and rent increase curve remain the same, studios will also become unaffordable in the future. What this data points to is the fact that most tenants are paying more than 30% of their income for rent, which is considered hardship by the most conservative standard of affordability.

Thus, one can state with a reasonable degree of sureness that rent increases are negatively impacting tenants in East Palo Alto.

Further Discussion

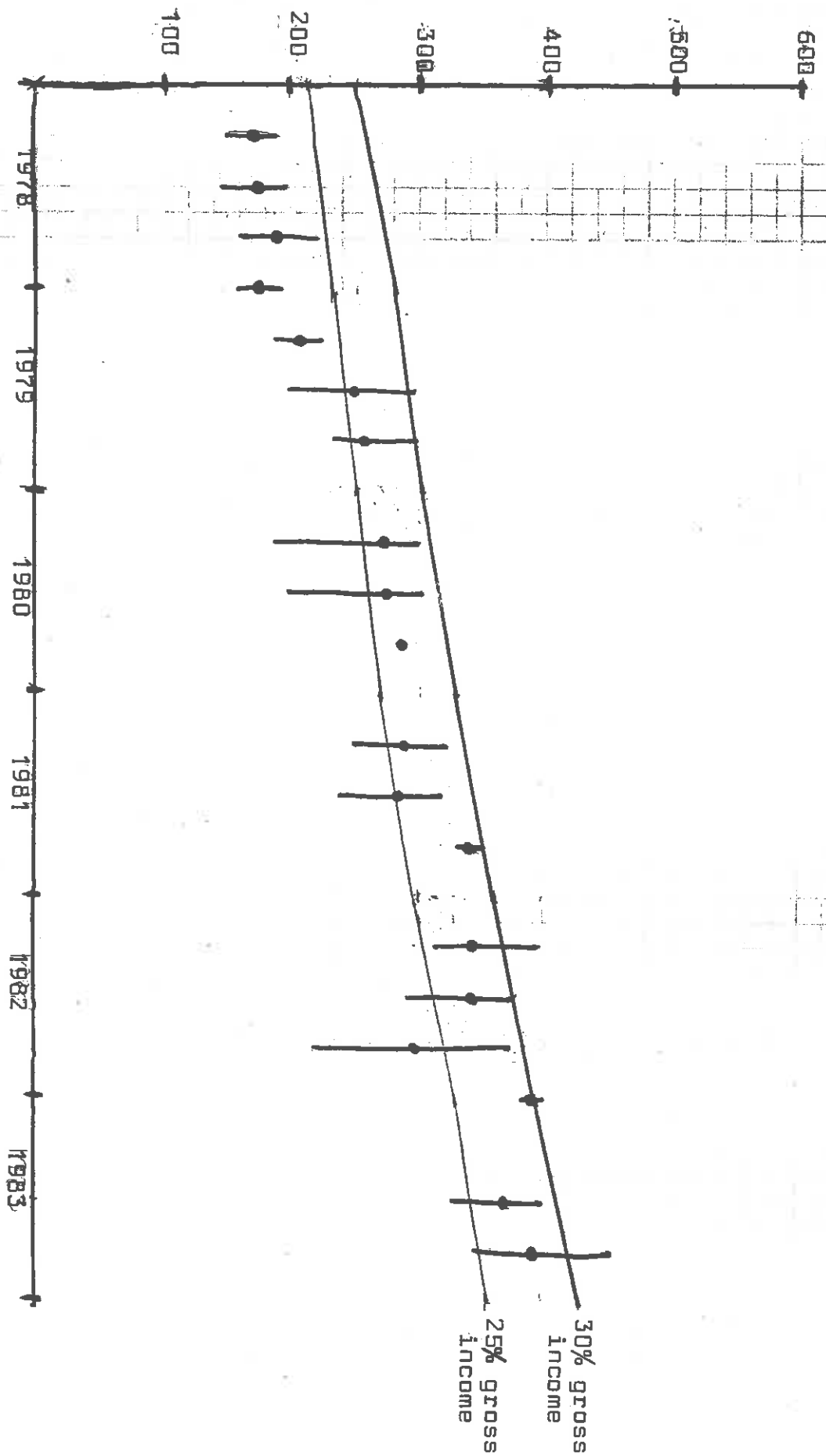
This methodology has some inherent biases that should be addressed. Firstly, the assumption that tenants' income, on the average, went up 9.1% per year does not reflect the effects of the recession of the last few years. It is safe to assume that since this is a predominantly blue-collar, minority community,

the impact of unemployment over the last 2 or 3 years has been severe enough in this community to make the 9.1% increase in income seem inflated. Thus, one can probably guess that incomes have risen slower than 9.1%, and that the situation in East Palo Alto is worse than this.

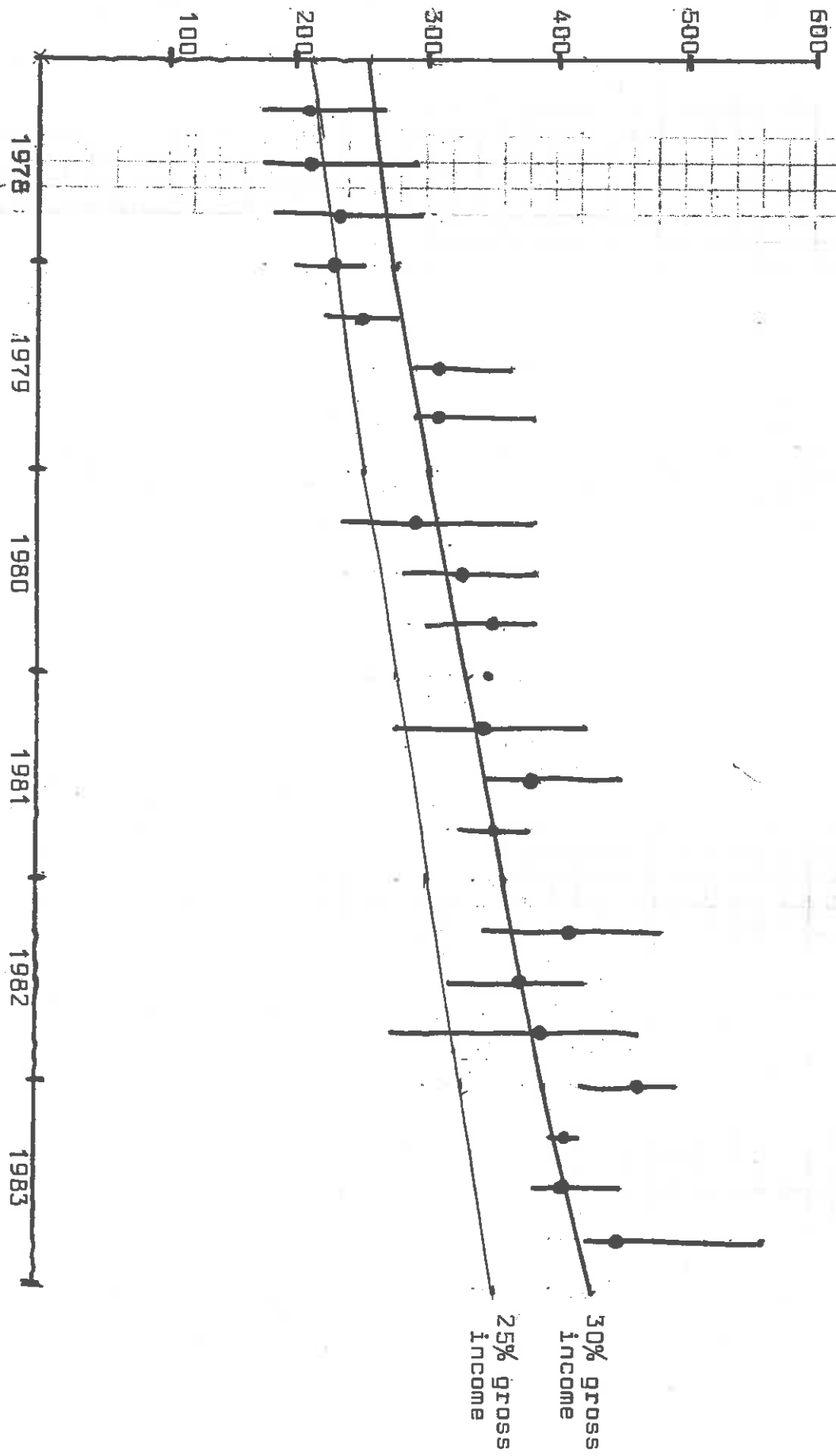
Also, the 9.1% assumes that wages are keeping up with inflation. In the past few years, the national trend has appeared to be that income is lagging behind inflation, certainly between the years of 1978 to 1981. Again, this would indicate that tenants may be having even a harder time than these graphs indicate.

In order to get a more precise picture, more detailed analysis would be warranted. Time did not allow for that in this instance.

ACTUAL RENTS IN EAST PALO ALTO VS. "AFFORDABLE RENT"
STUDIO APARTMENTS



ACTUAL RENTS IN EAST PALO ALTO VS. "AFFORDABLE RENTS"
 ONE BEDROOM APARTMENTS



(2)

ACTUAL RENTS IN EAST PALO ALTO VS. "AFFORDABLE RENT"
 TWO BEDROOM APARTMENTS

