Soaring Rents, Falling Wages

The growing gap between rents and incomes is stretching working families and seniors to the breaking point — while millionaire landlords and absentee corporations profit off our housing crisis.

Executive Summary

The tech boom has driven San Jose rents sky-high. Between 2009 and 2015, the inflation-adjusted average rent for an apartment jumped by 32.2%. Yet over that same time, adjusted median incomes for renters have actually declined 2.8%. This has forced families to cram together in small apartments, move away to cheaper places, make unhealthy trade-offs between rent and other essentials like food and prescriptions, or sleep on the streets.

By capping allowable rent increases in rent controlled units at the Consumer Price Index (the cost of living), San Jose could help stabilize communities that are being hard hit by gentrification and rising rents. Currently San Jose allows landlords to charge up to 5% more each year, more than double CPI in recent years.

Most rent controlled units in San Jose are owned by large, extremely profitable corporations, which could easily absorb a lower annual rent increase. Just 1 in 8 rent controlled units are owned by small landlords.

Yet at the same time the City is considering limiting unaffordable rent hikes, the Housing Department has proposed allowing landlords to charge tenants a slew of new charges and fees. These costs could add up to more than an 8% increase on top of the rent cap, undermining the stability rent control is intended to provide.

Key Findings

56.9% of families earning less than $50,000 spend over half their income each month on rent.

Rents have risen nearly 4x faster than wages and nearly 5x faster than Social Security payments.

Only 37.4% of rent-controlled apartments are owned by landlords in San Jose.

New proposals could cost over $200/month for a tenant in the average-priced apartment.
Amidst Silicon Valley’s tech boom, rental housing in San Jose continues to be among the most expensive in the nation.¹

As the growing tech sector creates tens of thousands of jobs in the region, demand for housing has driven property values and rents ever higher. These trends have created clear winners and losers: as multi-billion dollar corporations and millionaire landlords reap windfall profits from sky-high rents and enormous property value gains, tens of thousands of low- and moderate-income working families and seniors face a constant struggle to keep up with the cost of housing.

With companies like Google planning major expansions in downtown San Jose, and Adobe, Microsoft and Apple building millions of square feet of new office space, real estate professionals believe rents are likely to grow even faster in San Jose, reaching “epic” rates like those in neighboring San Francisco.²

For each new highly-paid programming and engineering job added in Silicon Valley, 4.3 additional jobs are created in local goods and services sectors.³ As the booming tech industry has drawn an influx of high-wage tech workers who drive up housing prices, San Jose has thus also become home to more and more service workers paid too little to afford increasingly expensive housing.

As rents rise, traumatic stories of individuals being priced out of their homes or facing homelessness are becoming more and more frequent.⁴ Rent increases are disrupting the lives of working families and seniors, destabilizing communities as households are displaced from their neighborhoods and forced to abandon their jobs, schools, and places of worship.

A growing gap

From 2009 to 2015, inflation-adjusted rents in San Jose rose by 32.2%.⁵ That’s left the majority of San Jose tenants paying more than 30% of their income on rent, the US Department of Housing and Urban Development’s standard for housing affordability. Most San Jose families earning less than $50,000 a year (the closest Census Bureau cutoff to the median tenant household income) are extremely rent burdened, paying more than half of their income every month just for rent.⁶ According to the most recent Census data, the median tenant household in San Jose earns just $55,125 a year, roughly 68% of the City’s overall median income.⁷
Most San Jose families making less than $50,000 are extremely rent burdened

In San Jose, wages of working families living in rental housing have not kept pace with growing rents. Between 2009 and 2015, inflation-adjusted median household income for renters fell 2.8%.\(^8\) Renting households have lost over $1,600 a year while rents have shot up substantially.\(^9\) The inflation-adjusted gap between median tenant household income and the monthly income needed to afford the average apartment in San Jose has grown by $1,980 since 2009.\(^10\)

Source: U.S. Census Bureau (2016) Gross rent as a percentage of household income in the past 12 months, 2011-2015
American Community Survey 5-year estimates

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Source: Costar (October 2017) Average Effective Rent, City of San Jose Multi-family properties; U.S. Census Bureau (2016) Median Household Income by Tenure, American Community Survey 5-year estimates.
For seniors, the inflation-adjusted average monthly benefit from Social Security has dropped 5.3% between 2009 and 2015, leaving those on fixed incomes even further behind as rent rises.\(^{11}\) The result is forcing many to make difficult choices between rent and other basic expenses. A rising number of seniors are being pushed into homelessness — the number of houseless individuals over the age of 51 in San Jose increased by 175% since 2009.\(^ {12}\)

Over the past decade, the growing tech sector has raised wages for white-collar workers, but the industry’s expansion has failed to lift the wages of service and blue-collar workers. In fact, after factoring in the rising cost of rent, service sector and blue-collar workers have seen their take-home earnings decrease significantly.\(^ {13}\)

Rising rents have devalued wages for blue-collar & service workers by at least 20% since 2005

\begin{align*}
\text{Service workers} & \quad \text{Blue-collar workers} \\
-19.9\% & \quad -24.1\% \\
\end{align*}

San Jose had the largest decline for blue-collar and service workers in any metro area in the country

Stretched to the breaking point

The majority of single mothers, families with young children, Latinos, African Americans, and non-citizens in San Jose live in rental housing. These are populations that are also disproportionately likely to face evictions for being unable to pay their rent.

Too many families are stretched so thin that rent increases or unexpected financial shocks — losing a job, getting fewer hours, a car breaking down — can result in an all-too-familiar tale of late notices, eviction, and eventually displacement or homelessness. These dark economic realities force working families, seniors and others on fixed incomes to cope in a number of ways:

Unhealthy Trade-offs

Too many families are forced to make tough choices between making rent and paying for other essentials like food or prescription drugs. Low-income renters with affordable rents spend almost five times as much on healthcare and a third more on food than their severely cost burdened peers. Households who can afford their rents are also more likely to be able to make medical appointments and afford prescribed medication. Santa Clara University’s Hunger Index for Santa Clara County found the density of renter households to be among the leading indicators of families experiencing food insecurity in our region.

Displacement

Rising rents have displaced residents across San Jose (particularly in low- and moderate-income neighborhoods) who have been forced to leave the city in order to find more affordable housing. According to an analysis by UC Berkeley researchers, nearly half of San Jose’s low-income neighborhoods are experiencing or at risk of displacement and gentrification. In total 368,234 residents live in neighborhoods at risk of or experiencing displacement and gentrification. The San Jose Housing Department expects displacement to continue, “particularly in neighborhoods with accelerating growth and new development.” Housing also cites displacement as a challenge to meeting its legal requirements to further the purposes of the Fair Housing Act. Displacement can lead to job loss, disruption in children’s education and well-being, depleted savings, longer times commuting and a host of other challenges for families.

Homelessness

Unable to keep up with rising rents and with limited savings, some tenants are left with few options. The City of San Jose’s 2017 Homeless Census found 4,350 houseless residents, a 3.7% increase since 2009. A majority of homeless residents said they ended up on the street as a result of a job loss or an eviction. Since 2011, the number of residents who said they became homeless after facing an eviction has quadrupled from 5% to 20%. The survey also found the inability to keep up with rising rents is the largest barrier to homeless individuals finding permanent housing.

Overcrowding

Many tenants respond to rising rents by cramming multiple families into single units. San Jose has among the highest rates of overcrowding of any place in Santa Clara County. 16% of San Jose renter households live in overcrowded homes (defined as more than one person per room), with the highest percentage of families impacted living in Council Districts 2 (20%), 3 (19%), 5 (29%) and 7 (26%). Pooling incomes to make rent is an all-too-common coping mechanism, but one that can have harmful consequences.
Unaffordable rents and these coping strategies have serious impacts on the health and well-being of our people and communities. According to a review by the Bay Area Regional Health Inequities Initiative, these include:

- **Environmental health impacts**: Households are more likely to accept poorly maintained housing that may contain mold, pests or other environmental health risks.
- **Mental health impacts**: People experiencing housing insecurity are almost three times more likely to be in frequent mental distress. Additionally, such emotional strain can influence severity of diseases like asthma.
- **Effects on children and families**: Housing instability can lead to behavioral problems, educational delays, depression, low birth weights and other health conditions like asthma.
- **Long commutes, air quality and health**: Displaced workers have to travel long distances to work, leading to a host of risks including higher body mass index, blood pressure, and stress. Workers also are faced with higher transportation costs and less time with their children.

### Stabilizing rents, stabilizing families

Displacement and housing unaffordability are among our region’s greatest challenges and will require a range of solutions — from raising wages to building and preserving affordable housing to stabilizing neighborhoods. One important public policy solution to address the impacts of gentrification and skyrocketing cost of rent is rent control, capping the amount landlords can charge current tenants of privately-owned residences.

By limiting rent increases to a predictable level, rent control helps to stabilize families and communities, leaving tenants with more money to spend in local businesses. By preventing unreasonably high rent increases, rent control enables tenants to continue to live in their neighborhoods, keep their children in the same schools and contribute to their community. This is especially important for seniors and working families.

San Jose has one of the weakest rent control policies in California. While most major cities in California with rent control policies tie annual increases to the Consumer Price Index (CPI), a measure for changes in the cost of living, or a percentage of CPI annually, San Jose continues to be one of the few with a flat annual increase (joined by Hayward and Beverly Hills). San Jose’s current 5% annual cap is more than twice the average CPI since 2009 (2.4%), and much higher than wages have risen.

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The increase in the average rent since 2009 is the equivalent of seven and a half months of groceries for a family of four.
Other cities limit increases to a percentage of CPI, and still provide landlords with a fair return:

<table>
<thead>
<tr>
<th>City</th>
<th>Maximum Allowable Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>San Francisco</td>
<td>60% CPI (7% max)</td>
</tr>
<tr>
<td>Los Angeles</td>
<td>100% CPI-U (3% min, 10% max)</td>
</tr>
<tr>
<td>Santa Monica</td>
<td>75% CPI-U</td>
</tr>
<tr>
<td>Palm Springs</td>
<td>75% CPI-U</td>
</tr>
<tr>
<td>Mountain View</td>
<td>100% CPI-U</td>
</tr>
<tr>
<td>East Palo Alto</td>
<td>65% CPI-U</td>
</tr>
<tr>
<td>Richmond</td>
<td>100% CPI</td>
</tr>
<tr>
<td>Beverly Hills</td>
<td>100% CPI-U (3% max)</td>
</tr>
</tbody>
</table>

Unfortunately, though it is allowed under State law, San Jose’s Apartment Rent Ordinance does not cover duplexes. Extending coverage to duplexes would stabilize rent increases for over 11,000 additional households.34

Given the stagnant or decreasing incomes of many tenants and the gentrification risks facing many San Jose neighborhoods, the City needs strong policies in place to help tenants afford rent while also providing landlords with a fair return on their properties. The current Apartment Rental Ordinance has allowed landlords to reap enormous profits from these units, but at the cost of rent increases far larger than tenants can afford. By limiting allowable annual increases to CPI, we can better balance the needs of landlords and renting families.

According to a 2016 study commissioned by the City of San Jose, the median household income of ARO renters in San Jose (like that of renters generally) has also stagnated in the past decade.35 Furthermore, the median ARO renter household makes around $8,000 less annually than the median renter household overall in San Jose.36 They are more likely to be rent burdened, and experience overcrowding at a higher rate than other renters. A majority of ARO unit tenants are either Latino (49%) or African American (5%).37 They’re also more likely to be longtime residents of our region – a higher proportion have moved to their current home from somewhere else within Santa Clara County, compared to other renters.

Under California State law, only residential properties with two or more units can be covered by rent control.57 Additionally, rent stabilization laws can only govern rent increases to existing tenants. Once a tenant leaves a unit, the landlord can raise rates to whatever rent they choose under the Costa-Hawkins Rental Housing Act.

In 1979, the City of San Jose passed its first rent stabilization ordinance limiting how much landlords could raise rents on current tenants. Any units built after 1979, duplexes, condos, townhomes, hotels and boarding houses are excluded from the law.

Today, the Apartment Rental Ordinance (ARO) limits annual rent increases to no more than 5% of previous rent in multifamily homes with three or more units. In 2016, the San Jose City Council voted to reduce the allowed increases from 8% and limit what kinds of costs could be passed through to tenants.58
**Large, absentee corporations own most rent controlled units**

In contrast, only just over a third of rent controlled apartments are owned by companies or landlords based in San Jose. The majority are owned by companies in Santa Clara County’s wealthiest towns like Saratoga, Los Altos or Los Gatos or outside the County altogether.

Large companies and investors own most of San Jose’s rent controlled apartments covered by the ARO, owning an average of 120 units each in San Jose. The three largest owners of rent controlled apartments in San Jose are multi-billion dollar, multi-national real estate funds: South Carolina-based Greystar; Tishman Speyer, which has its headquarters in New York City; and Clark Realty Capital out of Arlington, VA.

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**Only 1 in 8 rent controlled units are owned by small landlords**

<table>
<thead>
<tr>
<th>Landlord Size</th>
<th>Share of Rent Controlled Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>3–4 units</td>
<td>12%</td>
</tr>
<tr>
<td>5–39 units</td>
<td>34%</td>
</tr>
<tr>
<td>40+ units</td>
<td>54%</td>
</tr>
</tbody>
</table>

SHARE OF RENT CONTROLLED UNITS, BY LANDLORD SIZE

Source: Working Partnerships analysis of City of San Jose Multi-Family Housing Roster; Santa Clara County Tax Assessor.

Only 1,273 companies with a San Jose mailing address actually own rent controlled properties. Compared with the over 40,000 tenant households impacted by the ordinance, it’s likely San Jose ARO tenants outnumber San Jose ARO landlords by nearly 100 to one.
Rent controlled units are extremely profitable

More than a third of ARO renters have been in their current unit for less than two years and only 31% of ARO renters have resided in the same unit for more than 4 years. Due to vacancy decontrol provisions under state law, this means landlords are frequently able to increase rents up to market rates. It’s therefore little surprise that ARO units are very profitable.

An analysis by Economic Roundtable in 2016 for the City of San Jose found that ARO unit owners have experienced tremendous economic gains from their investments. Looking at the most recent sales of ARO apartment buildings in 2016 (averaging over $280,000 per unit), the average large real estate business — which own the majority of ARO units in San Jose — would be worth an estimated $33.7 million.

Based on this sales data, Economic Roundtable found landlords who purchased an ARO building ten years ago with a mortgage could have turned an estimated 400% profit from their initial cash investment, gaining $120,000 in equity per unit off a $30,000 investment. The average tenant household has only a $5,200 net worth (which has fallen in recent years). A large landlord who held properties for a decade or more would have many thousands times more wealth than any tenant.

Annually, Economic Roundtable estimated the ratio of operating costs to gross rents for ARO units at about 33.5%. This means if a landlord were to rent an apartment at the average price for San Jose, they would collect more than $18,000 in profit annually, even after hiring a management company. So even the owner of the smallest 3 bedroom ARO rental property who hires a property manager to run their building and rents at prices near the average could bring in an estimated income equivalent to what the median tenant household makes for working an entire year.

Little investment in health & safety

Despite their enormous profits, the overwhelming majority of ARO units have one or more violations of the local building code in their most recent inspection. The problems include mold, pest infestations, and other issues. Such code violations can particularly threaten the health and safety of children. Too many landlords are reluctant to reinvest their profits into bringing properties up to code.
Proposed new costs to tenants

Despite the growing gap between rents and wages, the San Jose Housing Department has proposed a number of modifications to the Apartment Rent Ordinance that would burden tenants with new costs:

**Passthroughs**

This would let landlords “pass-through” certain maintenance and improvement costs onto low-income tenants. Such repairs or improvement could cost tenants up to 3% of total rent, on top of any allowable annual rent increase. In certain circumstances where new investments for sustainability, safety, and seismic upgrades can bring important value for tenants, a passthrough policy may make sense.

Under the proposal, landlords could charge tenants over a shorter time span than the life of the repair, so a tenant who only lives in an apartment for 10 years might have to pay for a new roof that will last for 30 to 50 years. Such a policy would subsidize landlords who have failed to reinvest in their properties, and does so by further increasing the cost of living for those least able to afford a rent hike.

For a worker in the average priced apartment who earns minimum wage, paying for the maximum allowed 3% passthrough would mean needing to find another 70 hours of work (almost two full-time weeks) or missing nearly an entire month of groceries for a family of four over a year, to pay for an expense landlords in some cases are required to provide.

**Banking**

Landlords would be allowed to “bank” any allowable increase they choose not to use, and then add that amount to a rent increase in a future year. That could lead to rent hikes far higher than would otherwise be allowed, pricing out tenants who cannot afford such a large jump. Earlier in 2017 the City Council voted to eliminate rent banking, but the Housing Department is recommending it be adopted once again.

**Increased expense from ratio utility billing**

Currently, landlords are not legally allowed to pass along the monthly cost of master metered utilities to tenants. These costs are instead included in total rent. Housing Department has recommended allowing ratio utility billing, so tenants would pay a set percentage of a building’s utility costs like water and trash. Such increases could further raise the volatility of housing costs for tenants and force them to pay for utilities beyond what they use.
**Joint petitions**

A “joint petition” policy would let landlords charge tenants an additional 5% — for the same apartment — if they add an extra tenant, even if that tenant is a parent or sibling.

**Fees**

The Housing Department also plans to phase-in fees that would be paid by tenants and would rise to $42.70 each year to fund implementation of the Ordinance.

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**Proposed new costs would undermine rent stability**

- 3% Passthroughs for repairs & improvements
- 5% Increased rent when an elderly parent moves in
- ? Unexpected spikes when you’re charged a share of total complex utilities, not your actual usage
- + $42.70 Housing department implementation fees

= >8% → 2.5 months of family groceries

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Source: Department of Housing, City of San Jose (2017); US Department of Agriculture, Official USDA Food Plans (September 2017).

Together, these fees could add up to more than an 8% rent increase — almost $200 a month for a tenant in the average-priced apartment in addition to whatever the annual rent increase is under rent control. Over a year, that’s the equivalent of nearly two and a half months of groceries for a family of four, a cost most families would struggle to absorb.

By adding so many additional costs, these provisions would undermine the stability the Apartment Rental Ordinance is intended to provide for working families and seniors. While landlords have a petition process to ensure a fair return under the Apartment Rental Ordinance in extenuating circumstances, there is nothing to protect tenants who find themselves unable to afford the cumulative impacts of so many potential cost increases while their incomes remain stagnant.
POLICY RECOMMENDATIONS

Unless we protect tenants from extreme rent increases, more and more families will be forced to cut spending on life’s essentials or face displacement or life on the streets.

Families should not be forced to pull their children from schools; leave their churches, civic organizations and social networks behind; and endure long commutes to their jobs. Parents should not have to choose between paying rent and feeding their children. Seniors should not have to decide whether to pay for medication or their utility bills due to rising rents.

San Jose can pursue strong rent control to stabilize its neighborhoods and still ensure a fair rate of return for landlords who are making enormous profits from the housing crisis. To protect our families and communities we urge the following policy adjustments to the Apartment Rental Ordinance:

• Limit annual allowable increases to the Consumer Price Index with a cap of 5%

• Prevent harmful rent banking provisions

• Eliminate pass-through costs of basic repairs and limit the combined total of rent increase and any improvement pass-throughs to 5% each year

• Align the amortization period of capital improvement pass-throughs with the known life of the improvement

• Prevent the adoption of Ratio Utility Billing Systems (RUBS)

• Extend the Ordinance to cover duplexes
Endnotes


5 Costar. October 2017. Average Effective Rent, City of San Jose Multi-family properties 

6 U.S. Census Bureau. 2016. Gross rent as a percentage of household income in the past 12 months, 2011-2015 American Community Survey 5-year estimates

7 U.S. Census Bureau. 2016. Median Household Income by Tenure, American Community Survey 5-year estimates

8 U.S. Census Bureau. 2016. Median Household Income by Tenure, American Community Survey 5-year estimates

9 Working Partnerships USA analysis of Costar. October 2017; and U.S. Census Bureau. 2016. Median Household Income by Tenure, American Community Survey 5-year estimates

10 Working Partnerships USA analysis of Costar. October 2017; and U.S. Census Bureau. 2016. Median Household Income by Tenure, American Community Survey 5-year estimates


14 U.S. Census Bureau. 2016. 2011-2015 American Community Survey 5-year estimates


18 Santa Clara University Leavey School of Business, Food & Agribusiness Institute. “Santa Clara County Hunger Report”

19 Housing Department, City of San Jose. “Analysis of Impediments to Fair Housing Choice 2016-2020” http://www.sanjoseca.gov/DocumentCenter/View/68395


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Working Partnerships analysis of City of San Jose. 2017. Multi-Family Housing Roster, ARO Units.

Working Partnerships USA is a community organization that drives the movement for a just economy by bringing together public policy innovation and the power of grassroots organizing. We build the capacity of workers, low-income neighborhoods and communities of color to lead and govern. Based in Silicon Valley, we tackle the root causes of inequality and poverty by leading collaborative campaigns for good jobs, healthy communities, equitable and sustainable growth and a democracy that works for all.

wpusa.org

Silicon Valley Rising is a coordinated campaign driven by a powerful coalition of labor, faith leaders, community based organizations and workers that’s inspiring the tech industry to build an inclusive middle class in Silicon Valley.

siliconvalleyrising.org