

The Ellis Act: A Speculator's Tool in a Gentrifying San Francisco

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RESEARCH QUESTION: Is the Ellis Act's purpose being abused by speculators who hope to take advantage of San Francisco's thriving housing market; and if so, is there a correlation between these speculative evictions and San Francisco's gentrifying neighborhoods?



ABSTRACT: This research project explores how landlords utilize the *Ellis Act* in the increasingly **competitive housing market** of San Francisco. This piece of legislation has just recently found itself at the heart of a greater discussion about San Francisco's rapidly *changing demographics*, and therefore has been *under-researched*. As a result there is still great debate if these evictions *capitalize on high housing prices* and exacerbate gentrification processes.



ELLIS ACT IN CONTEXT of the HOUSING CRISIS:

The Ellis Act is a 1986 state law which protects a landlord's right to "go out of business" by removing all of a building's units off the rental market.

San Francisco is in the middle of a *housing crisis* and demand is surpassing supply for affordable housing. In 2013 the city was ranked the *2nd most expensive* metro area for renting in the U.S. In part this is due to historic anti-growth sentiments that have stopped high-rise development throughout the city, but it is also due to the influx of new employees drawn to the region's tech industry. In the past year *68,000 new jobs* were created, but only *120 new housing units* were created. This gap between supply and demand has caused rental rates to skyrocket. While the new "techies" are willing to pay the price to live in San Francisco, minimum wage residents must work 3.4 to 8.1 jobs in order to afford a 2 bedroom apartment.



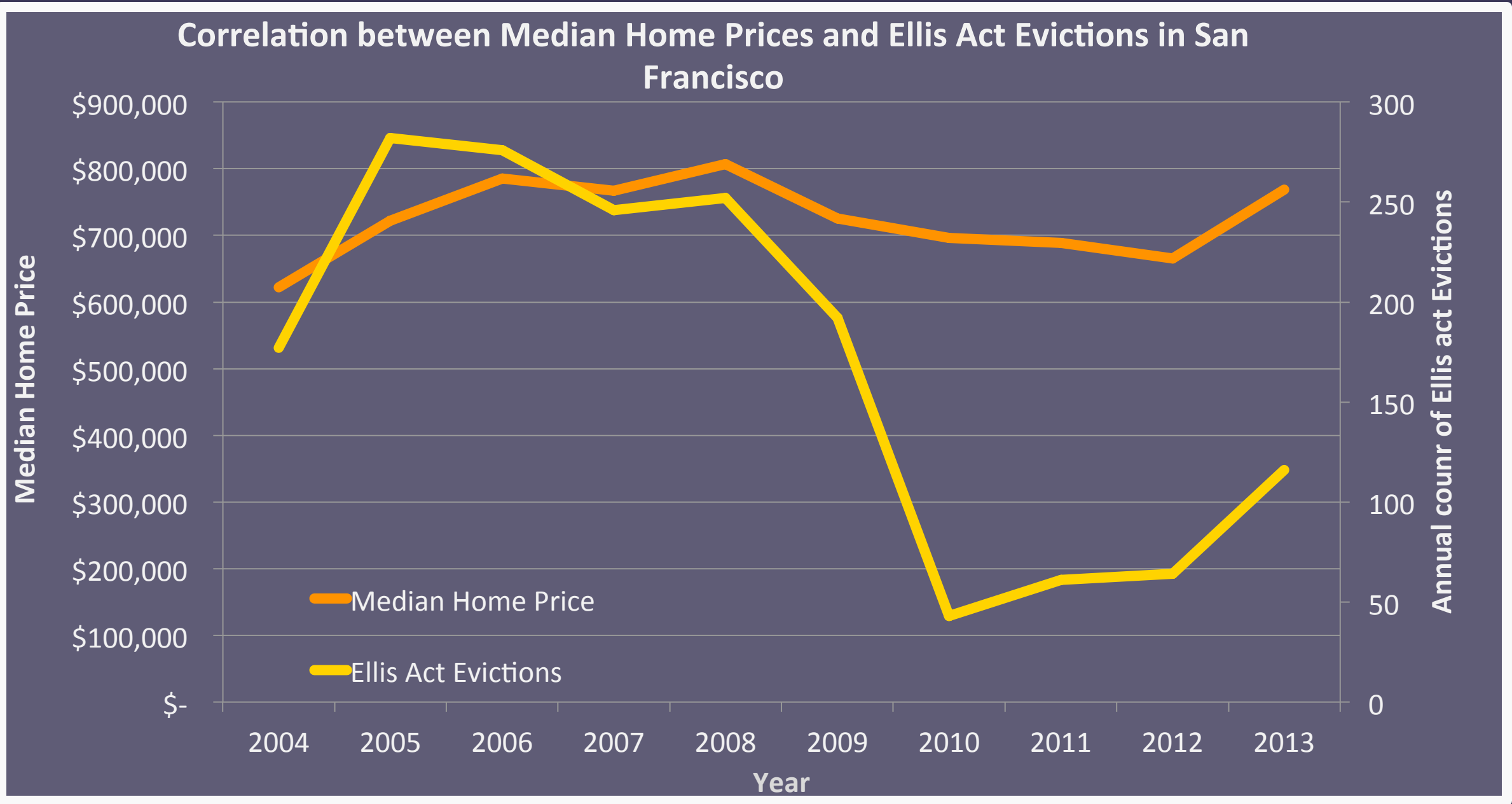
MEASUREMENTS

- Speculation:* Occurred when a property's length of ownership was less than five years before owner enacted the Ellis Act.
- Gentrification:* Occurred when a neighborhood's growth of property values between 2009 and 2013 (post the bursting of the housing bubble) is above the citywide rate of the time.

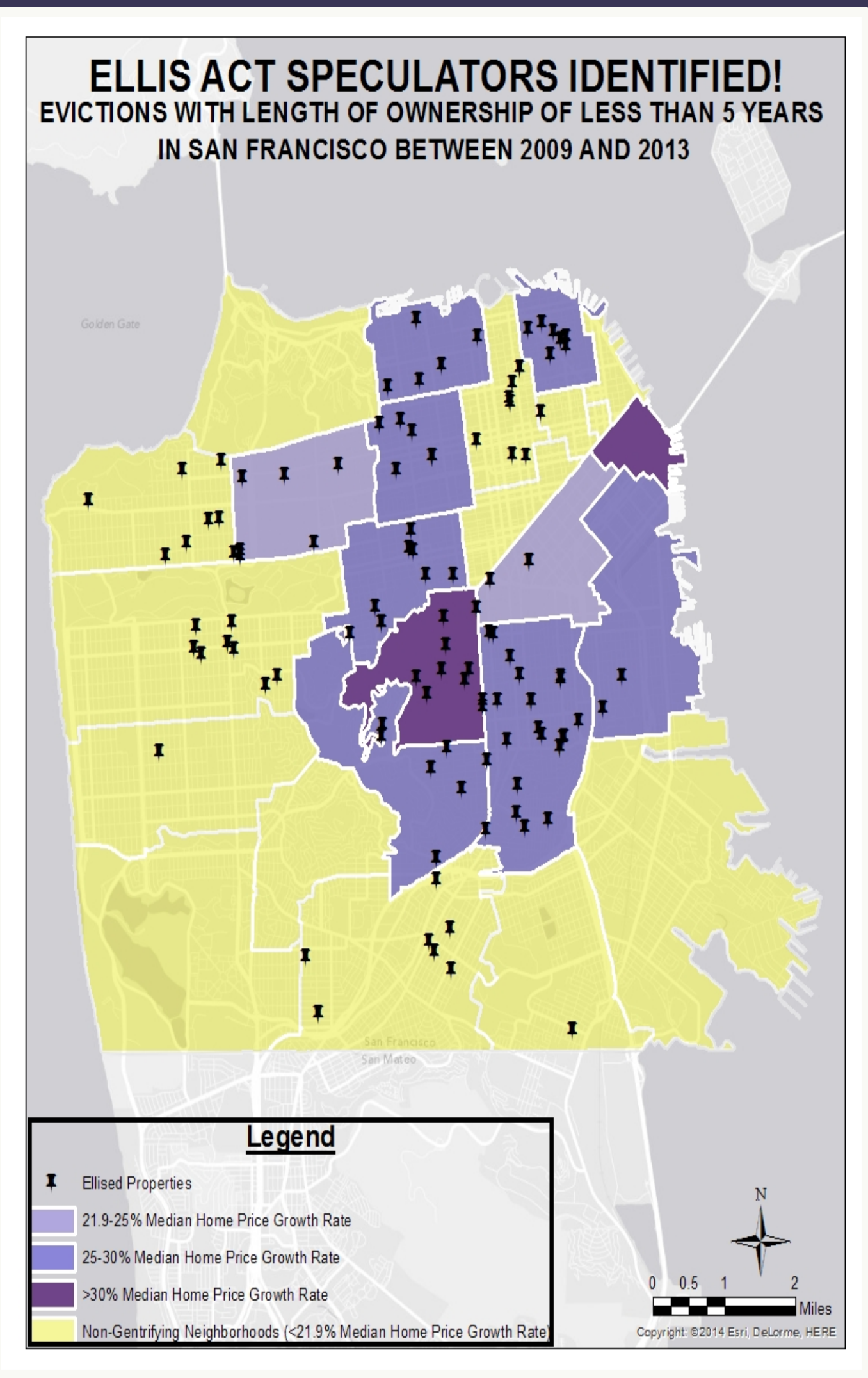
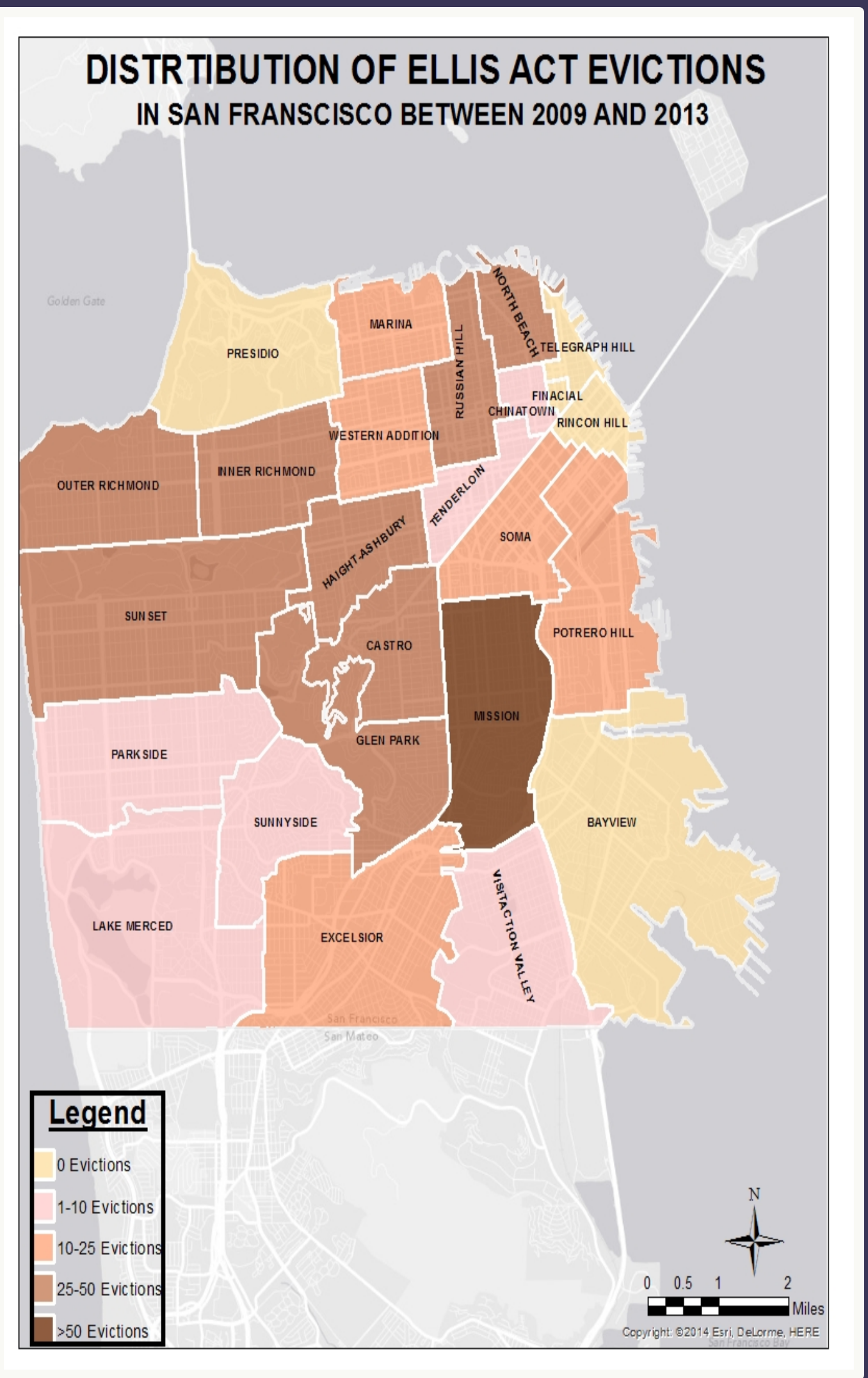
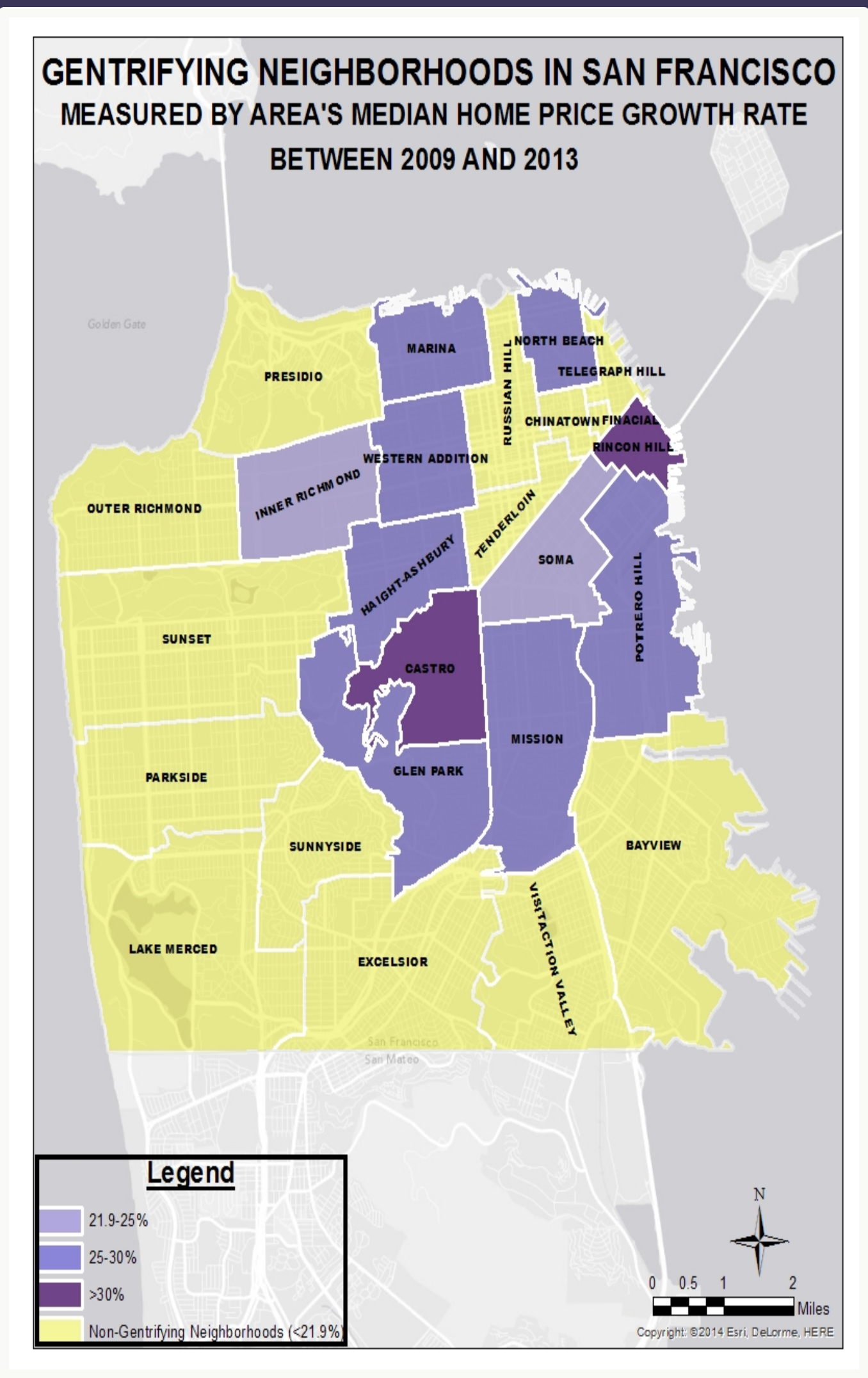
FINDING I: The majority of landlords (62.2%) who use the Ellis Act owned their property for less than five years. The Act is being abused as landlords are using it not to "go out of business" but as a tool to make a profit through conversion

Time Elapsed Between Purchasing and Ellising a Rent Controlled Property 2008-2013		
Length of Ownership	Number of Properties	Percentage of Properties (%)
1 Month or less	24	12.4
1-2 Months	10	5.2
2-3 Months	9	4.7
3-6 Months	23	11.9
6-12 Months	16	8.3
1-5 Years	38	19.7
5-10 Years	19	9.8
10+ Years	42	21.8
Unknown	12	6.2
Total:	193	

FINDING II : There is a correlation between the rate of Ellis Act evictions and San Francisco home prices. Although the rate of change from year to year in Ellis Act evictions is significantly higher-- or more drastic-- than that of the rate of change for housing prices, the two follow the same trend.



FINDING III: There is a correlation between the rates of Ellis Act evictions, speculation and gentrifying neighborhoods. These maps demonstrate that properties Ellised by speculators are largely condensed in neighborhoods undergoing gentrification. This is also true, but to a lesser degree, for all Ellis Act evictions between 2009 and 2013.



METHODOLOGY: Specific eviction data on addresses of Ellised sites, their landlords and date of eviction was extracted from San Francisco Tenants Union's database. The properties' deeds were cross-referenced with the eviction date and landlord data in order to determine how many years the landlord had owned the property before "going out of business."

Neighborhood median home prices were found on the real estate research site Zillow.com in order to establish gentrification. After identifying which neighborhoods are gentrifying, the study was able to compare the rates of evictions in gentrifying neighborhoods against rates in non-gentrifying neighborhoods and determine if there is a correlation between the two variables.



CONCLUSION: This study contributes to the filling of the gap of an unbiased, *quantitative* understanding of the Ellis Act's impact on San Francisco's residents, which is especially significant as local politicians are trying to legislatively *mitigate the tension* between landlords and tenants.

Further research is needed to understand the correlation between evictions and gentrification in:

- Rincon Hill* which is experiencing high levels of gentrification and no Ellis Act evictions from 2009 to 2013.
- Sunset*, *Outer Richmond* and *Russian Hill* which are not currently in the process of gentrifying and are experiencing high rates of Ellis Act evictions, including evictions by speculators.

Upon concluding that the Ellis Act is indeed *misused* for speculative reasons "The Ellis Act: A Speculator's Tool in a Gentrifying San Francisco" still upholds previous scholar's arguments that there must be a *legislative balance* between looking out for property owners and tenants rights. In the last week of February 2014, two pieces of legislation were introduced in order to stop speculators from using the Ellis Act and adversely affecting the city's affordable housing stock. The evidence in this project supports Senator Mark Leno's *SB 1439*, which would require a five-year gap between acquisition of a building and the Ellising of it. The bill directly responds to and *penalizes the individuals* who have misused the Ellis Act, rather than all of San Francisco's small property owners. This would allow the continuation of Ellis Act evictions but curb the use of law as a speculation tool.

KEY SOURCES:

- *California Government Code Section 7060-7060.7, 1986.
- *Castillo, Hugo. "How California Can Harmonize a Tenant's State Rights and a Landlord's Right to Go Out of Business Pursuant to the Ellis Act."
- *San Francisco County Recorder's Online Database
- *San Francisco Rent Board. *Annual Eviction Records*.
- *San Francisco Tenants' Union. *Addresses with Vacancy Rent Control*.

