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POLI 170A Final

March 17, 2016

Are Ellis Act withdrawals speculative in San Francisco?

## Introduction

In the last few years, San Francisco has become notorious for its high housing prices. A United States District Court wrote in 2014, “San Francisco faces an affordable housing crisis of remarkable proportions” (Levin v. City and County of San Francisco). As of January 2016, Zillow reports the median residential property price to be $1,130,400. In October 2014, the median market rent for a one-bedroom apartment was almost $3,500 (Anderson). Five years ago in 2011, the median housing price was only $668,000 according to Zillow. This is nearly a two-fold increase in less than a decade. Even with a rent of $3,500, it would take a landlord more than a decade to accumulate rent revenue to equal the potential profit from selling the property. Unsurprisingly, landlords seem to be eager to put their property on the market to take advantage of the bull housing market (Wilson). However, San Francisco have some of the strictest rent and eviction controls in the state (Wilson). This paper will examine the relationship between a unique type of evictions called Ellis Act withdrawals and San Francisco housing prices.

The San Francisco Rent Board enforces rent and evictions control over almost all properties in San Francisco built prior to 1979 (Brousseau, “Displacement”). According to the San Francisco’s 2008 Economic Impact Report, nearly 88% of the rental properties in San Francisco were built prior to 1980. In these rent controlled rental properties, rent increases are limited to the annual rate allowed by the Rent Board derived from the Bay Area Cost of Living Index (Brousseau, “Displacement”). All evictions are strictly controlled for these properties, and the Rent Board classifies just-cause evictions into two types: For-Cause evictions, and No-Fault evictions (Brousseau, “Displacement”). For-Cause evictions include evictions for non-payment, breach of contract, nuisance, illegal use, unapproved subtenant, etc. No-fault evictions include Ellis Act withdrawals, owner move-ins, condo conversions, development, demolitions, etc. Ellis Act withdrawals have a unique history in California legal history.

## Ellis Act History

In 1984, the city of Santa Monica passed a city ordinance to require landlords to apply for a permit prior to a property’s withdrawal from the rental market. The city ordinance was passed in response to a large increase in condo conversions that removed many rental properties from the market (Green). If the tenant had income below a certain income threshold, the permit to evict the tenant would not be approved. Joseph Nash owned a property in Santa Monica at the time, and he initially filed for a permit to remove his property from the market. However, he eventually sued the City in lieu of getting a permit approval in *Nash v. City of Santa Monica*. Nash argued that the City placed an unfair burden on property owners’ rights to capitalize on their investment if they cannot regain control over their property (Castillo). The California Supreme Court upheld the ordinance citing the public welfare of the City’s ordinance was greater than the burden on Nash’s rights as a landowner (Castillo). Looking for a remedy against ruling precedent, California State Senator Jim Ellis (R-San Diego) introduced legislation guaranteeing property owners’ right to withdraw from the rental market (Castillo). The legislation, named after Senator Ellis, was passed by the California legislature and signed by the governor in 1986. The current Ellis Act allows landlords to evict tenants without cause as long as their property remain off the rental market for a period of five years, unless the property is offered back to the original tenant at the same rent (Brousseau, “Displacement”).

In San Francisco, the San Francisco Rent Board requires landlords to provide relocation payments to the existing tenant if the property owner decides to evict the tenants under any evictions under the No-Fault category (Brousseau, “Displacement”). For Ellis Act withdrawals, the relocation payment can be anywhere from five thousand dollars to fifteen thousand dollars (Wilson). In 2014, San Francisco City Supervisor David Campos successfully passed a new city ordinance to increase the relocation payment for Ellis Act withdrawals (Wilson). The new ordinance would require the landlord to pay the difference between the existing rent and current market rent for a similar property for a period of two years, increasing relocation payments for Ellis Act withdrawals significantly, upwards of forty-four thousand dollars (Wilson). This new city ordinance resulted in a lawsuit against the City, *Lenin v. City and County of San Francisco*, in which a United States District Court ruled the ordinance unconstitutional in violation of the Fifth Amendment. During Supervisor Campos’s campaign for the city ordinance, he ordered a series of policy reports from the Board of Supervisors’ Budget and Legislative Analyst about tenant displacement and Ellis Act evictions in San Francisco. In these reports, Fred Brousseau concluded there seems to be a relationship between the number of Ellis Act withdrawals and the increase in housing value in San Francisco. In a very small and unrepresentative sample of 15 Ellis Act withdrawals, Brousseau estimated the average profit from the sale of a property that underwent an Ellis Act withdrawal to be $1,545,949 from 2004 to 2014 (Brousseau, “Ellis Profits”).

## Theory

San Francisco Mayor Ed Lee said in 2013, “To truly curb and prevent these speculative evictions, we need to seek a change or exemption in state law” (Coté and Lagos). To examine the issue more closely, I ask the question: **Do San Francisco property owners issue Ellis Act withdrawal notices to speculate on the rise of property prices in the near future?**

My theory is property owners do use Ellis Act evictions to speculate on the rise of property prices. Ellis Act evictions require a minimum notice period of 120 days. The independent variable would be the filing of an Ellis Act withdrawal notice. The dependent variable would be the price of the property after the 120-day period. To test this theory, I will be using different iterations of multivariable linear regression.

## Data

To test my theory, I will be using the following data sets. The San Francisco Rent Board provides data on all filed evictions notices from January 1, 1997 to the present ("Eviction Notices"). Zillow provides a time series of adjusted Median Home Values for specific neighborhoods and cities in the United States ("Neighborhood ZHVI All Homes."; "City ZHVI All Homes."). I will also be using Zillow’s open source Neighborhood Shapefiles to assign the corresponding neighborhood to the evictions data provided by the San Francisco Rent Board ("Zillow Neighborhood Boundaries”). Lastly, I will be using a monthly unemployment statistic from the Department of Labor to address a possible confounder.

First, let’s look at the data sets separately and the information they convey. Zillow’s median housing value data provides a great picture for the history of San Francisco’s housing market. You can notice the significant increase in home value from 2010 to the present.



Next, we can look at the general trend of eviction notices in San Francisco, separated by the two categories of evictions: No-Fault, and For-Cause (Fault). You can clearly see the amount of eviction notices to fluctuate over time. In the data there are 34,802 eviction notices from January 1997 to December 2015, over a period of almost 19 years. As you can see, Ellis Act withdrawals do consist of a relative small proportion of all No-Fault eviction notices in general. There were 17,589 No-Fault eviction notices during the time period, and 3,358 of those eviction notices were Ellis Act withdrawals notices. This is roughly 9.65% of all eviction notices, or 19.1% of all No-Fault evictions notices.



Putting the housing value graph and Ellis Act eviction notices graph side-by-side, there does not seem to be an obvious relation:



|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Year | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| All Evictions | 2561 | 2930 | 2632 | 2574 | 2183 | 1660 | 1522 | 1441 | 1540 | 1473 |
| No Fault | 1673 | 2040 | 1638 | 1721 | 1342 | 989 | 759 | 844 | 786 | 707 |
| Ellis Act | 6 | 96 | 423 | 274 | 194 | 176 | 145 | 303 | 298 | 262 |
| Owner Move-ins | 1229 | 1545 | 872 | 1013 | 802 | 548 | 357 | 345 | 267 | 227 |
|  |  |  |  |  |  |  |  |  |  |  |
| Year | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |  |
| All Evictions | 1482 | 1413 | 1174 | 1359 | 1296 | 1631 | 1871 | 1982 | 2078 |  |
| No Fault | 584 | 511 | 301 | 464 | 356 | 695 | 770 | 617 | 792 |  |
| Ellis Act | 237 | 194 | 48 | 70 | 54 | 99 | 231 | 102 | 146 |  |
| Owner Move-ins | 181 | 169 | 120 | 127 | 124 | 174 | 275 | 318 | 422 |  |

## Methods & Results

First, I will look at how many of the eviction notices result in a positive change in price after a 120-day period. I calculated the change in price for each of the eviction notices using the monthly housing value data from Zillow. I have included the Owner Move-in eviction notices, because Hartman and Carnochan believe landlords also abuse those evictions for property sales (356).

|  |  |
| --- | --- |
| Types of Evictions Notices | Proportion with Positive Change in Price  (120-days) |
| All Evictions | 77.73% |
| No-Fault Evictions | 81.45% |
| Ellis Act Withdrawals | 74.17% |
| Owner Move-ins | 84.47% |

Because of an upward trend in the housing market in general, the proportions seem to be fairly high. However, Ellis Act withdrawals seems to have a lowest proportion when compared to all evictions in general. I have also calculated the means and medians of all the positive changes in price:

|  |  |
| --- | --- |
| Types of Evictions Notices | Mean/Median |
| All Evictions | $23,842.32 / $18,200 |
| No-Fault Evictions | $23,409.17 / $18,100 |
| Ellis Act Withdrawals | $29,850.46 / $27,300 |
| Owner Move-ins | $22,137.47 / $16,200 |

In this statistic, Ellis Act withdrawals have the highest mean and median positive change in price of the eviction notices.

Second, I will run a series of multivariable linear regressions to test the relationship between the number of eviction notices per month, and the change in median home value for the city overall, not individual neighborhoods.



I have included the national unemployment rate (X\_unemployment) to address a possible confounder between all evictions (X\_NumOfEvictions), Ellis Act withdrawals (X\_NumOfEllis) and owner move-ins (X\_NumOfMoveIns). When unemployment is high, there may be a higher number of evictions for non-payment, late payment, or owners moving back into their home to save rent. Each observation represents one month from Jan 1997 to Aug 2015. It seems that the coefficients to the number of Ellis Act withdrawals and Owner move-ins are not statistically significant at the 95% level, so the null hypothesis cannot be rejected.

Finally, I will run a series of multivariable linear regressions to test the relationship between the type of eviction notices and the change in median home value of the notice’s neighborhood.

Each observation represents an eviction notice that can be matched to Zillow’s neighborhood price data. Note that only 30 out of 34 of the eviction notices’ neighborhood had corresponding Zillow price data. The unemployment rate at the time of the eviction notice is represented by *evictions$unemployment*. The remaining variables are dummy variables indicating what kind of eviction the notice was. All coefficients in the models are statistically significant except the coefficient to Late-Payment eviction notices in model 5. Thus, the null hypothesis for the Ellis Act coefficient cannot be rejected in any of the models it is in.

## Discussion

In the first test of comparing the proportions of eviction notices with a positive price change, Ellis Act eviction notices have a smaller proportion when compared to all evictions. This seems to suggest that when Ellis Act eviction notices are issued, there is a smaller chance of a positive price change in the neighborhood when compared to all other eviction notices. This is contrary to what my theory suggests. However, when looking at the means and medians of the positive changes in price for the different eviction notices, it seems to suggest Ellis Act notices result in a higher change in price, despite the lower proportion of of the first test.

In the first group of linear regressions, the coefficient to the number of Ellis Act notices is not statistically significant in any of the models. Thus, the null hypothesis cannot be rejected, and it suggests the effect of the number of Ellis Act notices cannot be proven to be non-zero. This again is contrary to what my theory suggests. However, this group of regression is an aggregate approach without using individual neighborhood home values, thus the sample size is much smaller. The coefficient to the unemployment rate is statistically significant and negative, which suggests when unemployment is high, the housing market is likely to experience a negative change in price.

In the second group of linear regressions, the coefficient to the Ellis Act notice dummy variable is statistically significant in all of the models that includes it. The null hypothesis can be rejected, and it suggests that an Ellis Act eviction notice has a positive non-zero effect on the neighborhood’s change in price. This result supports my theory, because if an eviction notice is an Ellis Act eviction notice, the regression show it will have a positive effect on the neighborhood’s change in price. Thus, it may be true that Ellis Act eviction notices positively affect direction of the housing market. It is also interesting that the coefficients to unemployment and non-payment eviction notices are all statistically significant and negative. This seems to suggest when unemployment is high and landlords are issuing non-payment eviction notices, the neighborhood’s housing price will decrease. It is also interesting to note that the coefficient to development eviction notices is statistically significant, positive, and much higher than the other coefficients. Development eviction notices are issued when landlords enter into an agreement with a land development to develop their plot of land, perhaps for larger complexes or government infrastructures. It suggests when a development eviction notice is issued, the neighborhood’s housing price will increase more than the other kinds of eviction notices that were included in the regressions. Also, as more variables are added to the models, the adjusted R-squared increases, it seems to suggest the model better reflect the variance of the original data with the additional variables. However, the R-squared remains to be very low.

## Conclusion

In the second group of linear regressions, the results suggest that my theory is true: when Ellis Act eviction notices are filed, they positively affect the change in housing price of the neighborhood, thus property owners could potentially be using Ellis Act eviction notices to speculate on the housing market. The comparison of the means and medians of the changes in price of the different types of eviction notices also seem to suggest Ellis Act eviction notices to bring a higher positive change in price than the other eviction notices. However, my first group of linear regressions fail to produce a statistically significant coefficient for Ellis Act evictions, thus it does not support my theory. In both groups of regressions, unemployment seems to negatively affect the change in housing prices, thus when unemployment rises, it seems to reflect a negative change in prices in the housing market.

There are numerous potential errors in my analysis. Pricing data could not be associated with every eviction notices in the data set. Zillow pricing data are accurate estimations of the market, but not the actual housing market. Eviction notices are only required for rental properties built prior to 1979 in San Francisco, so the data set can be significantly underestimating evictions in San Francisco.

My results seem to coincide with Brousseau’s policy reports for City Supervisor Campos, suggesting a connection between the housing market increase and Ellis Act evictions. But as the City and County of San Francisco argues in *Levin v. CCSF*, the proportion of Ellis Act evictions is very small compared to the entire San Francisco housing market, their effects on the market is very difficult to measure. But no doubt, the housing displacement and affordability issues of San Francisco remains, and more research can be done to show how evictions affect the demographics of San Francisco.

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