

LANDLORDS BEWARE!

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Francis (Frank) Greenleaf, an unimposing, 67-year-old man, may be bringing a kind of revolution to Orange County. Greenleaf is president of the Brea Political Committee, a coalition of 350 apartment dwellers and mobile home owners trying to place a "rent stabilization ordinance" initiative on the municipal election ballot in Brea (pop. 27,000). If adopted, it would pave the way for Orange County's first rent control law.

Greenleaf and his followers are not angry young radicals with fire in their rhetoric and Marx on their mind. They are tenants and mobile home owners — many of them senior citizens — who feel trapped by spiraling rents and a shortage of alternative housing.

They will need about 1,400 signatures to qualify for the April ballot, and Greenleaf says they already have collected more than 3,000. "But," he added, "we're going for 4,000 just to shake City Hall."

The renters revolt that has swept across California in the last year — bringing nearly half the rental units in the state under some form of rent control — has been late in coming to Orange County.

Tenants rights organizations in Orange County are fragmented, outnumbered, understaffed and underfunded. And on the political front they are badly outgunned by a free-spending building industry that in the last five years has grown to be the dominant force in local government elections.

The one-sided political situation was apparent last month when the Board of Supervisors rushed to endorse a statewide anti-rent control initiative sponsored by landlords and real estate interests. The board acted without hearing from tenants groups, and when two tenant activists tried to address the supervisors on the issue, Chairman Philip Anthony refused to allow them to speak.

Afterwards, Anthony, whose supervisorial district includes the area, said he would be glad to meet with them. Please Turn to Page 4, Col. 1

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Times chart by Gus Keller

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heavy concentration of renters, said he endorsed the anti-rent control measure on the advice of Ray Maggi, whom Anthony described as "an old friend." Maggi is a west Orange County landlord and president of the Apartment Assn. of Orange County.

But the petitioning in Brea — and other isolated incidents such as rent strikes, picket lines and tenant unions — indicates that tenants are beginning to organize in Orange County. So far the tenant activists are uncoordinated and probably number fewer than 1,000. But their potential is strong. State officials estimate that renters account for 45% of the population of California and more than one-third of the Orange County population.

That potential is recognized by Tom Hayden's Campaign for Economic Democracy (CED), which has played a major role in organizing tenants. It also is recognized by the real estate industry, which is counterattacking with the statewide initiative proposal that would void existing rent control laws and make it more difficult to enact new ones.

Backers of the initiative, who call themselves "Californians for Fair Rent," insist that what they have proposed are simply guidelines to standardize rent controls throughout the state and guarantee a reasonable profit to apartment owners and investors.

"This (the statewide initiative) was a natural outgrowth of the epidemic of rent-control ordinances and proposals and the effect it is having on the industry — particularly the lack of incentive to build new units and to get money to refurbish old ones," said Jack McDowell, the San Francisco-based spokesman for the anti-rent control drive.

Builders and landlords say rent controls dry up investment funds for apartments and drive developers out of state. They also warn that, without the hope of profiting from future rent hikes, the owners of existing apartments are inclined to let them deteriorate or to sell them for conversion to condominiums.

"We're telling our clients there must be 99 other ways to spend their money than on apartment houses where all the chips are stacked against them," said Robert Lesser, a housing analyst and adviser to builders and investors.

Rent control proponents reply that they have acted in self-preservation. The proposed initiative would only worsen the situation, they say.

Housing counselors report that the shortage of apartments has given the upper hand to landlords, who find it easier to discriminate against tenants they consider less desirable, particularly racial minorities and single women with children.

Less than 20% of apartments in the county are available to families with children, and most of those reject teenagers, according to an Orange County Fair Housing Council survey.

Still other prospective tenants have been priced out of apartments by rents that have tended to rise as vacancies decline.

Tenants evicted for inability to pay the higher rents and also unable to afford other apartments are increasingly coming to the attention of agencies such as Share Our Selves (SOS) and Catholic Social Services.

The agencies report that the difficulty of scraping together the first and last months' rent and the deposits necessary to obtain an apartment is forcing more families to move into motels — where they may live indefinitely.

"Were there not such a shortage of affordable rental housing we would never have gotten to this point," said Cary Lowe, co-director of the California Public Policy Center in Los Angeles and a member of the now-defunct Governor's Task Force on Housing.

"Unfortunately, the decision on whether to increase housing is not in the hands of consumers, that is, the renters; so, sort of in self-defense, they've turned to rent control," Lowe said.

Actually, the problem is far more complicated than either side readily admits.

The Times interviewed more than 40 housing industry analysts, builders, government officials and tenant advocates and reviewed dozens of reports and documents from public and private agencies and found that the reasons for the rental housing shortage lie in a complicated network of inflationary economics, government action (and inaction) and private initiative.

Moreover, most experts do not expect an immediate improvement, particularly for lower middle income renters with children.

"I'm predicting that housing is going to be the crisis of

the next two years, especially in the rental market," said Kathleen Connell, housing director for the city of Los Angeles.

"You won't believe how bleak it's going to be. If you want to move, you are going to have to know a developer," said Ken Agid, senior vice president of the Mayer Group, a Downey-based building firm.

The shortage in Orange County is among the worst in the state, according to most experts. The state Department of Housing and Urban Development estimates the county-wide vacancy rate (which includes unoccupied homes as well as rental units) at 2.6%, lowest of any major metropolitan area in California.

Richard Hanlon, a department analyst, said a vacancy rate of at least 3.5% is needed in Orange County to give tenants an adequate choice of apartments without placing a hardship on landlords.

(The state's method of determining vacancies is some-

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what controversial, and some landlords believe the figures are artificially depressed. For instance, Chuck Fierce, executive director of the Apartment Assn. of Orange County, refers to the "alleged shortage" of rental units.

(However, the state figures can be used for comparison purposes. The estimate for Los Angeles County is 3.5% and for San Diego, 3%. The statewide estimate is 3.2%.)

The state Department of Finance estimates there are more than 250,000 rental units in Orange County, but that number could be dropping because of the slow-down in apartment construction and the upsurge in condominium conversions.

Studies by the Irvine Co., Orange County's largest landowner, indicate the number of the new apartments being occupied in the county has declined annually since 1972, except for a slight upturn in 1976. The firm estimates that fewer than 4,000 new units were occupied in 1978. At the same time, apartments represent an ever smaller share of the new housing supply in Orange County.

Irvine Co. reports show that apartments accounted for 59% of the new housing supply as recently as 1970. Last year, apartments accounted for only 20% of the market, with the remaining 80% attributed to new home sales.

Meanwhile, condominium conversions are on the upswing. They numbered 1,246 during the first six months of 1979, compared to 727 for all of 1978, according to a survey by Market Profiles, an Irvine consulting firm.

"If nothing changes, apartments are already dinosaurs," summarized George Smith, president of Sonnenblick-Goldman Corp., a national mortgage banking and real estate firm.

Analysts give a variety of reasons for the downturn in apartment construction. They include:

Inflation. Construction costs have increased 20% in the last two years, according to Sanford R. Goodkin of Del Mar, a leading housing industry analyst.

The largest jumps have been in interest rates, land costs and labor. The result: "You can't afford to build an apartment today without charging exorbitant rents," said Reed Flory, and Irvine-based developer of subsidized housing.

Return on investment. In today's economic climate, most financial experts figure that new apartments just don't make good business sense. An apartment builder can expect a return on his investment of no more than 3%.

By contrast, said Stan Ross, a partner in the Los Angeles accounting and investment firm of Kenneth Leventhal & Co., about 1½ years ago a builder could count on 8% to 10%. This prospect, enhanced by special tax writeoffs and property appreciation, he said, was sufficient to attract investors.

Relative profitability of condominiums. Because of the extraordinarily high demand to buy homes, builders can more quickly and easily recoup increased construction costs and net more profit by building condominiums or converting apartments to condominiums.

Agid said pretax profits on condominiums can run as high as 20% on land purchased before 1976, and Ross estimated that profit margins on conversions run as much as 25%.

Tax incentives. The federal income tax reform act of 1976 closed some loopholes and changed some of the incentives for investing in real estate.

Some builders argue that the changes have reduced the incentive to invest in new apartment construction and have stimulated sales of existing apartments, driving up rents. Most financial analysts agree, however, that there still would be adequate tax inducements to build apartments if the profit potential was higher.

Local government controls. City councils in Orange County, traditionally dominated by homeowners and local business men, have been reluctant to approve high-density rental housing in recent years.

Orange County Supervisor Harriett Wieder and others attribute it to an "elitist mentality." Although such prejudices are on the wane, they persist. Santa Ana Mayor Jim Ward told The Times he wants the number of apartments in the city reduced because renters "don't vote or care if crime is high or the schools are good."

Rent Control. Builders are unanimous in their conviction that the spectre of rent control has frightened lenders into vetoing most financing for apartment construction. Most independent analysts agree.

When pressed, landlords and other rent control opponents concede that elimination of the rent control threat alone would not insure an upsurge in rental construction. They contend, however, that it is a necessary first step.

Not surprisingly, rent control advocates dissent. They point out that the rental housing shortage began three years ago, long before rent control became politically attractive.

"We have rent control today due to the lack of affordable housing," said Stephen Hopcraft, Sacramento lobbyist for the California Housing Action and Information Network (CHAIN), a coalition of tenant rights groups.

"To blame the lack of affordable housing on rent control is to put the cart before the horse. . . . There's a conspiracy between landlords and financial institutions to redline areas where there is rent control and then blame it on rent control. We see it as a very insidious conspiracy."

Rent control proponents, however, are hard pressed for practical, long-term solutions to the housing shortage.

"We lack the final solution and we don't have all the answers," conceded Hopcraft. "We do feel the landlords have

a vested interest in keeping down the number of available units."

Kathleen Connell, housing director in Los Angeles, where rent control has been in effect for more than a year, believes local government can assist in the production of more rental housing with land subsidies, tax-free revenue bonds and other aids.

But Ms. Connell acknowledged that without direct federal rent subsidies, local government is helpless to provide rentals for the people at the lowest end of the economic spectrum.

Since 1975, Orange County has received federal subsidies for 3,300 existing and 3,500 new rental units.

In response to the sharpest needs, officials at the Los Angeles regional office of the Department of Housing

and Urban Development say they are emphasizing new apartment construction for families as well as for the elderly.



CHUCK FIERCE
...an "alleged" shortage



FRANK GREENLEAF
...shaking City Hall

There are not, however, enough federal subsidies to go around. "We are meeting about 1% of the need," said Don Phillips, HUD's regional director of housing.

Nor do most believe federal subsidies are going to multiply. "It's unrealistic to expect a turning on of the spigot in Washington," said Ms. Connell.

In a recent meeting with Orange County reporters, state Assembly Speaker Leo McCarthy referred to the "rent warfare going on in California" and called the housing shortage one of the principal problems facing the state.

"The private sector and government have failed the people miserably in this area," McCarthy said.

In Orange County, most of the rhetoric about "affordable housing" has been directed at stabilizing the price of home sales. For example, an ambitious county government proposal to float tax-exempt bonds — still in the planning stages — is directed exclusively at providing low-interest mortgages for middle income home buyers. Elsewhere, similar bond issues have been used to finance low-cost rental housing.

The keystone of the county government's housing program, however, is a requirement that developers set aside for middle income families 15% of the units in most major developments, plus another 10% for lower income families. The latter requirement is expected to be met with apartments.

The 10% quota, however, is tied to the availability of federal subsidies, and the Board of Supervisors has yet to approve rules for administering the program.

Ralph Kennedy, a longtime advocate of low cost housing

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in Orange County, said in an interview that he fears the supervisors will knuckle under to builders and relax the low-cost housing regulations. The board is expected to consider rules for implementing the housing program early next month, according to Bill Olson, who heads the low-cost housing effort.

Others favor more unorthodox approaches to the housing shortage, such as land banking, government land subsidies and leases to private developers, construction of high density development along public transportation routes and combining residential and commercial uses in the same building.

Goodkin believes the shortage could be overcome but for governmental timidity.

"We have entrenched planners and we have politicians who are unwilling to take risks," he said. "We could have a golden age of (housing) supply."

Meanwhile, the tenants rights movement continues to gather momentum. Most observers trace its strength to adoption of Proposition 13 and what McCarthy calls "the unfulfilled promises of Howard Jarvis" that tenants would share in landlords' property tax windfall through rent rebates or reductions.

Instead, rents continued to climb in most cases, halted only by locally enacted rent control.

Now Ted Dienstfrey, director of research for the California Housing Council, an apartment owners trade association, contends that many have come to identify Jarvis as "the grandfather of rent control."

And Joe Caux, who heads the 300-member Orange County Renters Assn., cracks, "I'd like to give Jarvis a plaque as the best organizer of tenants in the state."

But Caux and others like him still have a tall mountain to climb in Orange County. When Caux tried to discourage the Board of Supervisors from endorsing the anti-rent control measure, not only did Anthony prevent him from speaking but most of the board members didn't even know who he was — including Mrs. Wieder, whose office staff referred constituents with rent complaints to Caux's organization.

CHAIN lobbyist Hopcraft, however, said tenants are just starting to flex their political muscle.

"The politicians are just now beginning to notice that voting patterns have changed and that renters can't just be written off," he said.

"This year established tenants as a stable and potent political force. If you have the actual power to put people in their offices, on the streets and at committee hearings, they (politicians) will recognize that power, because they know what it can do."