



**NATIONAL CITY RENT CONTROL AND COMMUNITY STABILIZATION  
ORDINANCE**

*August 2018*

**SDCTA Position:**

**OPPOSE**

**Rationale for Position:**

The measure would enable subsidization of a small number of individuals at the expense of the vast majority of the housing market. Rent control creates an immediate shortage for mandated low-price housing, encourages landlords to take their rental units off the market, does not incentivize property up-keeping therefore depreciating its value and that of the market, both stifles new construction and enables a takeover for redevelopment, and creates “shadow economies.” SDCTA believes that market place economics, not government controls and bureaucracy, should govern private rents.

**Title:** National City Rent Control and Community Stabilization Ordinance

**Jurisdiction:** City of National City

**Type:** Citizens’ Initiative

**Vote:** Simple Majority

**Status:** On the November 6, 2018 General Election Ballot

**Issue:** A measure to establish a program of residential rent control and create a board to administer and enforce the program

**Description:** The measure would establish a Base Rental Rate and a Maximum Allowable Rate capped at 5 percent. It would also include eviction and rent stabilization provisions, and creating a five-member rent board to administer and enforce the program

**Fiscal Impact:** The overall fiscal impact of the measure remains unknown, but the SDCTA estimates that the costs associated with the adverse effects on the market outweigh its benefits.

**Background**

Several members of community organizations have recently expressed concerns to National City Councilmembers on large rent increases in the past year, and these organizations have urged National City voters to take action to impose limits on rent. A large subset of the City’s estimated 61,000 population are renters. While National City has one of the lowest rent rates in the county, its citizens also have low incomes: the median household income is approximately \$42,000<sup>1</sup> whereas the median household income in the Greater San Diego Region is \$63,400.<sup>2</sup> According to the 2016 US Census Bureau American Community Survey, renters make up 68.1 percent of all

<sup>1</sup> [The National City Rent Control and Community Stabilization Ordinance. \(2018\). City of National City – Office of the City Clerk.](#)

<sup>2</sup> [The City of San Diego – Veterans Resources. \(2018\). “What is Affordable Housing?”](#)



occupied housing units in National City,<sup>3</sup> where the median gross rent for rental housing units increased from \$980 in 2015 to \$1143 in 2016, representing a 16.6 percent increase.<sup>4</sup> Thirty-one percent of renter households face a severe housing cost burden, paying at least half of their household income in gross rent—a 7.6 percent increase over nine years.<sup>5</sup>

In 2017, community organizations organized a public Housing Forum at St. Anthony’s Church in National City to discuss the issues of large rent increases and evictions with tenants. Since, citizens have mobilized to gather support for an ordinance that establishes rent control provisions.

Under state law, cities are banned from enacting rent control on housing built after 1995, yet fifteen cities across the state have enacted rent-control laws, including San Francisco, Oakland, Los Angeles, and Santa Monica. In May 2018, the City of National City filed a lawsuit against the community groups organizing the initiative, claiming that the plans laid out would violate state law.<sup>6</sup> In July 2018, the initiative gathered enough signatures to qualify as a measure for the upcoming elections and the lawsuit has since been dismissed.

Historically, the San Diego County Taxpayers Association (SDCTA) has opposed all forms of rent control, as it is counterproductive, expensive, and inefficient. SDCTA holds as a core principle that the government should not intervene in a mechanism that is best-served by the free market.

## **Proposal**

On the week of July 5, 2018, the San Diego County Registrar of Voters confirmed that the citizens’ initiative would be up for the consideration of voters in the November 6, 2018 General Election ballot. The question to be put before voters is the following:

*Shall an ordinance be adopted establishing a Program of Residential Rent Control, including just cause for eviction and rent stabilization provisions, and creating a five-member Rent Board to administer and enforce the program?*

The measure would approve an ordinance establishing a program of residential rent control. For its enforcement, the ordinance would create a five-member Rent Board with four-year terms independent of city officials but appointed by the City Council. The ordinance would also include two provisions: “Just Cause for Eviction Protections,” which would prohibit a landlord from taking action to end any tenancy except under specified circumstances, such as the tenant’s failure to pay rent, or under a substantial breach of contract like adding a family member; and rent stabilization provisions, which establish the Base Rental Rate. The Base Rental rate would serve as the reference point from which the “Maximum Allowable Rate” for any controlled rental unit would be adjusted upward or downward each year. The rate would be annually adjusted to match the percentage increase of the Consumer Price Index, the metric of the U.S. Department of Labor that

---

<sup>3</sup> [US Census Bureau – American Community Survey. \(2016\). “National City city, California”](#)

<sup>4</sup> Ibid.

<sup>5</sup> Ibid.

<sup>6</sup> [Hernandez, David. \(2018\). “Rent-control measure qualified for ballot; National City to dismiss lawsuit.” The San Diego Union-Tribute.](#)

reflects changes in the price level of market basket of consumer goods and services purchase by households, with a limit set at 5 percent.

The following units would be exempt:

- 1) **Granny-Flats and Duplexes:** If the unit is one of only two units on the same parcel, and one of the units is occupied by a natural person owner as a Primary Residence.
- 2) **Renting of a Room, Unregulated:** The tenancy where the tenant shares a bathroom or kitchen with the homeowner.
- 3) **Temporary Tenancy:** A homeowner who is the Primary Resident of a single-family home may create a temporary tenancy.

### **Rent Control Restrictions**

The imposition of rent control by local governments equates to setting a price ceiling below the market value of a property to a given portion of the market, prompting the following adverse effects:

- **Rent control creates an immediate shortage for mandated low-price housing and encourages landlords to take their rental units off the market.** Landlords affected by rent control are not necessarily legally obligated to keep their units on the market. Retaliation against these profit-limiting regulations include landlords moving into the units themselves, creating an “owner-occupied” rental, and converting the units to condos or other property classification. According to a report released by Stanford Economics on the use of rent control in the city of San Francisco, “landlords whose properties were exogenously covered by rent control reduced their supply of available rental housing by 15%, by either converting to condos/TICs, selling to owner occupied, or redeveloping buildings. This led to a city-wide rent increase of 5.1% and caused \$2.9 Billion of total loss to renters.”<sup>7</sup>
- **Rent control stifles new construction and development.** Investors and developers may refrain from building even in cities where new construction is exempt from these rent limitations due to the fear that those exemptions may be repealed later on.<sup>8</sup> According to Richard A. Epstein of the University of Chicago Law School, “...All rent control statutes depress the future total return of any investment. Reduced returns mean reduced investments, so that rent control statutes only exacerbate the housing shortages they are said to alleviate.” Local San Diegan Norm Miller, Hahn Chair of Real Estate Finance at University of San Diego School of Business, also claims that rent control would actually reduce the supply of housing in the area by discouraging investment, and in the long term actually exacerbate the housing crisis, where the resulting decrease in housing stock prompts a rationing system in which controlled units have large pent-up demand.<sup>9</sup>

---

<sup>7</sup> [Diamond, Rebecca, McQuade, Tim, and Franklin Qian. \(2017\). “The Effects of Rent Control Expansion on Tenants, Landlords, and Inequality: Evidence from San Francisco. Stanford University Department of Economics.](#)

<sup>8</sup> [Willis, John. \(1950\). “Short History of Rent Control Laws.” Cornell Law Review. Volume 36, Issue 1.](#)

<sup>9</sup> [Miller, Norm. \(2018\). “California Rent Controls: Good Intentions with Disastrous Consequences.” University of San Diego School of Business.](#)

- **If the revenue gained by renting out a price-controlled unit does not exceed the cost of maintenance, a rational owner may let the property deteriorate.** Overall, rent control limits landlords' abilities to raise prices, thereby discouraging them from making investments that would increase the condition, quality, and value of the unit. Richard Arnott of Boston College explains, "the rent ceiling reduces the profitability of rental housing, discouraging maintenance and thereby speeding up deterioration of the existing rental stock."<sup>10</sup> Robin Miller takes this finding a step further in his analysis of the effects of rent control in Washington D.C., stating that "from a housing provider's perspective, rent control reduces the return on investment and can result in deteriorated and dilapidated housing because a housing provider is not induced to make repairs when no rental increase can be attained." This may make a property manager's job more difficult, as most of the infrastructure will be outdated and yield increased operating costs and inefficiencies.<sup>11</sup>
- **Even with restrictions placed on government eminent domain seizures, local governments may declare sufficiently neglected and deteriorated properties blighted, enabling a takeover for redevelopment.** Another party may then obtain the property at a below market rate caused by the imposition of rent controls, and upon their removal, experience skyrocketing property values.
- **For the housing market as a whole, rent control has been shown to create "shadow economies" that arise to absorb the shortage of low-priced housing caused by imposed rent controls.** The prices in the shadow economies are driven upwards to compensate for the excess number of individuals remaining in the market (increased demand) resulting from the imposition of rent control.

The overall result achieved by rent control is the subsidization of a small number of individuals at the expense of the vast majority of the housing market. The control distorts market prices and causes the number of units available in the market that fall above the median price to increase substantially. Ultimately, the policy would also create long-term harms on the very low-income population that the rent control proposal aims to serve.

### **Fiscal Impact**

The overall fiscal impact of the measure is likely negative, and the SDCTA estimates that the economic costs associated with the previously outlined adverse effects significantly outweigh its economic benefits. These costs include the decrease in renters' incomes, which may in turn prompt a reduction in assessed values that may affect regions beyond National City.

Under a Financing provision in its ordinance, the Board outlines that it would use Rental Housing Fees charged to landlords to fund its operations. The Board would set this fee annually, but from

---

<sup>10</sup> [Arnott, Richard. \(1997\). "Rent Control." Boston College Department of Economics.](#)

<sup>11</sup> [Miller, Robin. \(2010\). "Rent Control in the District of Columbia: An Analysis of the Quality, Condition, Maintenance, and Economic Impact on Housing Accommodations." Johns Hopkins University.](#)

the time that the ordinance would go into effect until the first Board would be appointed and would be able to determine the first fee amount, the amount would be \$120 per year (or \$10 per month) for controlled units and \$84 per rental unit per year (or \$7 per month) for rental units that are only covered by Just Cause for Eviction Protections.

### **Governance Impact**

The ordinance would supersede any other passed by the National City Council covering the area of rents or evictions. The local measure could have larger implications and set a precedent in San Diego if voters across the state also approve Proposition 10 in November 2018. “Expands Local Governments’ Authority to Enact Rent Control on Residential Property” is a statewide initiative that, if passed, would repeal the Costa-Hawkins Rental Housing Act that limits cities’ abilities to enact rent control, allowing houses, condos and other units built after 1995 to be subject to rent control. That may mean that newly-built apartments in downtown could also be subject to the law. While that would create more homeownership opportunities, it would also force renters to move and remain consistent with all other arguments in this National City-specific analysis.

### **Proponents**

The San Diego chapter of the Alliance of Californians for Community Empowerment argues that the regulations are “...necessary to avoid excessive rent increases that could displace lower or middle-income households and lead to gentrification.”<sup>12</sup> National City Families for Fair Housing and ACCE Action are also part of the coalition that was formed a year ago to gather signatures for the initiative. The coalition is also a proponent for Proposition 10. A spokesperson for the coalition emphasized that one of its main concerns is that, under current conditions, tenants are moving away from National City as far south as Tijuana, Mexico.<sup>13</sup>

Carol Kim, community engagement director for the San Diego County Building and Construction Trades Council, has addressed arguments in regard to the measure’s ability to cripple development by saying that her organization plans to add 160 units as part of the first phase of a redevelopment project.<sup>14</sup>

### **Opponents**

The California Apartment Association is fully engaged in a campaign to defeat the measure, retaining a National City-specific campaign consultant.<sup>15</sup> Peter Valleau, the vice president of SVN Asset Advisory Group, a San Diego-based commercial real estate agency, said that he has seen the negative effects of rent control in San Francisco, where “The landlord had no incentive for upkeep.”<sup>16</sup> Borre Winckel, president & CEO of the Building Industry Association of San Diego County, said he believes rent control will exacerbate National City’s housing shortage by

---

<sup>12</sup> [Hernandez, David. \(2018\). “Initiative proposes rent control in National City.” The San Diego Union Tribune.](#)

<sup>13</sup> Ibid.

<sup>14</sup> Ibid.

<sup>15</sup> [California Apartment Association. \(2018\). “National City rent control measure qualifies for November ballot.”](#)

<sup>16</sup> [Hernandez, David. \(2018\). “Initiative proposes rent control in National City.” The San Diego Union Tribune.](#)



discouraging new construction or even encouraging landlords to take units off the market.<sup>17</sup> National City also took issue with the rent control board proposed in the initiative, arguing it would violate state law by creating “a board within city government that is not subordinate to the City Council.”<sup>18</sup>

---

<sup>17</sup> Ibid.

<sup>18</sup> [Hernandez, David. \(2018\). “National City files lawsuit to keep rent control measure off ballot.” The San Diego Union-Tribune.](#)